

# SEBI GRADE A

## Commerce & Accountancy

### Golden Rules of Accounting



 [www.edutap.co.in](http://www.edutap.co.in)

 +91 8146207241

 [hello@edutap.co.in](mailto:hello@edutap.co.in)

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**Golden Rules of Accounting**



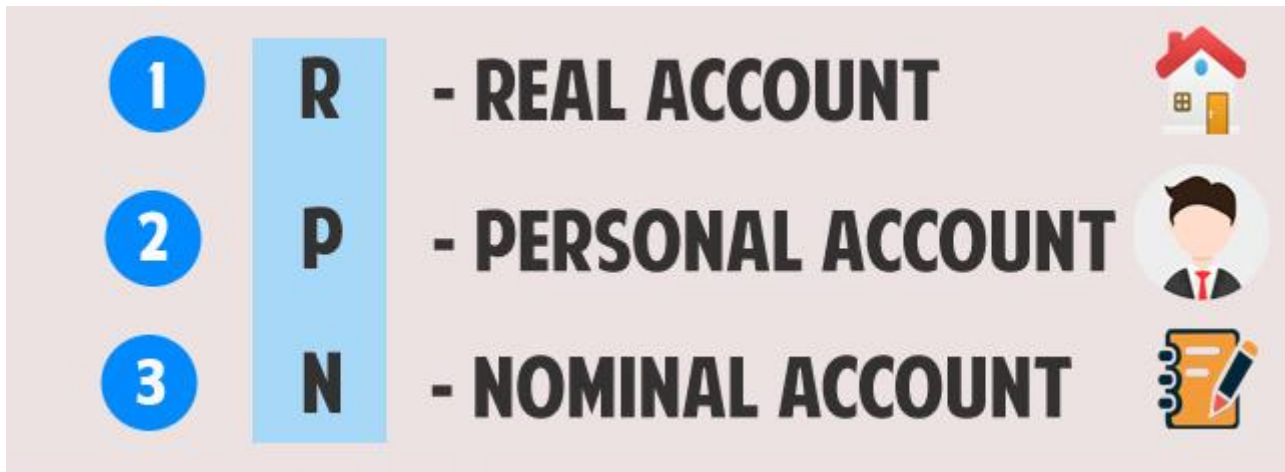
Every economic entity must present its financial information to all its stakeholders. The information provided in the financials must be accurate and present a true picture of the entity. For this presentation, it must account for all its transactions. Since economic entities are compared to understand their financial status, there has to be uniformity in accounting.

To bring about uniformity and to account for the transactions correctly there are three Golden Rules of Accounting. These rules form the very basis of passing journal entries which in turn form the basis of accounting and bookkeeping.

To understand the Golden Rules of Accounting, we must first understand the types of accounts.

**1.1 Types of Accounts**

The account classification applies to all the types of general ledgers. In other words, every account will fall in one of the broad classifications given below. There are three types of accounts:



### 1. Real Account

These account types are related to assets or properties. They are further classified as Tangible real account and Intangible real accounts.

#### Tangible Real Accounts

These include assets that have a physical existence and can be touched. For example – Building A/c, cash A/c, stationery A/c, inventory A/c, etc.

#### Intangible Real Accounts

These assets do not have any physical existence and cannot be touched. However, these can be measured in terms of money and have value. For Example – Goodwill, Patent, Copyright, Trademark, etc.

### 2. Personal account

These account types are related to persons. These persons may be natural persons like Raj's account, Rajesh's account, Ramesh's account, Suresh's account, etc.

These persons can also be artificial persons like partnership firms, companies, bodies corporate, an association of persons, etc.

For example – Rajesh and Suresh trading Co., Charitable trusts, XYZ Bank Ltd, C company Ltd, etc.

There can be personal representative accounts as well.

For example – In the case of Salary, when it is payable to employees, it is known how much amount is payable to each of the employee. But collectively it is called as 'Salary payable A/c'.

### 3. Nominal account

These accounts types are related to income or gains and expenses or losses. For example: – Rent A/c, commission received A/c, salary A/c, wages A/c, conveyance A/c, etc.

## 1.2 3 Golden rules of Accounting

Golden Rules		
	Debit	Credit
Personal Account	The receiver	The giver
Real Account	What comes in	What goes out
Nominal Account	all losses and expense	all income and gains

### Easy Interpretation of 3 golden rules of accounting

- Real Account

If the item (*real account*) is **coming into** the business then – Debit

If the item (*real account*) is **going out** of the business then – Credit

- Personal Account

If the person(or)legal body(or)group **is receiving** something – Debit

If the person(or)legal body(or)group **is giving** something – Credit

- Nominal Account

If it is an **expense or loss** for the business – Debit

If it is an **income or gain** for the business – Credit

## 1.3 Examples – Three Golden Rules of Accounting

Purchased furniture for 10,000 in cash.

Accounts Involved	Debit/Credit	Rule Applied
Furniture A/C	10,000	Real A/C – Dr. what comes in
To Cash A/C	10,000	Real A/C – Cr. what goes out

- **Paid 15,000 cash to Unreal Pvt Ltd.**

Accounts Involved	Debit/Credit	Rule Applied
Unreal Pvt Ltd. A/C	15,000	Personal A/C – Dr. the receiver
To Cash A/C	15,000	Real A/C – Cr. what goes out

- **Paid 18,000 from the bank for rent.**

Accounts Involved	Debit/Credit	Rule Applied
Rent A/C	18,000	Nominal A/C – Dr. all expenses
To Bank A/C	18,000	Personal A/C – Cr. the giver

- **Depreciation charged for 1,00,000 on the machine.**

Accounts Involved	Debit/Credit	Rule Applied
Depreciation A/C	1,00,000	Nominal A/C – Dr. all expenses
To Machine A/C	1,00,000	Real A/C – Cr. what goes out

- **Goods sold for 5,000 on credit to Mr Unreal.**

Accounts Involved	Debit/Credit	Rule Applied
Mr Unreal A/C	5,000	Personal A/C – Dr. the receiver
To Sales A/C	5,000	Nominal A/C – Cr. all incomes

## 2 Concept Check

1. “Debit the Receiver, credit the giver” is the rule of:

- Nominal Account
- Real Account
- Personal Account
- None of these

**Answer (b) Real Account**

2. “Debit all Expense & Loses, credit all Income & gain” is the rule of:

- Nominal Account
- Real Account
- Personal Account
- None of these

**Answer (a) Nominal Account**

3. The rule for Real Account is:

- (a) Debit the Receiver, Credit the Giver
- (b) Debit what comes in, Credit what goes out
- (c) Debit all Expense & Loses, Credit all Income & gain
- (d) None of these

**Answer (b) Debit what comes in, Credit what goes out**

4. Capital Account is an example of:

- (a) Nominal Account
- (b) Real Account
- (c) Representative Personal Account
- (d) Personal Account

**Answer (c) Representative Personal Account**



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