"Every transaction involving **money or money's worth** has **two fold aspects**, the **receiving of a value** on the one hand and the **giving of the same** value on the other. This two fold nature in all transactions **must be recorded in the books** and this gives rise to the term Double Entry Book keeping". – *Munro and Palmer*

Debit (Receiving Account) denotes

+ Increase in Asset or Expenses

- Decrease in Capital, Liiab. Or Income

Credit (Giving Account) denotes

Double entry system of book keeping is a **scientific and complete system of recording the financial transactions** of an organization.

Principles of Double Entry System

-Two aspects involved:

Debit: benefit or value receiving

Credit: benefit or value giving

- Involve min.2 accounts; at least one debit and at least one credit.
- For every debit, there is a corresponding & equivalent credit
- If one a/c is debited the other a/c must be credited.
- In Journal & Ledger, Dr. is on the left side; & Cr. on the Right side.

Advantages of Double Entry System

- Accuracy due to 2 aspects
- help ascertainment of business results
- help ascertainment of bus. Position
- help comparative study
- Common acceptance

3.7 Accounting Rules: Golden rules of double entry system		
Personal account	Debit the Receiver	Credit the Giver
Real account	Debit what comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

Examples of accounts showing normal balances (debit or credit)

Assets	Liabilities
Cash, Bank Deposits, Stock, Debtors, Bills Receivable, Investment	Creditors, Bank loans(borrowings), Bank overdraft, Bills Payable
Land, Building, Plant & Machinery, Furniture	
Drawings	Capital, Reserves
Expenses	Revenues
Purchases, Sales Returns, Expenses	Sales, Purchases Returns, Income
Net Loss	Net Profit

Steps in Journalizing:

- Analyze the transaction and identify the accounts
- Classify those identified accounts into Personal/Real/Nominal
- Apply the Rules of Debit and Credit for accounts to debit or credit
- Record the date, particulars, debit amount, credit amount as explained earlier.
- Write the narration within brackets in the next line in the particulars column.

Classification of accounts:

1. Personal account (natural, artificial or representative personal)
2. Real account (Tangible, Intangible)
3. Nominal Account (expenses, losses, income, gains etc.)

Purchases are treated as a nominal a/c as it is an expenditure and sales is treated as a nominal a/c as it is revenue to the business.

Purchases, Purchases returns, Sales and Sales returns may also be treated as real accounts as they are related to goods.

Cash transaction: When immediate cash is involved in a transaction, it is called cash transaction.

(a) E.g. Debit Cash transactions: Goods sold for cash

(b) E.g. Credit Cash transactions: Goods bought for cash

Bank transaction: In a transaction, if bank is involved, it is a bank transaction.

Examples of bank transactions where Bank a/c is debited:

- ✓ Cash deposited into the bank – Dr. Bank a/c To Cr. Cash a/c
- ✓ (ii) Income of the business directly received by the bank – Dr. Bank a/c To Cr. Income received a/c
- ✓ (iii) Receipts through Cash Deposit Machine (CDM) – Dr. Bank a/c To Cr. The a/c from where such deposit is made
- ✓ (iv) Payment made by the customers of the business through debit card, credit card, net-banking – Dr. Bank To Cr. Customer ac

Examples of bank transactions where Bank a/c is credited:

- ✓ (v) Cash withdrawn from the bank – Dr. Cash To Cr. Bank
- ✓ (vi) Bank charges levied by the bank – Dr. Bank Charges a/c To Cr. Bank a/c
- ✓ (vii) Payments made by the bank as per standing instructions – Dr. Account for which the payment is made To Cr. Bank a/c
- ✓ (viii) Payments made by cheque – Dr. Payee a/c To Cr. Bank a/c
- ✓ (ix) Payments made by the business through debit card, credit card, net banking, NEFT & RTGS – Dr. Payee a/c To Cr. Bank a/c

National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS)

(c) Credit transaction - When settlement is not made by cash or through bank immediately in a transaction, it is called credit transaction. But, the amount is to be settled within a specified period. For example, purchase of goods on credit for ` 3,000. In this case, goods worth ` 3,000 come into the business and a liability of creditors worth ` 3,000 arises