

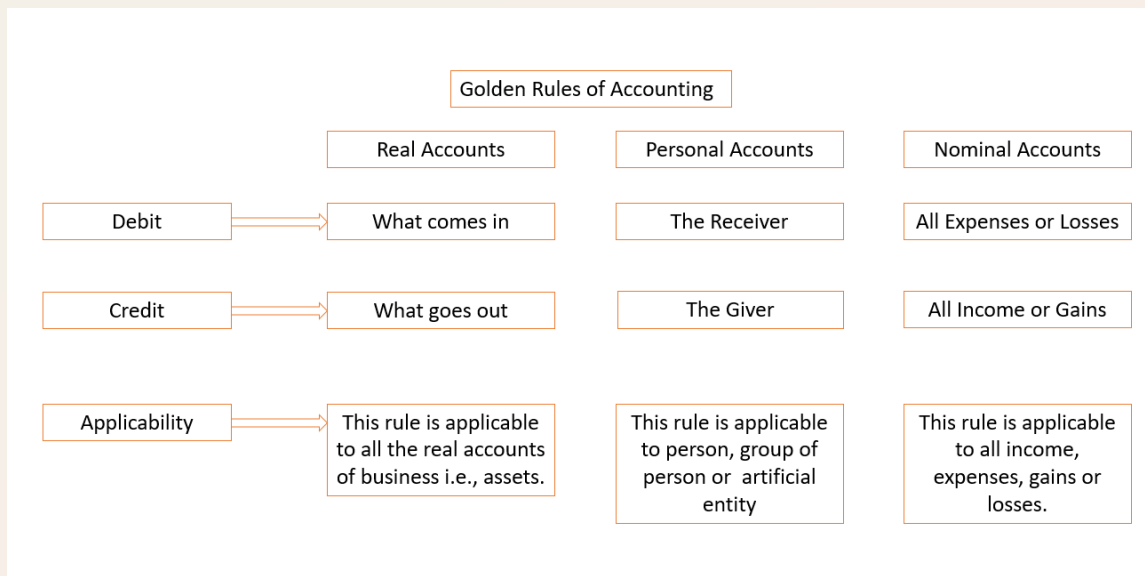
Golden Rules of Debit and Credit for Accounting

The Three Golden Rules of Accounting - *Real*, *Personal* and *Nominal* Accounts

• *Real*

• *Personal or*

• *Nominal Accounts*



1) **Real Accounts**

- If the item that belongs to the real account is coming into the business then while making the accounting entries it should be written on the Debit side.
- If the item of real account is going out of the business then while making the accounting entries it should be written on the Credit side.

The accounting rule of real account goes like

*“Debit what comes in,
credit what goes out”*

2) **Personal Accounts**

- If the person/ group of persons/ legal body is receiving something from the business then - Debit the receiver
- If the person/ group of persons/ legal body is paying something to the business - Credit the payer or giver

The accounting rule of personal account goes like

*“Debit the receiver,
Credit the giver”*

3) **Nominal Accounts**

- Electricity Expenses,
- Telephone Expenses,
- Interest Received,
- Profit on Sale of Machines, etc.

The accounting rule of nominal account goes like

*“Debit all expenses and losses,
credit all incomes and gains”*

Examples

The above three golden rules can be better decoded with the help of some illustrative accounting transactions like:

- Company X starts its business with a capital of INR 1,00,000.
- Rents a property worth INR 25,000.
- Purchases goods worth INR 50,000 on credit from Company Y.
- Sells goods worth INR 75,000
- Pays cash for goods purchased from Company Y.
- Pays salary worth INR 50,000 to employees.

Firstly, let us identify the different accounts involved and the types of accounts for each of the transactions:

<i>Transactions</i>	<i>Account Involved</i>	<i>Types of Accounts</i>
<i>Capital of INR 1,00,000</i>	<i>Cash A/c; Capital A/c</i>	<i>Real Account; Personal Account</i>
<i>Rent worth INR 25,000</i>	<i>Rent A/c; Cash A/c</i>	<i>Nominal Account; Real Account</i>
<i>Purchases goods worth INR 50,000 on credit from Company Y</i>	<i>Purchases A/c; Company Y A/c</i>	<i>Nominal Account; Personal Account</i>
<i>Sells goods worth INR 75,000</i>	<i>Cash A/c; Sales A/c</i>	<i>Real Account; Nominal Account</i>
<i>Pays cash for goods purchased from Company Y</i>	<i>Company Y A/c; Cash A/c</i>	<i>Personal Account; Real Account</i>
<i>Pays salary worth INR 50,000 to employees</i>	<i>Salary A/c; Cash A/c</i>	<i>Nominal Account; Real Account</i>

Using the Golden Rules of Accounting

Applying the golden rules of accounting will help you determine the journal entries:

1. A company X starts its business with a capital of INR 1,00,000

Since cash is a tangible asset, it is part of a real account. Capital is a personal account. As per the golden rule of real and personal accounts:

- ✓ Debit what comes in
- ✓ Credit the giver

Account	Dr	Cr
Cash A/c	1,00,000	
Capital A/c		1,00,000

2. Rents a property worth INR 25,000

Rent is an expense and hence belongs to a nominal account. Cash is part of a real account. As per the golden rule of nominal and real accounts

- ✓ Debit all expenses and losses
- ✓ Credit what goes out

Account	Dr	Cr
Rent A/c	25,000	
Cash A/c		25,000

3. Purchases goods worth INR 50,000 on credit from Company Y

Purchase transactions are an expense, and hence they are part of a nominal account. Company Y is part of the personal account. As per the golden rule of nominal and personal accounts:

- ✓ Debit all expenses and losses
- ✓ Credit the giver

Account	Dr	Cr
Purchases A/c	50,000	
Company Y A/c		50,000

4. Sells goods worth INR 75,000

Sales generates income for the business, and hence it is part of the nominal account. Cash is part of a real account. As per the golden rule of real and nominal accounts:

- ✓ Debit what comes in
- ✓ Credit all income and gains

Account	Dr	Cr
Cash A/c	75,000	
Sales A/c		75,000

5. Pays cash for goods purchased from Company Y

Company Y is a personal account, and cash is part of a real account. As per the golden rule of personal and real accounts:

- ✓ Debit the receiver
- ✓ Credit what goes out

Account	Dr	Cr
Company Y A/c	50,000	
Cash A/c		50,000

6. Pays salary worth INR 50,000 to employees

Salary is an expense to the business and hence is part of the nominal account. Cash is part of a real account. As per the golden rule of nominal and real accounts:

- ✓ Debit all expenses and losses
- ✓ Credit what goes out

Account	Dr	Cr
Salary A/c	50,000	
Cash A/c		50,000