

## ACCOUNT, DEBIT AND CREDIT

An account is defined as a *summarized record of transactions* related to a person or a thing. An account is expressed as a statement in form of English letter 'T'. It has two sides. The left-hand side is called as "Debit" side and the right-hand side is called as "Credit" side. The debit is denoted as 'Dr' and the credit by 'Cr'.

Debit is derived from the latin word "**debitum**", which means 'what we will receive'. It is the destination, who enjoys the benefit.

Credit is derived from the latin word "**credre**" which means 'what we will have to pay'. It is the source who sacrifices for the benefit.

## TYPES OF ACCOUNTS

<b>BRITISH</b>	<b>AMERICAN</b>
PERSONAL	ASSET
REAL	LIABILITY
NOMINAL	EXPENSE
	INCOME
	CAPITAL

## AMERICAN SYSTEM OF ACCOUNTS

ASSET – DR INCREASE IN THE VALUE OF THE ASSET  
CR DECREASE IN THE VALUE OF THE ASSET

LIABILITY – CR INCREASE IN THE VALUE OF THE LIABILITY  
DR DECREASE IN THE VALUE OF THE LIABILITY

EXPENSE – DR ALL EXPENSES

INCOME – CR ALL INCOMES

CAPITAL – CR INCREASE IN CAPITAL  
DR DECREASE IN CAPITAL

## **BRITISH SYSTEM**

### **PERSONAL ACCOUNT – PERSONS**

**DEBIT THE RECEIVER** (OR WHO OWES TO THE BUSINESS)  
**CREDIT THE GIVER** (OR TO WHOM BUSINESS OWES)

### **REAL ACCOUNT - ASSET**

**DEBIT WHAT COMES INTO THE BUSINESS**  
**CREDIT WHAT GOES OUT OF THE BUSINESS**

### **NOMINAL ACCOUNT – EXPENSES & LOSSES, INCOMES & GAINS**

**DEBIT ALL EXPENSES AND LOSSES**  
**CREDIT ALL INCOMES AND GAINS**

**BALANCE SHEET REFLECTS ALL PERSONAL AND  
REAL ACCOUNT BALANCES**  
**PROFIT AND LOSS ACCOUNT SHOWS ALL NOMINAL  
ACCOUNT BALANCES**

**STEPS TO JOURNALISE TRANSACTIONS**

1. TWO ASPECTS OF THE TRANSACTION
2. TO WHICH ACCOUNT DO THESE TWO ASPECTS FALL UNDER
3. TO FIND OUT THE DEBIT ASPECT AND THE CREDIT ASPECT
4. JOURNALISE THE TRANSACTION

## **ACCOUNTING TREATMENT OF IMPORTANT ITEMS**

**TRADE DISCOUNT** - Trade discount is usually allowed on the list price of the goods. It is not recorded in the books of account and entry is made only with the net amount paid or received.

**CASH DISCOUNT** - Cash discount is a concession allowed by seller to buyer to encourage him to make early cash payment. It is a Nominal Account. The person who allows discount, treat it as an **expenses** and **debits** in his books and it is called '**discount allowed**' and the person who receives discount, treat as an **income** and it is called discount received and **credits** in his books of account "**Discount Received** Account."

**Sales - 50,000 trade discount 2%**

**Net sales – 50,000 – 1,000 = 49,000**

**Cash payment from A – 47,000**

**DISCOUNT ALLOWED – 2,000 – EXPENSE**

**Purchase - 25,000 from X**

**Cash payment to X – 24,000**

**DISCOUNT RECEIVED – 1,000 – INCOME**

**RETURNS INWARD/ SALES RETURNS** – This account is opened for the goods returned by customers. Sales returns is debited and the customer's account is credited.

SALES RETURNS – REAL –DR

CUSTOMER –PERSONAL -CR

**RETURNS OUTWARD/PURCHASE RETURNS** – This account is opened for the goods returned to suppliers. Purchase returns is credited and Suppliers account is debited.

SUPPLIER'S A/C –PERSONAL- DR

PURCHASE RETURNS A/C –REAL -CR

**INTEREST ON CAPITAL** - Interest paid on capital is an expense. Therefore interest account should be debited. On the other hand the capital of the business increases. So the capital account should be credited.

INTEREST ON CAPITAL-NOMINAL – DR

CAPITAL- PERSONAL - CR

**INTEREST ON DRAWINGS** - If the interest is charged on drawings then it will be an increase in the income of business, so interest on drawings will be credited. On the other hand there will be **increase in Drawings** or **decrease in Capital**. So Drawings Account will be debited.

