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शक्तिउत्थानआश्रमलखीसरायबिहार

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Recording of Transactions-I

3.3 Using Debit and Credit

As already stated every transaction involves give and take aspect. In double entry accounting, every transaction affects and is recorded in at least two accounts. When recording each transaction, the *total amount debited must equal to the total amount credited*. In accounting, the terms — *debit* and *credit* indicate whether the transactions are to be recorded on the left hand side or right hand side of the account. In its simplest form, an account looks like the letter **T**. Because of its shape, this simple form called a T-account (refer figure 3.4). Notice that the T format has a left side and a right side for recording increases and decreases in the item. This helps in ascertaining the ultimate position of each item at the end of an accounting period. For example, if it is an account of a customer all goods sold shall appear on the left (debit) side of customer's account and all payments received on the right side. The difference between the totals of the two sides called *balance* shall reflect the amount due to the customer. In a **T** account, the left side is called *debit* (often abbreviated as Dr.) and the right side is known as *credit* (often abbreviated as Cr.). To

The summary of effects of transactions on accounting equation is in the following analysis table:

(Figures in rupees)

Transaction No.	Cash	Bank	Assets Debtors	Goods (Stock)	Furniture	Plant and Machinery	Total Assets	Liabilities	Capital	Total
	5,00,000						5,00,000	.....	5,00,000	5,00,000
1. Post Trans. Equation	(4,80,000) 20,000	4,80,000 4,80,000					..... 5,00,000		..... 5,00,000	..... 5,00,000
2. Post Trans. Equation	..... 20,000	(60,000) 4,20,000			60,000 60,000		..... 5,00,000		..... 5,00,000	..... 5,00,000
3. Post Trans. Equation	(10,000) 10,000	4,20,000			60,000	1,25,000 1,25,000	1,15,000 6,15,000	1,15,000 1,15,000	5,00,000	1,15,000 6,15,000
4. Post Trans. Equation	10,000	4,20,000		55,000 55,000	60,000	1,25,000	55,000 6,70,000	55,000 1,70,000	5,00,000	55,000 6,70,000
5. Final Equation	10,000	4,20,000	35,000	30,000	60,000	1,25,000	6,80,000	1,70,000	5,10,000	6,80,000

enter amount on the left side of an account is to *debit* the account. To enter amount on the right side is to *credit* the account.

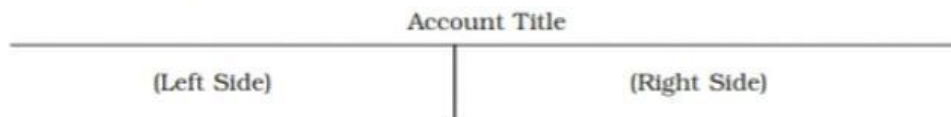


Fig. 3.4 : Showing T-account

3.3.1 Rules of Debit and Credit

All accounts are divided into five categories for the purposes of recording the transactions: (a) Asset (b) Liability (c) Capital (d) Expenses/Losses, and (e) Revenues/Gains.

Two fundamental rules are followed to record the changes in these accounts:

(1) For recording changes in Assets/Expenses (Losses):

- (i) "Increase in asset is debited, and *decrease* in asset is credited."
- (ii) "Increase in expenses/losses is debited, and *decrease* in expenses/losses is credited."

(2) For recording changes in Liabilities and Capital/Revenues (Gains):

- (i) "Increase in liabilities is credited and *decrease* in liabilities is debited."
- (ii) "Increase in capital is credited and *decrease* in capital is debited."
- (iii) "Increase in revenue/gain is credited and *decrease* in revenue/gain is debited."

The rules applicable to the different kinds of accounts have been summarised in the following chart:

Rules of Debit and Credit

Asset		Liabilities	
(Increase) + Debit	(Decrease) - Credit	(Decrease) - Debit	(Increase) + Credit
Capital		Expenses/Losses	
(Decrease) - Debit	(Increase) + Credit	(Increase) + Debit	(Decrease) - Credit
Revenues/Gains			
(Decrease) - Debit	(Increase) + Credit		

The transactions in Example 1 on page 46 will help you to learn how to apply these debit and credit rules. Observe the analysis table given on page 48 carefully to be sure that you understand before you go on to the next one. To illustrate different kinds of events, three more transactions have been added (transactions 7 to 9).

1. Rohit started business with cash Rs. 5,00,000

Analysis of Transaction : The transaction increases cash on one hand and increases capital on the other hand. Increases in assets are debited and increases in capital are credited. Therefore record the transaction with debit to Cash and credit to Rohit's Capital.

