

There are two systems of accounting followed -

- Single Entry System
- Double Entry System

Single Entry System

Single entry system is an incomplete system of accounting, followed by small businessmen, where the number of transactions is very less. In this system of accounting, only personal accounts are opened and maintained by a business owner. Sometimes subsidiary books are maintained and sometimes not. Since real and nominal accounts are not opened by the business owner, preparation of profit & loss account and balance sheet is not possible to ascertain the correct position of profit or loss or financial position of business entity.

Double Entry System

Double entry system of accounts is a scientific system of accounts followed all over the world without any dispute. It is an old system of accounting. It was developed by '**Luco Pacioli**' of Italy in 1494. Under the double entry system of account, every entry has its dual aspects of debit and credit. It means, assets of the business always equal to liabilities of the business.

Assets = Liabilities

If we give something, we also get something in return and vice versa.

Rules of Debit and Credit under Double Entry System of Accounts

The following rules of debit and credit are called the golden rules of accounts:

Classification of accounts	Rules	Effect
Personal Accounts	Receiver is Debit Giver is Credit	Debit=Credit
Real Accounts	What Comes In Debit What Goes Out Credit	Debit=Credit
Nominal Accounts	Expenses are Debit Incomes are Credit	Debit=Credit

Example

Mr A starts a business regarding which we have the following data:

Introduces Capital in cash	Rs	50,000
Purchases <i>Cash</i>	Rs	20,000

Purchases <i>Credit</i> from Mr B	Rs	25,000
Freight charges paid in cash	Rs	1,000
Goods sold to Mr C on credit	Rs	15,000
Cash Sale	Rs	30,000
Purchased computer	Rs	10,000
Commission Income	Rs	8,000

Journal entries for above items would be done as -

S.No.	Journal Entries	Classification	Rule
1	Cash A/c Dr. 50,000 50,000	Real A/c Personal A/c	Debit what comes in; Credit the giver <i>Owner</i>
2	Goods Purchase A/c Dr. 20,000 20,000	Real A/c Real A/c	Debit what comes in; Credit what goes out
3	Goods Purchase A/c Dr. 25,000 25,000	Real A/c Personal A/c	Debit what comes in; Credit the giver
4	Freight A/c Dr. 1,000 1,000	Nominal A/c Real A/c	Debit all expenses Credit what goes out
5	C A/c Dr. 15,000 15,000	Personal A/c Real Account	Debit the receiver Credit what goes out
6	Cash A/c Dr. 30,000 30,000	Real A/c Real A/c	Debit what comes in; Credit what goes out
7	Computer A/c Dr. 10,000 10,000	Real A/c Real A/c	Debit what comes in; Credit what goes out
8	Cash A/c Dr. 8,000 8,000	Real A/c Nominal A/c	Debit what comes in; Credit all incomes

It is very clear from the above example how the rules of debit and credit work. It is also clear that every entry has its dual aspect. In any case, debit will always be equal to credit in double entry accounting system.

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