

## Dual Effect of Transactions and Types of Accounts

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### 1. Meaning of Business Transactions

The first step for preparation of account is the creation of transaction and its identification. No transaction, no accounts. When the word transaction is used in accounting.

- It has to be business transaction.
- It has to be economic transaction of business.
- Economic transaction should have monetary value.
- Business transaction can be in cash or in credit form.
- Business transaction can be internal.
- Business transaction can be external.

**“Business transaction means the exchange of products / services of business for cash and/or on credit between two or more than two persons.”**

To understand the precise meaning of transaction the explanation of the above-mentioned matter is given below. This explanation is given on the basis of transactions classification.

### 2. Classification of Business Transactions

The classification of business transactions explains types of business transaction and their characteristics. With the help of the classification, the difference between business transactions and non-business transactions can be understood. Only business economic transactions are recorded in the books.

Non-economic transactions are not recorded in the books. The classification of business transactions can be presented as under :

- **Economic transaction :**

Cash / credit transaction view point :

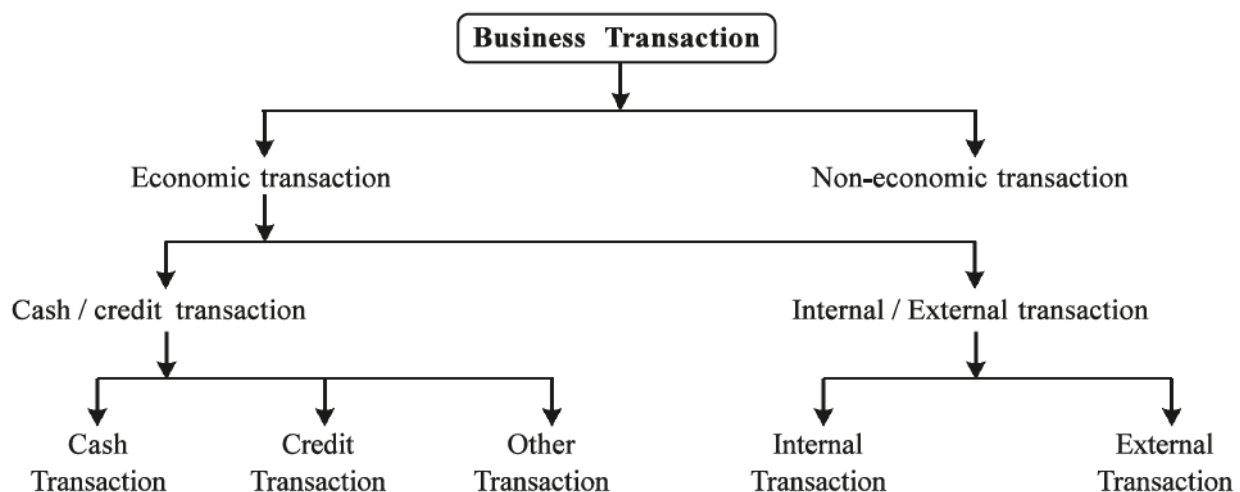
- Cash transaction
- Credit transaction
- Other transaction

Internal/External transaction view point :

- Internal transaction
- External transaction

- **Non-economic transaction :**

Following is the presentation in tabular form :



The illustrative explanation of the above stated types of business transactions is as under :

**(A) Economic transactions :** Only economic transactions of business are recorded in the books of business. Those business transactions the value of which can be measured in money form or cash; and where the exchange of money in cash is to be made immediately or in future is called economic transaction. The transactions at present keeping the proposed exchange of money in future, which create a relation of debtor or creditor, are included in the economic transactions.

There are two important aspects of economic transaction :

- Exchange of cash for asset – goods – service.
- Creation of relationship of debtor – creditor for asset – goods – services

Out of these two conditions if one condition is fulfilled, the transaction can be measured in terms of money and consequently that transaction becomes economic transaction.

