MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Account** — It is a summarised record of transactions at one place relating to a particular head. It records not only the amount of transactions but also their effect and direction.

2. **Balancing** — It means totalling the two sides of an account and striking a balance.

   (***a***) **Debit Balance** — It is the difference between total of debit and credit sides of an account, total of debit side being bigger.

   (***b***) **Credit Balance** — It is the difference between total of debit and credit sides of an account, total of credit side being bigger.

3. **Rules of Debit and Credit**

   (A) Tradional Approach

   (***i***) **Personal Account** — Debit the receiver and credit the giver.

   (***ii***) **Real Account** — Debit what comes in and credit what gives out.

   (***iii***) **Nominal Account** — Debit all expenses and losses and credit all incomes and gains.

   (B) Modern Approach

   (***i***) **Assets** — Assets are the financial resources of an organisation. Assets have a debit balance. An increase in assets is debited and decrease credited.

   (***ii***) **Liabilities** — Liabilities are the claim against the financial resources (*i.e.*, assets). Liabilities have credit balance. An increase in liabilities is credited and decrease debited.

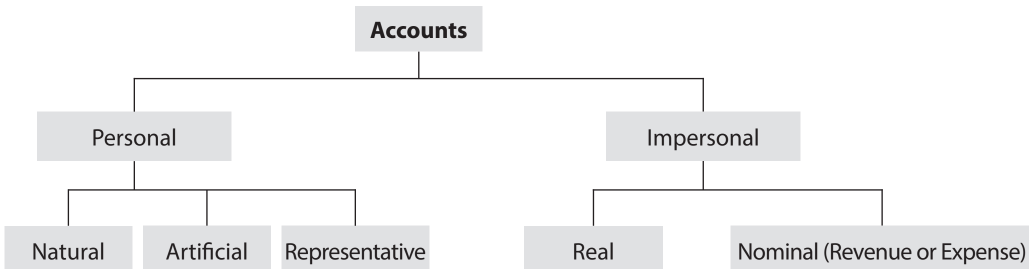
   (***iii***) **Capital** — An amount or fund introduced in the business by the owner is known as **capital**. Capital has a credit balance. An increase in capital is credited and decrease debited.

   (***iv***) **Expenses** — Expense is a value which has expired during the accounting period. Expenses have a debit balance. An increase in expenses is debited and decrease credited.

   (***v***) **Revenue** — Revenue is amount earned on sales of goods, services rendered or for use by others of enterprise's resources. Revenue has a credit balance. An increase in revenue is credited and decrease debited.

CHAPTER SUMMARY

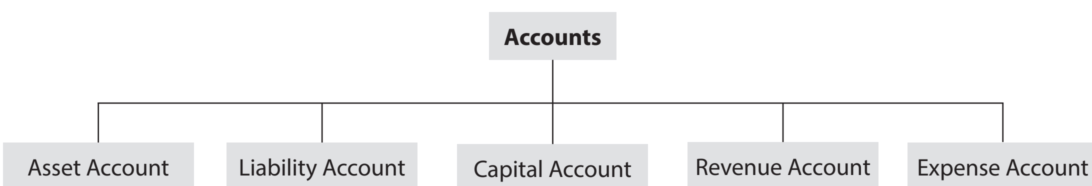
- **An Account** is a summarised record of relevant transactions at one place relating to a particular head. It records not only the amount of transactions but also their effect and direction.
- **Debit and Credit:** Debit and Credit are simply additions to or subtraction from an account. In accounting, debit refers to the left hand side of any account and credit refers to the right hand side. In accounting the abbreviated form **Dr.** stands for debit and **Cr.** stands for credit.
  Both debit and credit may represent either increase or decrease depending upon the nature of an account.
- **Traditional Classification of Accounts**



The Rule of debit and credit depends on the nature of an account.

Types of Account	*Account to be Debited*	*Account to be Credited*
1. Personal Account	Receiver	Giver
2. Real Account	What comes in	What goes out
3. Nominal Account	Expenses and Losses	Income and Gains

- **Modern Classification of Accounts**



The Rule of debit and credit depends on the nature of an account.

RULES FOR DEBIT AND CREDIT

Types of Account	*Account to be Debited*	*Account to be Credited*
1. Asset Account	Increase ↑	Decrease ↓
2. Liability Account	Decrease ↓	Increase ↑
3. Capital Account	Decrease ↓	Increase ↑
4. Revenue Account	Decrease ↓	Increase ↑
5. Expense Account	Increase ↑	Decrease ↓

- Assets, expenses and losses accounts normally have **debit balances**; liability, income and capital accounts normally have **credit balances**.