Golden Rules of Accounting

The Golden rules of Accounting

Golden rules of Accounting are the basis of recording all day to day financial business transaction. In which book we record all these transactions is known as Journal Book. The Journal book is maintained in chronological order (*i.e. Date wise*). To understand the Golden rules of account, first, we have to know the type of accounts because rules are applied to the transaction on the basis of the type of account.

With the help of the following points, we had explained the Three Golden Rules of accounting.: -

- Type of Accounts | Explain with example
- The three Golden Rules of Accounting
- How to apply the Golden Rules of Accounting
- Example of Golden rules of Accounting
- Points to be remembered

Type of Accounts: -

Accounting to the golden rules of accounting, accounts are divided into three categories. These are explained with the examples as following: -

1. Real Accounts:

Real account is related to tangible and intangible assets. This is included only impersonal accounts. The balance at the end of these accounts transferred to the balance sheet as closing balance and carry forward to the next year as an opening balance.

This rule is applicable to all assets of the business when an asset is purchased, sold, depreciated or disposed of.

Example of accounts on which the Real Account is applicable:- Cash, Land and Building, Plant and Machine, Furniture and Fixture, Trademarks, Vehicles, Leasehold premises, Computer Equipment, Computer Software, Office equipment, Stock or Inventory, Etc.

"Click here to check the meaning of an asset."

2. Personal Accounts:

This rule is applicable to all Individual. The individuals are three types shown as following: -

- 1. Persons: Natural Person.
- 2. **Artificial persons: -** The person created by human.

3. **Representative persons: -** Those accounts which represent the person or group of persons.

Example of accounts on which the Personal Account is applicable: -

- **Examples of Persons: -** Amanpreet, Jazz, Pawan Kumar, Vijay, Amir Khan. Etc.
- Examples of Artificial persons: Ram and Sons., HAPPSS Store., Bank A/c (SBI), Reliance Industries Ltd. Etc.
- **Examples of Representative persons:** Outstanding Salary, Prepaid Expenses, Accrued Income, Pre- received Income, Etc.

3. Nominal Accounts:

The accounts which are related to the expenses, income, losses and gains are included in the nominal account.

Example of all accounts on which the Nominal Account is applicable:

- Expenses Accounts: -Salary, Wages, Purchases, Electricity bill, Telephone and mobile Rent, Transportation charges, Rent Paid, Etc.
- Incomes Accounts: Sales, Commission Received, Rent on sublet building received, Etc.
- Losses Accounts: Loss on sale of an asset, Loss by Theft, Loss by fire, loss by an accident, Etc.
- Profits Accounts: Profit on sale of an asset, Etc.

<u>Click here</u> to check the meaning of an Expenses, Income and Losses/Profits.

The three Golden Rules of Accounting: -

The Golden Rules of Accounting		
Debit: What comes in		
Credit: What goes out		
Debit: The Receiver		
Credit: The Giver		
Debit: All Expenses and Losses		
Credit: All income and gains		

How to apply the Golden Rules of Accounting

After understanding all three types of accounts and the rules of accounting now question raised is how we can apply it on any transaction. We have explained these all rules individually with examples. We'll show you, how you can apply **Golden Rules of accounting** with step by step guide with the following example: -

1. Real Accounts:

Example No. 1: Purchase Furniture for Rs 10,000/-

Steps		Purchase Furniture	for Rs. 10,000/-
1st	Scan and select affects	ed Furniture	10,000/- Cash
	Accounts (From the transaction)		
2nd	Select What type of Accounts the	Se Asset Account	Asset Account
ZIIG	are (separately)	ASSET ACCOUNT	Asset Account
3rd	Select the rule which will be applied	ed Real Account	Real Account
Siu	to these accounts	Real Account	Real Account
4th	What will be the effect of th	is Purchased	Payment made
401	transaction on these accounts	ruiciiaseu	rayment made
5th	Which condition of the golden rule	is Comes in	Goes out
Sui	applied to these accounts	Comes in	does out
6th	Now, In the end, you got the nam	ne <mark>Debit (What come</mark> s	Credit (What goes
<u> </u>	of the Debit and the credit account	ː. i <mark>n)</mark>	out)

Journal entry for the above Example: -

Now, we got the debited account and credited account. So, it into the standard format journal day book as shown below: -

Date	Particulars		L.F.	Debit	Credit
	Furniture a/c	Dr.		10,000	
	To Cash a/c				10,000
	(Being Furniture purchased)				

2. Personal Accounts:

Example No. 2: - Purchase of Furniture For Rs. 10,000/- from Aman on Credit.