The core characteristic of an economic transaction is its value in money. Economic transaction is recorded in the books. e.g. Radheshyam is in the business of furniture manufacturing. He purchased wood costing ₹ 30,000. This transaction is the transaction of business of Radheshyam. This transaction will be recorded by Radheshyam in his books. Economic transactions can be classified as mentioned below :

- **Cash/credit transaction view point :**

These transactions take place in three forms :

**(1) Cash transaction :** In this type of transaction money is paid / received for the exchange of assets, goods or service.

**(i) Cash transaction for asset:** In this category asset is purchased by the payment of money, or money is realized by the sale of asset. e.g. furniture worth ₹ 10,000 is purchased for business. (cash paid and asset is purchased). A scooter sold for ₹ 40,000 (Asset sold and cash is received).

**(ii) Cash transaction for goods:** Goods is purchased in exchange of money or money is realized from sale of goods. e.g., goods worth ₹ 15,000 is purchased in cash. Goods worth ₹ 18,000 is sold for cash.

**(iii) Cash transaction for services:** Cash is paid for acquired services or cash is received for provided services. e.g., salary of ₹ 12,000 paid to employee (employee gives service). Brokerage received ₹ 9000. (Broker provides service).

**Note:** Here, the meaning of service is, in business transaction, when money is paid or received in exchange for the work except physical asset, they are treated as service. Thus, here, the meaning of service is different.

(iv) **Transaction for receivable/payables:** Any amount, which is outstanding to pay for assets, goods or service acquired in the past, is known as payables. These are paid in present. Any amount, which is outstanding to receive for assets, goods or services, provided in the past is called receivable. These are received in present. e.g., The outstanding payment of ₹ 3000 for goods purchased from Ramila, is made. The goods worth ₹ 4000 was sold to Rashmi. The outstanding amount is received in cash.

**Note:** Instead of cash transaction, if transactions are made through cheques i.e. by bank. This is also included in cash transaction.

(2) **Credit transaction :** In this type of transaction, money is not paid immediately for purchase – sales transactions of asset, goods and service. Money for those purchase – sale is to be paid in future. However, exchange of asset, goods and service is made in present. Accounts are settled in future. **From this, the transaction, relation of debtor – creditor comes into existence.** In brief, purchase – sales of asset, goods, service are made in present but their money is payable or receivable in future. These transactions are recognized as **credit transactions**. e.g. Goods worth ₹ 4000 is sold to Kalpana on credit. Kalpana becomes debtor of business and business becomes creditor for Kalpana. Goods worth ₹ 6000 is purchased from Dipika on credit. Dipika becomes creditor of business, business becomes debtor for Dipika.

(3) **Other transaction :** The transaction that do not fall in the above mentioned two types, are special transactions. These are neither cash nor credit transactions. These are special transactions. These transactions are recorded in the books. e.g. Goods destroyed in accident, theft of goods, goods given for donation, goods given for advertisement, asset turned defective or useless, etc.

● **Internal/external transaction view point :** These transactions take place in two forms :

(1) **Internal transaction :** In certain transactions, there is no need of other parties. These transactions would take place within business. These transactions are recorded in the books of accounts. e.g., Depreciation on asset, loss due to natural calamity, etc. These are all economic transactions but are non-cash transactions.

(2) **External transactions :** These transactions are between business and other parties. These are economic transactions of business. These transactions are recorded in the books of accounts. e.g., sale of goods to customers, payment of wages to workers, interest received from bank, amount paid for insurance premium, purchase of machinery, cash deposited in bank etc.

● **Non-economic transaction :**

In the book of accounts of business, only economic transactions of business are recorded. Non-economic transactions are not recorded in the books. There is no significance of non-economic transactions in accounting.

**“Non-economic transactions are those transactions whose value cannot be measured in terms of money.”** e.g. An order is received to supply goods after one month. A meeting held with consultants for expansion of business.