DRAWINGS – PERSONAL-DR

INTEREST ON DRAWINGS - CR

**DEPRECIATION** - Depreciation is an expense

DEPRECIATION – NOMINAL –DR

**ASSET –REAL -CR**

**BAD DEBTS** - A debtor of business fails to pay the amount due from him. Such an irrecoverable amount is a loss to the Business.

**BAD DEBTS – NOMINAL –DR**

**DEBTOR – PERSONAL – CR**

**BAD DEBTS RECOVERED** - When any amount becomes irrecoverable from any costumer or debtor his account is closed in the books. If in future any amount is recovered from him then his personal account will not be credited because that does not exist in the books.

**CASH – REAL-DR**

**BAD DEBT RECOVERED –NOMINAL-CR**

**INCOME TAX/LIC PREMIUM PAID** - Income tax/ Life Insurance premium paid is a personal expense for the sole trader and partners because it is paid on income of proprietor/partners. So it is shown as **Drawings**.

**DRAWINGS – PERSONAL –DR**

**CASH/BANK – REAL –CR**

**GOODS DRAWN FOR PERSONAL USE BY OWNER-**

When the businessman withdraws goods from the business for his personal/domestic use it is called as ‘drawings’. Drawings reduce the capital as well as goods balance of the business. Therefore, **Drawings** account is debited and Purchase account is Credited.

**DRAWINGS-PERSONAL-DR**

**PURCHASES – REAL-CR**

**FREE SAMPLES DISTRIBUTED** - Sometimes business distributes goods as free samples for the purpose of Advertisement. In this case Advertisement Account is debited and Purchases Accounts is credited.

ADVERTISEMENT – NOMINAL- DR  
PURCHASES –REAL –CR

**PREPAID EXPENSES** - some of the expenses may be paid in advance. However, the organization may not receive the benefits from these expenses by the end of the current accounting year. We call these expenses as prepaid expenses. We treat them as current assets. The Prepaid Expense A/c appears on the assets side of the Balance Sheet UNDER CURRENT ASSETS.

PREPAID EXPENSE A/C                      DR  
    TO EXPENSE A/C

**OUTSTANDING EXPENSES-** Sometimes in the normal course of business, an enterprise may have some expenses relating to which the payment is due at the end of the year. These expenses are known as Outstanding Expenses. Wages, salary, rent, interest on the loan, etc. are examples of such expenses that may remain due at the end of the accounting year. The Outstanding Expense A/c appears on the liability side of the Balance Sheet UNDER CURRENT LIABILITIES.

EXPENSES A/C                      DR  
    TO OUTSTANDING EXPENSES A/C

**ACCRUED INCOMES** - It may so happen that we may earn some incomes during the current accounting year but not receive

them in the same year. Such income is accrued income. The Accrued Income A/c appears on the assets side of the Balance Sheet as **current asset**. While preparing the Trading and Profit and Loss A/c we need to add the amount of accrued income to that particular income.

ACCRUED INCOME A/C     DR  
    TO INCOME A/C

**INCOMES RECEIVED IN ADVANCE** - In the ordinary course of a business, it may receive some incomes in advance in spite of not rendering the services. Such incomes are incomes received in advance. Thus, these are not pertaining to the current accounting year. Therefore, these are **current liabilities**.

INCOME A/C             DR  
    TO INCOME RECEIVED IN ADVANCE A/C

### **CLASSIFY THE ACCOUNTS INTO REAL, PERSONAL AND NOMINAL**

- 1. SALARY – NOMINAL - DR**
- 2. CAPITAL – PERSONAL – CR**
- 3. CASH/CASH AT BANK [ BANK BALANCE] – REAL**
- 4. BUILDING – REAL**  
    **PURCHASED BUILDING – RS 40,00,000**  
    **BANK- REAL - CR**  
    **BUILDING – REAL - DR**
- 5. TELEPHONE CHARGES – NOMINAL – DR**
- 6. RENT RECEIVED – NOMINAL – CR**
- 7. STATE BANK OF INDIA LOAN A/C – PERSONAL – CR**  
    **STATE BANK OF INDIA A/C – DR**