Cash Account	Capital Account
(1) 5,00,000	(1) 5,00,000
	(6) 10,000

2. Opened a bank account with an amount of Rs. 4,80,000

Analysis of Transaction: The transaction increases the cash at bank on one hand and decreases cash in hand on the other hand. Increases in assets are debited and a decreases in assets are credited. Therefore, record the transactions with debit to Bank account and credit to Cash account.

Cash Account	Bank Account
(1) 5,00,000	(2) 4,80,000
(2) 4,80,000	(2) 4,80,000

3. Bought furniture for Rs. 60,000 and issued cheque for the same

Analysis of Transaction : This transaction increases furniture (assets) on one hand and decreases bank (assets) on the other hand by Rs. 60,000. Increases in assets are debited and decreases are credited. Therefore record the transactions with debit to Furniture account and credit to Bank account.

Furniture Account	Bank Account
(1) 60,000	(2) 4,80,000
	(3) 60,000

4. Bought Plant and Machinery from Ramjee lal for the business for-Rs. 1,25,000 and an advance of Rs. 10,000 in cash is given.

Analysis of Transaction : This transaction increases plant and machinery (assets) by Rs. 1,25,000, decreases cash by Rs. 10,000 and increases liabilities (M/s Ramjee Lal as creditor) by Rs. 1,15,000. Increases in assets are debited whereas decreases in assets are credited. On the other hand increases in liabilities are credited. Therefore, record the transaction with debit to furniture account and with credit to Cash and Ramjee Lal's account.

Cash Account	Plant and Machinery Account
(1) 5,00,000	(2) 4,80,000
	(4) 10,000
	(4) 1,25,000
Ramjee Lal's Account	
	(4) 1,15,000

5. Goods purchased from Sumit Traders for Rs. 55,000

Analysis of transaction : This transaction increases purchases (expenses) and increases liabilities (M/s Sumit Traders as creditors) by Rs. 55,000. Increases in expenses are debited and increases in liabilities are credited. Therefore record the transaction with debit to Purchases account and credit to Sumit Traders account.

Purchases Account	Sumit Traders Account
(5) 55,000	(5) 55,000

6. Goods costing Rs. 25,000 sold to Rajani Enterprises for Rs. 35,000

Analysis of transaction : This transaction increases sales (Revenue) and increases assets (Rajani Enterprises as debtors). Increases in assets are debited and increases in revenue are credited. Therefore record the entry with credit to Sales account and debit to Rajani Enterprises account.

Sales Account	Rajani Enterprises Account
	(6) 35,000
	(6) 35,000

7. Paid the monthly store rent Rs. 2,500 in cash

Analysis of transaction : The payment of rent is an expense which decreases capital thus, are recorded as debits. Credit cash to record decrease in assets.

Rent Account	Cash Account
(7) 2,500	(7) 5,00,000
	(2) 4,80,000
	(4) 10,000
	(7) 2,500

8. Paid Rs. 5,000 as salary to the office employees

Analysis of transaction : The payment of salary is an expense which decreases capital thus, are recorded as debits. Credit Cash to record decrease in assets.

Salary Account		Cash Account	
(8) 5,000		(1) 5,00,000	(2) 4,80,000
			(4) 10,000
			(7) 2,500
			(8) 5,000

9. Received cheque as full payment from Rajani Enterprises and deposited same day into bank

Analysis of transaction: This transaction increase assets (Bank) on the one hand and decreases assets (Rajani Enterprises as debtors) on the other hand. Increase in assets is debited whereas decrease in assets is credited. Therefore record the entry with debit to Bank account and credit to Rajani Enterprises account.

Rajani Enterprises Account		Bank's Account	
(6) 35,000	(9) 35,000	(2) 4,80,000	(3) 60,000
		(9) 35,000	

Test Your Understanding - I

- Double entry accounting requires that :
 - All transactions that create debits to asset accounts must create credits to liability or capital accounts;
 - A transaction that requires a debit to a liability account require a credit to an asset account;
 - Every transaction must be recorded with equal debits equal total credits.
- State different kinds of transactions that increase and decrease capital.
- Does debit always mean increase and credit always mean decrease?
- Which of the following answers properly classifies these commonly used accounts: (1) Building (2) Wages (3) Credit sales (4) Credit purchases (5) Electricity charges due but not yet paid (outstanding electricity bills) (6) Godown rent paid in advance (prepaid godown rent) (7) Sales (8) Fresh capital introduced (9) Drawings (10) Discount paid

	Assets	Liabilities	Capital	Revenue	Expense
(i)	5,4,	3,	9,6	2,10	8,7
(ii)	1, 6	4, 5	8	7, 3	2,9,10
(iii)	2,10,4	4,6	8	7,5	1,3,9