So, familiarity with economic transactions and non-economic transactions provides simplicity in the writing of accounts.

**Illustration 1 :** Describe whether the following transactions are economic or non-economic transactions and clarify the reason for it.

- (1) Assets purchased for ₹ 10,000
- (2) Assets purchased from Radha for ₹ 12,000 on credit
- (3) Asset sold for ₹ 20,000
- (4) Assets sold to Mira on credit for ₹ 22,000.

- (5) ₹ 8000 paid for wages
- (6) ₹ 9000 received for rent
- (7) Liability of ₹ 15,000 is settled
- (8) Receivable of ₹ 18,000 is received
- (9) An order is received to supply goods of ₹ 10,000
- (10) A planning is made to buy one asset
- (11) To enhance sales, for discussion, a meeting is arranged with salesmen

Sr. No.	Transaction	Economic / Non-economic transaction	Reason
1	Assets purchased for ₹ 10,000	Economic	Cash is paid against asset
2	Assets purchased from Radha for ₹ 12,000 on credit	Economic	Relation of debtor – creditor
3	Asset sold for ₹ 20,000	Economic	Cash is received against asset
4	Assets sold to Mira for ₹ 22,000 on credit	Economic	Relation of debtor – creditor
5	₹ 8,000 paid for wages	Economic	Cash paid against service
6	₹ 9,000 received for rent	Economic	Cash received against service
7	Liability of ₹ 15,000 is settled	Economic	Liability is paid in cash
8	Receivable of ₹ 18,000 is received	Economic	Receivable is received in cash
9	An order is received to supply goods of ₹ 10,000	Non-economic	It is neither cash transaction nor establishes relation of debtor and creditor.
10	A planning is made to buy one asset	Non-economic	It is neither cash transaction nor establishes relation of debtor and creditor.
11	To enhance sales, for discussion, a meeting is arranged with salesmen	Non-economic	It is neither cash transaction nor establishes relation of debtor and creditor.

**Note:** To recognize economic transaction from the following two questions, when the answer of one question is “yes” then the respective transaction will be treated as economic transaction. Otherwise it will be non-economic transaction.

- (1) Is there any exchange of cash ?
- (2) Does the relation of debtor and creditor come in to existence ?

After having recognition of economic and non-economic transaction, the knowledge of the cash and credit transaction is also important.

### 3. Identification of Cash and Credit Transaction

- (1) **Cash Transaction** : In this kind of transaction
  - (i) There is an exchange through cash or bank.
  - (ii) In such transaction the word cash is mentioned. If the word cash is not mentioned and the name of a person is not mentioned, then also it is treated as a cash transaction.
  - (iii) In this transaction bank/cash account is definitely affected and consequently bank/cash increases and/or decreases.



- (2) **Credit Transaction** : In this kind of transaction
- No exchange through cash / bank
  - There is emergence of relation of debtor and creditor
  - Name of the person is mentioned. The word cash/bank is not mentioned.
  - It definitely affects the account of a person.

**Illustration 2** : Describe whether the following transactions are cash or credit and explain the reasons for it :

- Goods sold in cash for ₹ 500.
- Goods purchased for ₹ 800.
- Goods of ₹ 900 sold to Mina.
- Goods of ₹ 2000 sold to Nutan for cash.
- Salary paid ₹ 5000.
- Insurance premium paid ₹ 8000.
- Goods of ₹ 200 received as a free sample.
- Furniture of ₹ 5000 purchased from Shreeji Furniture.
- ₹ 3000 paid to Shah Agency for advertisement.
- Commission received ₹ 3200.
- Goods of ₹ 5000 purchased for cash, payment is made by cheque.
- Goods of ₹ 6000 sold, payment is received by cheque.
- Rent received by Cheque ₹ 500.
- Telephone bill of ₹ 700, paid by cheque.
- A cheque of ₹ 3000 issued to Laxmiben for her dues.