- STATE BANK OF INDIA LOAN A/C -CR**
- 8. FURNITURE – REAL**  
**PURCHASED – DR**  
**SOLD – CR**  
**PURCHASED FURNITURE FROM MR ARUN ON CREDIT -RS 5,00,000**  
**FURNITURE – DR**  
**MR ARUN - CR**
- 9. DEBTORS [ CUSTOMERS] – PERSONAL**  
**SOLD GOODS TO MR AMAN ON CREDIT RS 2,50,000**  
**SALES A/C – CR**  
**MR AMAN A/C – PERSONAL A/C - DR**
- 10. CREDITORS [ SUPPLIERS] – PERSONAL**  
**PURCHASED GOODS FROM MR ANIL ON CREDIT – RS 1,00,000**  
**PURCHASES A/C – DR**  
**MR ANIL – PERSONAL – CR**  
**PAID MR ANIL RS 1,00,000**  
**BANK – REAL -CR**  
**MR ANIL – PERSONAL -DR**
- 11. RENT PAID – NOMINAL- DR**
- 12. RECEIVED COMMISSION – NOMINAL – CR**

**WHENEVER ASSET HAS BEEN PURCHASED OR SOLD, THE RESPECTIVE ASSET ACCOUNT NAME IS USED.**

**BUT, WHENEVER GOODS [ STOCK OF RAW MATERIALS / FINISHED GOODS] ARE**



**PURCHASED OR SOLD THEN PURCHASES  
ACCOUNT AND SALES ACCOUNT IS USED.  
PURCHASES A/C- DR – RAW MATERIALS IS  
PURCHASED  
SALES A/C – CR -FINISHED GOODS ARE SOLD**

- 1. PAID ADVERTISEMENT - \$ 500  
CASH – REAL – CR  
ADVERTISEMENT – NOMINAL - DR**
- 2. PURCHASED MACHINERY FROM MR BILAL - \$  
5000  
MACHINERY – REAL – DR  
MR BILAL – PERSONAL – CR  
PURCHASED MACHINERY BY CHEQUE  
PAYMENT  
MACHINERY – REAL – DR  
BANK – REAL - CR**
- 3. PAID STATIONERY – \$ 200 - NOMINAL – DR  
CASH – REAL – CR**
- 4. STOCK OF GOODS -PURCHASE OF RAW  
MATERIALS FROM MR XYZ – \$ 1000  
PURCHASES A/C – DR  
XYZ A/C -CR**
- 5. SALE OF GOODS TO MR ABC – \$2000  
MR ABC -PERSONAL -DR  
SALES A/C-CR**
- 6. PAID POSTAL STAMPS – \$50 - NOMINAL - DR  
CASH – REAL – CR**

- 7. PAID AUDIT FEES – \$250 - NOMINAL -DR  
CASH – REAL – CR**
- 8. INTEREST ON DRAWINGS – \$ 75  
NOMINAL – CR  
DRAWINGS - DR**
- 9. INTEREST ON CAPITAL – \$ 200-NOMINAL – DR  
CAPITAL - CR**
- 10. CHARGED DEPRECIATION ON MACHINERY -  
\$120  
DEPRECIATION -NOMINAL -DR  
MACHINERY – REAL - CR**
- 11. PAID WAGES/ SALARY – \$600-NOMINAL - DR  
CASH – REAL – CR**
- 12. INTRODUCED CAPITAL IN MACHINERY – \$  
10,000 AND CASH – 5000  
MACHINERY – REAL -DR – 10,000  
CASH/ BANK – REAL – DR – 5,000  
CAPITAL -PERSONAL – CR – 50,000**
- 13. DRAWINGS – PERSONAL – DR  
BANK – REAL - CR**
- 14. PURCHASE RETURNS – CR**
- 15. SALES RETURNS – DR**
- 16. DISCOUNT ALLOWED – NOMINAL -DR**
- 17. DISCOUNT RECEIVED – NOMINAL -CR**
- 18. BAD DEBTS – NOMINAL – DR  
DEBTORS – PERSONAL - CR**
- 19. BAD DEBTS RECOVERED – NOMINAL – CR  
CASH – REAL - DR**
- 20. LIFE INSURANCE/ INCOME TAX –  
DRAWINGS – PERSONAL - DR**