Scan and select affected Accounts (From the transaction) Select What type of Accounts these are (separately) Select the rule which will be applied to these accounts What will be the effect of this transaction on these accounts Which condition of the golden rule is applied to these accounts Now, in the end, you got the name of Debit (What the Debit and the credit account.) Select What type of Accounts these Asset Account Personal Account Personal Account Selling furniture Comes in Giver Credit (The Giver)	Steps	Purchase 10,000/- Fro	Furniture for Rs. m Aman on Credit
Select the rule which will be applied to these accounts What will be the effect of this transaction on these accounts Which condition of the golden rule is applied to these accounts Whow, in the end, you got the name of Debit (What comes) Asset Account Person Account Person Account Person Account Person Account Selling furniture Giver Comes in Ones in Ones in Credit (The Giver)	1st		<u>Aman</u>
these accounts What will be the effect of this transaction on these accounts Which condition of the golden rule is applied to these accounts Now, in the end, you got the name of Debit (What comes Credit (The Giver)	2nd		t Person Account
transaction on these accounts Which condition of the golden rule is applied to these accounts Now, in the end, you got the name of Debit (What comes Credit (The Giver)	3rd	Real Account	Personal Account
applied to these accounts Comes in Giver Now, in the end, you got the name of Debit (What comes Credit (The Giver)	4th		Selling furniture
6th Credit (The Giver)	5th	Comes in	Giver
	6th		comes Credit (The Giver)

Journal entry for the above Example: -

Now, we got the debited account and credited account. So, it into the standard format journal day book as shown below: -

Date	Particulars		L.F.	Debit	Credit
	Furniture a/c	Dr.		10,000	
	To Aman a/c				10,000
	(Being Furniture purchased on cre	edit from Aman)			

3. Nominal Accounts:

Example No. 3: - Salary paid to employees Rs. 5000/-.

Steps		S	Salary paid to e	employees Rs. 5000/-
1st	Scan and sele		Salary	5000/- Cash
150	Accounts (From the tr	ransaction)	<u>vaiai y</u>	<u>3000/ - Casii</u>
2nd	Select What type of A	Accounts these	xpense Accou	nt Asset Account
Ziid	are (separately)	_	жрепве жесой	ne Asset Account
3rd	Select the rule which	will be applied	Iominal Accou	nt Real Account
Siu	to these accounts	, and the second	ioiiiiiai Accou	nt Real Account
4th	What will be the	e <mark>ffect o</mark> f this	xpenses paid	Payment made
7011	transaction on these a	ac <mark>count</mark> s	xpenses para	Tayment made
5th	Which condition of the	e golden rule is 🗛	<mark>ll Expe</mark> nse	and Goes out
501	applied to these accou	unts L	osses	does out
6th	Now, in the end, you	got the name	ebit (All Ex	pense Credit (What
Otti	of the Debit and the o	credit account. a	nd Losses)	goes out)

Journal entry for the above Example: -

Now, we got the debited account and credited account. So, it into the standard format journal day book as shown below: -

Date	Particulars		L.F.	Debit	Credit
	Salary a/c	Dr.		10,000	
	To Cash a/c				10,000
	(Being salary paid to	employees)			

Example of Golden rules of accounting: -

Journalizing the following transactions.