The explanation is as under :

Sr. No.	Transaction	Cash/ Credit	Reason
1	Goods sold for cash ₹ 500	Cash	Cash increases
2	Goods purchased for ₹ 800	Cash	Cash decreases
3	Goods of ₹ 900 sold to Mina	Credit	No cash word and sold to Mina
4	Goods of ₹ 2000 sold to Nutan for cash	Cash	Cash increases
5	Salary paid ₹ 5000	Cash	Cash decreases
6	Insurance premium paid ₹ 8000	Cash	Cash decreases
7	Goods of ₹ 200 received as a free sample	Non economic	Neither cash nor credit (no person is affected)
8	Furniture of ₹ 5000 purchased from Shreeji Furniture	Credit	No cash word and purchased from Shreeji Furniture
9	₹ 3000 paid to Shah Agency for advertisement	Cash	Cash decreases
10	Commission received ₹ 3200	Cash	Cash increases
11	Goods of ₹ 5000 purchased for cash, payment is made through cheque	Cash	Bank balance decreases
12	Goods of ₹ 6000 sold, payment is received by cheque	Cash	Bank balance increases
13	Rent received by Cheque ₹ 500	Cash	Bank balance increases
14	Telephone bill of ₹ 700 paid by cheque	Cash	Bank balance decreases
15	A cheque of ₹ 3000 issued to Laxmiben for her dues.	Cash	Bank balance decreases

In brief, transactions through which the cash/bank balance increases/decreases are called as cash transaction.

#### **4. Voucher**

The pillar of accounting is voucher. First step to write accounts is voucher. Voucher is a written document of business transaction. The nature of transaction is determined through voucher. Purchase transaction, sales transaction, bank transaction, expense transaction, income transaction, assets transaction, payable transaction etc. types are determined on the basis of voucher. A voucher is used as written and authentic evidence, for which two parties transaction is made, where one party is voucher giver and another party is voucher receiver / acceptor. The same voucher has different purpose for both the parties. After recognizing the nature of transaction, transactions are recorded in the books of business as per the applicable rules of accounting. In the wide meaning of vouchers, the followings can be included in vouchers :

##### **(1) Types of vouchers**

- |                            |   |
|----------------------------|---|
| (1) Sales bill             | : voucher of sale of goods.                   |
| (2) Purchase bill          | : voucher of purchase of goods                |
| (3) Credit note            | : note for sales return                       |
| (4) Debit note             | : note for purchase return                    |
| (5) Counter foil of cheque | : evidence of cash withdrawn from bank        |
| (6) Pay-in-slip            | : voucher used to deposit cash in bank        |
| (7) Receipt issued         | : written certificate for amount received     |
| (8) Receipt received       | : written certificate for amount paid         |
| (9) Expense bills          | : evidence of expenses paid by cheque or cash |

**(2) Components of vouchers** : Generally the following content (component) is covered in voucher. Each component has significance from the view point of accounting.

- (1) Name and address of voucher issuer
- (2) Name and address of voucher receiver
- (3) Date
- (4) Serial Number of voucher
- (5) Amount in figures and words
- (6) Signature of bill preparer
- (7) Signature of bill receiver (where ever necessary)
- (8) Type of voucher
- (9) Other details : each voucher differs from other in certain context. Thus the other details differ from each other.

#### **5. Dual Effect of Transaction**

Under double entry system as per its name itself two entries are done for each transaction. Normally business transaction is also between two parties. The transaction between these two parties may be of following matter.

- (1) Any person takes benefit of business or gives benefit to business (personal accounts).

- (2) Increase or decrease in goods / assets (real accounts)
- (3) Either expense is incurred or revenue is realised in the business (nominal accounts)

(About these three types of accounts, detailed explanation is given in point no. 6. Rules of incorporating effects in these accounts are foundation of accounting. True and appropriate understanding of these rules is true and appropriate understanding of accounting.)

As and when business transaction takes place, two effects emerge from it. These effects should be studied, keeping in mind the above-mentioned explanation.