**CASH/BANK – REAL – CR**

- 21. WITHDRAWL OF GOODS BY THE PROPRIETOR**  
**DRAWINGS – PERSONAL - DR**  
**PURCHASES – PERSONAL - CR**
- 22. WITHDRAWL OF CASH BY THE PROPRIETOR**  
**DRAWINGS – PERSONAL - DR**  
**CASH/BANK – REAL - CR**
- 23. FREE SAMPLES DISTRIBUTED**  
**ADVERTISEMENT – NOMINAL – DR**  
**PURCHASES - CR**
- 24. PREPAID RENT – DR**  
**CASH -CR**
- 25. OUTSTANDING WAGES -CR**  
**WAGES - DR**
- 26. ACCRUED COMMISSION -DR**  
**COMMISSION - CR**
- 27. RECEIVED COMMISSION -CR**  
**CASH - DR**
- 28. PAID COMMISSION -DR**  
**CASH -CR**
- 29. RENT RECEIVED IN ADVANCE – CR**  
**CASH -DR**

**NARRATION – GIVES THE DETAILS OF THE FINANCIAL TRANSACTION**

## JOURNAL ENTRIES IN THE BOOKS OF -----

DATE	PARTICULARS	L/F	DEBIT \$	CREDIT \$
1/4/21	ADVERTISEMENT A/C DR		500	
	TO CASH A/C			500
	[ BEING ADVERTISEMENT PAID IN CASH]			
2/4/21	MACHINERY A/C DR		5000	
	TO MR BILAL A/C			5000
	[ BEING MACHINERY PURCHASED FROM MR BILAL]			
3/4/21	STATIONERY A/C DR		200	
	TO CASH A/C			200
	[ BEING STATIONERY PAID IN CASH]			
4/4/21	PURCHASES A/C DR		1000	
	TO XYZ A/C			1000
	[BEING GOODS PURCHASED FROM MR XYZ ON CREDIT]			
	XYZ A/C DR		1000	
	TO CASH A/C			1000
	[ BEING CASH PAID TO MR XYZ FOR GOODS PURCHASED]			
5/4/21	ABC A/C DR		2000	
	TO SALES A/C			2000
	[ BEING GOODS SOLD TO MR ABC ON CREDIT]			
	CASH A/C DR		2000	
	TO ABC A/C			2000
	[ BEING CASH RECEIVED FROM MR ABC]			
6/4/21	POSTAL STAMPS A/C DR		50	
	TO CASH A/C			50
	[ BEING POSTAL STAMPS PAID IN CASH]			

<b>7/4/21</b>	<b>AUDIT FEES A/C DR</b>		<b>250</b>	
	<b>TO CASH A/C</b>			<b>250</b>
	<b>[BEING AUDIT FEES PAID IN CASH]</b>			
<b>8/4/21</b>	<b>DRAWINGS A/C DR</b>		<b>75</b>	
	<b>TO INTEREST ON DRAWINGS A/C</b>			<b>75</b>
	<b>[ BEING INTEREST ON DRAWINGS CHARGED TO DRAWINGS]</b>			
<b>9//4/21</b>	<b>INTEREST ON CAPITAL A/C</b>		<b>200</b>	
	<b>TO CAPITAL A/C</b>			<b>200</b>
	<b>[ BEING INTEREST ON CAPITAL CHARGED TO CAPITAL]</b>			
<b>10/4/21</b>	<b>DEPRECIATION A/C DR</b>		<b>120</b>	
	<b>TO MACHINERY A/C</b>			<b>120</b>
	<b>[ BEING DEPRECIATION CHARGED ON MACHINERY]</b>			
<b>11/4/21</b>	<b>WAGES/SALARY A/C DR</b>		<b>600</b>	
	<b>TO CASH/ BANK A/C</b>			<b>600</b>
	<b>[ BEING WAGES/ SALARY PAID IN CASH]</b>			
<b>12/4/21</b>	<b>MACHINERY A/C DR</b>		<b>10000</b>	
	<b>TO CAPITAL A/C</b>			<b>10000</b>
	<b>[ BEING CAPITAL INTRODUCED IN MACHINERY]</b>			
<b>12/4/21</b>	<b>CASH A/C DR</b>		<b>5000</b>	
	<b>TO CAPITAL A/C</b>			<b>5000</b>
	<b>[ BEING CAPITAL INTRODUCED IN CASH]</b>			
<b>12/4/21</b>	<b>MACHINERY A/C DR</b>		<b>10000</b>	
	<b>CASH A/C DR</b>		<b>5000</b>	
	<b>TO CAPITAL A/C</b>			<b>15000</b>
	<b>[ BEING CAPITAL INTRODUCED IN MACHINERY AND CASH]</b>			

