

Golden Rules of Accounting

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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](#)
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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.

[Click here](#) to check the meaning of an Expenses, Income and Losses/Profits.

The three Golden Rules of Accounting: -

Type of Accounts	The Golden Rules of Accounting
1. Real Accounts	Debit: What comes in Credit: What goes out
2. Personal Accounts	Debit: The Receiver Credit: The Giver
3. Nominal Accounts	Debit: All Expenses and Losses Credit: All income and gains

3. Nominal Accounts:

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

Steps		Salary paid to employees Rs. 5000/-	
1st	Scan and select affected Accounts (From the transaction)	<u>Salary</u>	<u>5000/- Cash</u>
2nd	Select What type of Accounts these are (separately)	Expense Account	Asset Account
3rd	Select the rule which will be applied to these accounts	Nominal Account	Real Account
4th	What will be the effect of this transaction on these accounts	Expenses paid	Payment made
5th	Which condition of the golden rule is applied to these accounts	All Expense and Losses	and Goes out
6th	Now, in the end, you got the name of the Debit and the credit account.	Debit (All and Losses)	Expense Credit (What 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: -

S. No.	Select affected Accounts from the transaction	The Nature of Account	The Rule which will be Applied on these accounts	Effect of a transaction to these accounts	The 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	Person Account	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	All expenses and losses	Debit
	Cash a/c	Assets	Real Account	Cash paid for the purchase of goods	What Goes out	Credit

3.	Cash a/c	Assets	Real Account	Cash received from the sale of goods	What comes in	Debit
	Sale a/c	Income	Nominal Account	money earned on the purchase of goods	All Income and gain	Credit
4.	Salary a/c	Expenses	Nominal Account	money spent on the paid salary	All expenses and losses	Debit
	Cash a/c	Assets	Real Account	Cash paid for salary	what Goes out	Credit
5.	Mr A a/c	Person	Person Account	goods purchased by him	The receiver	Debit
	Sale a/c	Income	Nominal Account	money earned on the sale of goods	All Income and gain	Credit
6.	Purchase a/c	Expenses	Nominal Account	Money spent on the purchase of goods	All expenses and losses	Debit
	M/s Ram and Sons. a/c	Person	Person Account	Sold goods to us	The Giver	Credit
7.	Cash a/c	Assets	Real Account	Cash received	What comes in	Debit
	Mr A a/c	Person	Person Account	paid cash to us	The Giver	Credit
8.	M/s Ram and Sons a/c	Person	Person Account	Cash received by him	The receiver	Debit
	Cash a/c	Assets	Real Account	Cash paid	What Goes out	Credit

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.