Let us understand the dual effect of accounting with the following illustration :

**Illustration 3 :** Which two effects would take place for the following transactions ? Explain.

- (1) Manoj commenced business with introduction of capital of ₹ 20,000.
- (2) The account is opened with the State Bank of India by depositing ₹ 40,000.
- (3) Manoj has purchased goods worth ₹ 3000 from Bharatiben.
- (4) Manoj sold goods worth ₹ 5000 to Vipul.
- (5) Goods sold worth ₹ 2000 for cash.
- (6) Manoj purchased furniture worth ₹ 1500.
- (7) Commission paid ₹ 200.
- (8) Vipul returned goods worth ₹ 200.
- (9) Manoj returned goods worth ₹ 150 to Bharatiben.
- (10) Cheque of ₹ 2850 issued to Bharatiben.
- (11) Vipul gave a cheque for ₹ 4800.

Above mentioned transactions are business transactions by Manoj. The explanation of its dual effect is as follows:

Dual effect of all the transactions means, two effects :

- (1) First effect and (2) Second effect

#### Dual effect of transactions in the books of Manoj

Sr.No.	Transaction	First Effect	Second Effect
1.	Business commenced with capital of ₹ 20,000	Cash comes in → Effect on cash account	Owner introduced capital → Effect on capital account
2.	Bank account opened with SBI ₹ 40,000	Bank receiver → Effect on bank account	Cash goes out → Effect on cash account
3.	Goods worth ₹ 3000 purchased from Bhavnaben	Goods comes in → Effect on purchase account	Bharatiben giver → Effect on Bharatiben's account
4.	Goods worth ₹ 5000 sold to Vipul	Vipul receiver → Effect on Vipul's account	Goods goes out → Effect on sales account
5.	Goods sold worth ₹ 2000 for cash	Cash comes in → Effect on cash account	Goods goes out → Effect on sales account
6.	Furniture purchased worth ₹ 1500	Furniture comes in → Effect on furniture account	Cash goes out → Effect on cash account

Sr.No.	Transaction	First Effect	Second Effect
7.	Commission paid ₹ 200	Expense incurred → Effect on commission account	Cash goes out → Effect on cash account
8.	Vipul returned goods worth ₹ 200	Goods sold comes in → Effect on sales return account	Vipul is giver → Effect on Vipul's account
9.	Goods returned worth ₹ 150 to Bharatiben.	Bharatiben receiver → Effect on Bharatiben's account	Goods goes out → Effect on purchase return account
10.	Cheque of ₹ 2850 issued to Bharatiben.	Bharatiben receiver → Effect on Bharatiben's account	Bank is giver → Effect on Bank account
11.	Vipul gave cheque for ₹ 4800	Bank receiver → Effect on Bank account	Vipul is giver → Effect on Vipul's account

After having knowledge of the first effect and second effect of double entry system, let us take information about the types of accounts and their rules. Student friends, if you appropriately study the first effect and second effect, it will be easy for you to understand the types of accounts and their rules.

## 6. Types of Accounts

What is an account? Information about it is obtained in Chapter No. 1 under accounting terms. In accounts, personal account, goods account, asset account, income account, expenses accounts etc. are included. In double entry system, there are rules for all these accounts. Accounts are written on the basis of these rules. Due to these rules of accounts, accounting is known as social science. Rules of accounts are formed on the basis of the types of accounts.