Routine journal entries

S. No.	Transaction	Amount
1	Cash, Building, Furniture and Vehicle introduced by owner into the business.	100,000
2	Purchase goods for cash	50,000
3	Sold goods for cash	15,000
4	Paid for Salary	2,000
5	Sold goods to Mr A	50,000
6	Purchase goods from M/s Ram and Sons.	1,00,000
7	Cash received from Mr A	50,000
8	Cash paid to M/s Ran and Sons.	50,000

Solution: - Firstly get debit and credit account for each transaction by applying the golden rule of account shown below: -

	Select affected Accounts from the transaction	Nature of			condition of Rule applied	According to Rule, get know that which account will be Dr./Cr.
1.	Cash a/c	Assets	Real Account	Cash received	What Comes in	Debit
	Capital a/c	Person		the owner is giving cash to the business	The Giver	Credit
2.	Purchase a/c	Expenses	Nominal Account	Money spent on the purchase of goods		Debit
	Cash a/c	Assets	Real Account	Cash paid for the purchase of goods	What Goes out	Credit

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3.	Cash a/c	Assets	Real	Cash received from the	What	Debit
-	., .		Account	sale of goods	comes in	
	Sale a/c	Income	Nominal	money earned on the	All Income	Credit
	Sale a/C Income		Account	purchase of goods	and gain	Credit
			Nominal	money spent on the paid	All	
4.	Salary a/c	Expenses	Account	salary	expenses and losses	Debit
	Cash a/c	Assets	Real	Cash paid for salary	what Goes	Credit
			Account		out	
5.	Mr A a/c	Person	Person	goods purchased by him	The	Debit
			Account	, , , , , , , , , , , , , , , , , , ,	<mark>receiv</mark> er	
	Sale a/c	Income	No <mark>minal</mark>	mone <mark>y earned</mark> on th <mark>e</mark>	<mark>All In</mark> come	Credit
	Sale a/e		Ac <mark>count</mark>	sale o <mark>f goods</mark>	<mark>and g</mark> ain	Creare
			Nominal	Money spent on the	All	
6.	Purchase a/c	Expenses	Account	purch <mark>ase of goo</mark> ds	expenses and losses	Debit
	M/s Ram and		Person	Sold goods to us	The Giver	Cradit
	Sons. a/c	Person	Account	Sold goods to us	THE GIVE	Credit
7.	Cash a/c	Assets	Real	Cash received	What	Debit
	Casir a, c		Account	Cushi received	comes in	DCDIC
	Mr A a/c	Person	Person	paid cash to us	The Giver	Credit
			Account			
8.	M/s Ram and	Person	Person	Cash received by him	The	Debit
	Sons a/c	_	Account	,	receiver	_
	Cash a/c	Assets	Real	Cash paid	What Goes	Credit
	Casii a, c	, 133013	Account	Cash pala	out	Cicuit

Journal Day books

Date	Particulars		L.F.	Debit	Credit
	Cash a/c To Capital a/c (Being started business with cash)	Dr.		1,00,000	1,00,000
	Purchase a/c To Cash a/c (Being Purchase good for cash)	Dr.		50,000	50,000
	Cash a/c To Sales a/c (Being sold goods for cash)	Dr.		15,000	15,000
	Salary a/c To Cash a/c (Being salary paid to employees)	Dr.		3,000	3,000
	Mr A a/c To Sales a/c (Being sold goods to Mr A on credit)	Dr.		50,000	50,000
	Purchase a/c To M/s Ram and Sons. a/c (Being Purchased goods from M/s Ram and Sons. on credit)	Dr.		1,00,000	1,00,000
	Cash a/c Mr A a/c (Being Payment received from Mr A)	Dr.		50,000	50,000
	M/s Ram and Sons a/c To Cash a/c (Being Payment made to M/s Ram and Sons)	Dr.		50,000	50,000

Reminder Notes: -

Steps Involved in the application of the Golden Rules of accounting are shown below: -

Step No.	Description			
1st	Scan and select affected Accounts (From the transaction)			
2nd	Select What type of Accounts these are (separately)			
3rd	Select the rule which will be applied to these accounts			
4th	What will be the effect of this transaction on these accounts			
5th	Which condition of the golden rule is applied to these accounts			
6th	Now, In the end, you got the name of the Debit and the credit account.			

In some of the cases, these rules are very difficult to understand how to apply it,
So that's why Modern Rules of Accounting have come into existence. We had
Explained it in the next topic.