

Solution:

(a) According to Traditional Approach

- (i) Personal Accounts - 1, 2, 29, 32, 33, 35, 37, 38, 39, and 40
- (ii) Real Accounts - 3, 8, 9, 27, 28
- (iii) Nominal Accounts - 4, 5, 6, 7, 10 to 26, 30, 31, 34, 36

(b) According to Accounting Equation Approach or Modern Approach

- (i) Assets Accounts - 3, 8, 9, 27, 28, 29, 38, 39
- (ii) Liabilities Account - 33, 35, 37, 40
- (iii) Capital Accounts - 1, 2, 32
- (iv) Revenue Accounts - 5, 11, 13, 19, 25, 26, 34
- (v) Expenses Account - 4, 6, 7, 10, 12, 14 to 18, 20 to 24, 30, 31, 36

5.0 MEANING AND RULES OF DEBIT AND CREDIT

5.1 Basically debit means to enter an amount of transaction on the left side of an account and credit means to enter an amount of transaction on the right side on an account.

5.2 In the abbreviated form Dr. stands for debit and Cr. stands for credit.

5.3 Both debit and credit may represent either increase or decrease depending upon the nature of an account.

5.4 Debit in relation to Assets Accounts and Expenses Accounts represents an increase but in relation to Liabilities Accounts, Capital Accounts and Revenue Accounts represents a decrease.

5.5 Credit in relation to Assets Accounts and Expenses Accounts represents a decrease but in relation to Liabilities Accounts, Capital Account and Revenue Accounts represents an increase.

5.6 The Rules for Debit and Credit are given below:

Rules for Debit and Credit when the accounts are classified as Personal, Real and Nominal		
Types of Accounts	Rules for Debit	Rules for Credit
(a) For Personal Accounts	Debit the receiver	Credit the giver
(b) For Real Accounts	Debit what comes in	Credit what goes out
(c) For Nominal Accounts	Debit all expenses and losses	Credit all gains and profits

Rules for Debit and Credit when the accounts are classified on Accounting Equation Basis		
Types of Accounts	Rules for Debit	Rules for Credit
(a) For Assets Accounts	Debit the increase	Credit the decrease
(b) For Liabilities Accounts	Debit the decrease	Credit the increase
(c) For Capital Accounts	Debit the decrease	Credit the increase
(d) For Revenue Accounts	Debit the decrease	Credit the increase
(e) For Expenses Accounts	Debit the increase	Credit the decrease

Illustration 2 Which rule of debit and credit is applicable for each of the accounts referred to in Illustration 1?

Solution:

Rules of debit and credit according to Traditional Classification.	
— Rule No. 1	Debit the receiver and credit the giver for 1, 2, 29, 32, 33, 35, 37, 38, 39 and 40.
— Rule No. 2	Debit what comes in and credit what goes out for 3, 8, 9, 27, 28.
— Rule No. 3	Debit all expenses and losses and credit all gains and profits for 4, 5, 6, 7, 10 to 26, 30, 31, 34 and 36.

Rules of debit and credit according to Modern Classification	
(a) For Assets Accounts	Debit the Increase and credit the Decrease for 3, 8, 9, 27, 28, 29, 38, 39.
(b) For Liabilities Accounts	Debit the decrease and credit the increase for 33, 35, 37, 40.
(c) For Capital Accounts	Debit the decrease and credit the increase for 1, 2, 32.
(d) For Revenue Accounts	Debit the decrease and credit the increase for 5, 11, 13, 19, 25, 26, 34.
(e) For Expenses Accounts	Debit the increase and credit the decrease for 4, 6, 7, 10, 12, 14 to 18, 20 to 24, 30, 31, 36.

6.0 DOUBLE ENTRY SYSTEM OF BOOK-KEEPING

6.1 Meaning — Double Entry System of Book-keeping refers to a system of accounting under which both the aspects (i.e. debit or credit) of every transaction are recorded in the accounts involved.

6.2 Account — The individual record of a person or thing or an item of income or an expense is called an account.

6.3 The terms debit and credit used today have their origin from the terms — *Debito* and *Credito* as used by *Luca fra Pacioli* in his book.