The information and knowledge with the classification of accounts and their rules are given below:

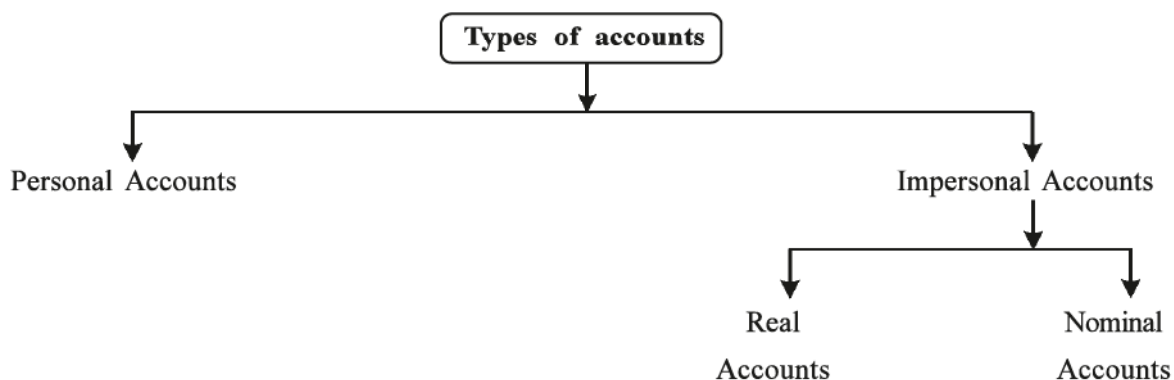
(1) **Classification of accounts** : The classification of accounts is categorized mainly into two categories.

- Personal accounts
- Impersonal accounts

Impersonal accounts are also categorized into two categories:

- Real accounts
- Nominal accounts

In tabular form accounts can be presented as follows:





Generally, personal accounts, real accounts and nominal accounts are considered as main accounts. These rules are framed for these three accounts. Before having information about rules for accounts, let us study the sub categories of these accounts and accounts included therein.

**(1) Personal accounts :** In business, when transactions are made on credit, the counter party is person. This person may be natural person or legal artificial person. Due to credit transaction, debtor – creditor relation comes into existence between business and the other person.

Live persons are included in natural person. Accounts of their names are maintained in the books. E.g. Hetal's account, Dharmendra's account, Raman's account etc. Business undertakes a transactions with a legal artificial person also. Bank of Baroda's account, Jivan Jyot high school's account, Parag medical store's account, LIC's account etc. are included in such person. In brief, partnership firm, company, co-operatives, association, club, social organizations, religious institutes etc. are included in artificial person. When natural or artificial person takes benefit of business, he becomes debtor of the business and business becomes creditor for that person. When natural or artificial person gives benefit to business, he becomes creditor of the business and business becomes debtor for that person. e.g. Ramesh sold goods worth ₹ 50,000 to Shiv Ltd on credit. Here Shiv Ltd is debtor of Ramesh, while Ramesh is creditor of Shiv Ltd. If Shiv Ltd sold goods to Ramesh, then Ramesh will be debtor for Shiv Ltd and Shiv Ltd will be creditor for Ramesh.

**(2) Real accounts :** Here two types of accounts arises. Goods accounts and assets accounts.

**(i) Goods accounts:** Products, which are dealt with by the business man, are treated as goods. Different kinds of goods related transactions are made. Keeping in mind the type of transaction, it is recorded in the goods related appropriate account. Following goods related transactions are used.

For example, (1) Purchase account, (2) sales account, (3) purchase return account, (4) sales return account, (5) goods withdrawn for personal use account, (6) goods destroyed by fire account, (7) goods given for advertisement account, (8) goods given for donation account. (Point no. (5) to (8) is discuss in latter.)

**(ii) Asset account:** When business holds ownership for any tangible or intangible thing and has monetary value of it is known as an asset. Business is done with the help of assets.

Business may have tangible or intangible assets. Tangible assets include accounts like land, building, plant, machinery, furniture, vehicles, etc. Intangible assets include goodwill, copy rights, patents, trademark etc.

In addition to tangible and intangible assets investments like investment in shares of company, investment in debentures, investment in deposit accounts are also included in assets accounts.

As another sub category of assets, current assets are also included. Where accounts like cash balance, bank balance, debtors, stock, expenses paid in advance, incomes outstanding are included.

**(3) Nominal accounts :** These accounts of business perform their operation throughout the year. These accounts are called as income-expenditure accounts. The computation of profit-loss of business is ascertained on the basis of these accounts.

**(i) Accounts of income :** Interest received, discount received, dividend received, rent received, brokerage received etc are included in these accounts.

(ii) **Accounts of expense** : Wages, carriages, postage expense, stationery expense, salary expense, taxes, depreciation, discount allowed, insurance premium, advertisement expense, bank charges etc are included in these accounts.

**Illustration 4** : Classify the following accounts and give explanation in brief:

(1) Navjivan Commerce College Account	(2) Drawings account
(3) Cash account	(4) Donation account
(5) Machinery account	(6) Land account
(7) Raj Medical Stores account	(8) Salary account
(9) Carriage inward account	(10) Furniture account
(11) Carriage outward account	(12) Stationery account
(13) Wages account	(14) Copyright account
(15) Interest received account	(16) Union Bank account
(17) Rent paid account	(18) Reliance shares account
(19) Discount received account	(20) Ahmedabad Branch account
(21) Bad debts account	(22) Karnavati club account
(23) Debtors account	(24) Goods distributed as sample account
(25) Creditors account	(26) Factory expense account
(27) Nilamben's account	(28) Depreciation account
(29) Gujarat Government account	(30) Received bank interest account
(31) Goods given for advertisement account	(32) Dividend received account
(33) Commission received account	(34) Goodwill account
(35) Commission allowed account	(36) Bills receivable account
(37) Discount allowed account	(38) Stock account
(39) Capital account	(40) Purchase account

Sr.No.	Name of Account	Types of Account	Explanation
(1)	Navjivan Commerce College Account	Personal account	Legal artificial person
(2)	Drawings	Personal account	It discloses particular about withdrawal done by owner of business
(3)	Cash account	Real account (Asset Account)	Cash is current asset of business
(4)	Donation account	Nominal account (Expense account)	Donation is business expense
(5)	Machinery account	Real account (Asset Account)	Machinery is noncurrent (fixed) asset of business

Sr.No.	Name of Account	Types of Account	Explanation
(6)	Land account	Real account (Asset Account)	Land is non-current (fixed) asset of business
(7)	Raj Medical Stores account	Personal account	Raj medical store is legal artificial person
(8)	Salary account	Nominal account (Expense account)	Salary is business expense
(9)	Carriage inward account	Nominal account (Expense account)	Carriage inward is expense of business
(10)	Furniture account	Real account (Asset Account)	Furniture is asset of business
(11)	Carriage outward account	Nominal account (Expense account)	Carriage outward is expense of business
(12)	Stationery account	Nominal account (Expense account)	Stationery is expense of business
(13)	Wages account	Nominal account (Expense account)	Wages is expense of business
(14)	Copyright account	Real account (Asset Account)	Copyright is non-current (fixed) intangible asset of business
(15)	Interest received	Nominal account (Income account)	Received interest is income of business
(16)	Union Bank account	Personal account	Union Bank account is legal artificial person
(17)	Rent paid account	Nominal account (Expense account)	Rent paid is expense of business
(18)	Reliance shares account	Real account (Asset Account)	Reliance share account is asset of business
(19)	Discount received account	Nominal account (Income account)	Discount received is income of business
(20)	Ahmedabad Branch account	Personal account	Ahmedabad Branch is a artificial person
(21)	Bad debts account	Nominal account (Expense account)	Bad debt is loss of business
(22)	Karnavati club account	Personal account	Karnavati club is legal artificial person
(23)	Debtors account	Personal account	Goods is sold on credit (This may be natural or legal artificial person)