6.4 Every debit has equal amount of credit. So the total of all debits must be equal to the total of all credits.

6.5 Dual Aspect — Two fold aspect of a transaction is called dual aspect or duality of a transaction. This duality is the basis of double entry records.

6.6 As the name implies, the entry made for each transaction is composed of two parts - one for debit and another for credit. The double entry system may be compared with the Newton's law of motion, viz to every action there is always an equal and contrary reaction.

6.7 Examples

Example I — Mr X sold goods for cash Rs 1,000 to Mr Y. In this case the dual aspects of this transaction for Mr X and Mr Y are as follows:

Dual Aspects for Mr X	Dual Aspects for Mr Y
1. Receipt of cash Rs 1,000	1. Payment of Cash Rs 1,000
2. Foregoing of goods of Rs 1,000	2. Receipt of goods of Rs 1,000

Example II — Mr X sold goods for Rs 1,000 to Mr Y on credit. In this case the dual aspects of this transaction for Mr. X and Mr Y are as follows:

Dual Aspects for Mr X	Dual Aspects for Mr Y
1. Acquisition of right to recover Rs 1,000	1. Assumption of obligation to pay Rs 1,000
2. Foregoing of goods of Rs 1,000	2. Receipt of goods of Rs 1,000

6.8 Advantages of Double Entry System

1. Facilitates the accuracy of ledger accounts through the device of trial balance.
2. Facilitates the ascertainment of financial performance.
3. Facilitates the ascertainment of financial position.
4. Facilitates the comparability of financial statements.

7.0 MEANING AND FORMAT OF JOURNAL

7.1 Meaning of Journal, Journalising and Journal Entry

- (a) A Journal is a book in which transactions are recorded in the order in which they occur i.e., in chronological order. A Journal is called a book of prime entry (also called of original entry) because all business transactions are entered first in this book.
- (b) The process of recording a transaction in a journal is called **Journalizing**.
- (c) An entry made in the journal is called a '**Journal Entry**'.

7.2 Format of a Journal

The format of a journal is shown below:

Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)

- (a) **Date column** — Under this column, the date on which the transaction is entered is recorded. The year and month is written once, till they change.
- (b) **Particulars column** — Under this column, first the names of the accounts to be debited, then the names of the accounts to be credited and lastly the narration (i.e. a brief explanation of the transaction) are entered.
- (c) **L.F., i.e., Ledger Folio column** — Under this column, the ledger page number containing the relevant account is entered at the time of posting.
- (d) **Debit amount column** — Under this column, the amount to be debited is entered.
- (e) **Credit amount column** — Under this column, the amount to be credited is entered.

Note: Except the L.F. column, all other columns are recorded at the time of journalizing. The L.F. column is recorded at the time of posting.

7.3 Meaning of Journalising

The process of recording a transaction in the journal is called journalising. The various steps to be followed in journalising business transactions are given below:

Steps in Journalising

- Step 1 →** Ascertain what accounts are involved in a transaction.
- Step 2 →** Ascertain what is the nature of the accounts involved.
- Step 3 →** Ascertain which rule of debit and credit is applicable for each of the accounts involved.
- Step 4 →** Ascertain which account is to be debited and which is to be credited.
- Step 5 →** Record the date of transaction in the 'Date column'.
- Step 6 →** Write the name of the account to be debited very close to the left hand side (i.e., the line demarcating the 'Date column' and the 'Particulars column') alongwith the abbreviation 'Dr.' on the same line against the name of the account in the 'Particulars column' and the amount to be debited in the 'Debit Amount column' against the name of the account.
- Step 7 →** Write the name of the account to be credited in the next line preceded by the word 'To' at a few spaces towards right in the 'Particulars column' and the amount to be credited in the 'Credit Amount column' against the name of the account.
- Step 8 →** Write 'Narration' (i.e., a brief description of the transaction) within brackets in the next line in the 'Particulars column'.
- Step 9 →** Draw a line across the entire 'Particulars column' to separate one Journal Entry from the other.

Note: The 'Ledger Folio column' is filled in at the time of posting into the ledger and not at the time of journalising.