Sr.No.	Name of Account	Types of Account	Explanation
(24)	Goods distributed as sample account	Nominal account (Expense account)	Goods distributed as sample is expense of business
(25)	Creditors account	Personal account	Goods is purchased on credit (This can be natural or legal artificial person)
(26)	Factory expense account	Nominal account (Expense account)	Factory expense is expense of business
(27)	Nilamben's account	Personal account	Nilamben is natural person
(28)	Depreciation account	Nominal account (Expense account)	Depreciation is expense of business It is non-cash expense.
(29)	Gujarat Government account	Personal account	Gujarat government is legal artificial person
(30)	Received bank interest account	Nominal account (Income account)	Received bank interest is income of business
(31)	Goods given for advertisement account	Nominal account (Expense account)	Goods given for advertisement is expense of business
(32)	Dividend received account	Nominal account (Income account)	Dividend received is income of business
(33)	Commission received account	Nominal account (Income account)	Commission received is income of business
(34)	Goodwill account	Real account (Asset Account)	Goodwill is non-current fixed intangible asset
(35)	Commission allowed account	Nominal account (Expense account)	Commission allowed is expense of business
(36)	Bills receivable account	Personal account	Bills receivable is receivable of business
(37)	Discount allowed account	Nominal account (Expense account)	Discount allowed is expense of business
(38)	Stock account	Real account (Asset Account)	Stock is asset of business
(39)	Capital account	Personal account	Owner of business provides capital to business. Owner of business is natural person
(40)	Purchase account	Real account (Asset Account)	Purchase of goods is asset of business



Classification of accounts can be as follows also:

Personal Accounts		Real Accounts		Nominal Accounts	
Sr.	Name of Account	Sr.	Name of Account	Sr.	Name of Account
	<b>Natural Person Account</b>		<b>Goods Accounts</b>		<b>Income Accounts</b>
(2)	Drawings account	(38)	Stock account	(15)	Interest received account
(23)	Debtors account	(40)	Purchase account	(19)	Discount received account
(25)	Creditors account			(30)	Received bank interest a/c
(27)	Nilamben's account			(32)	Divident received account
(36)	Bills receivable account			(33)	Commission received a/c
(39)	Capital account				
	<b>Legal Artificial Person A/c</b>		<b>Assets Account</b>		<b>Expense Account</b>
(1)	Navjina Commerce College	(3)	Cash account	(4)	Donation account
(7)	Raj Medical Stores a/c	(5)	Machinery account	(8)	Salary account
(16)	Union Bank account	(6)	Land account	(9)	Carriage inward account
(20)	Ahmedabad Branch a/c	(10)	Furniture account	(11)	Carriage outward account
(22)	Karnavati club account	(14)	Copyright account	(12)	Stationery account
(29)	Gujarat Government a/c	(18)	Reliance shares account	(13)	Wages account
		(34)	Goodwill account	(17)	Rent paid account
				(21)	Bad debts account
				(24)	Goods distributed as sample account
				(26)	Factory expense account
				(28)	Depreciation account
				(31)	Goods given for advertisement account
				(35)	Commission allowed account
				(37)	Discount allowed account

**Note :** (1) Debtors and creditors can be included as natural person or artificial person. Here, debtors and creditors are included as natural person. (2) Bills receivable can be included in assets account. (3) In item no. (24) and (31) mentioned in the question the emphasis is given to the expense. There is outward of goods. Thus, considering other aspect it can be treated and credited as a type of real account.

**Illustration 5 :** Classify the following accounts and give brief explanation :

(1)	Bills receivable account	(2)	Demurrage account
(3)	Bills payable account	(4)	Bijal's account
(5)	Closing stock account	(6)	Himani's account
(7)	Patent account	(8)	Bank of Baroda account

(9) Bank overdraft account	(10) R & L Pandya High school account
(11) Petty cash account	(12) Gujarat University account
(13) Interest on drawings account	(14) Tata company account
(15) Interest on capital account	(16) Share of Tata Company account
(17) Loan borrowed account	(18) Debenture of Tata Company account
(19) Interest paid account	(20) Interest received on debenture account
(21) Insurance premium account	(22) Bad debts return account
(23) Office expenses account	(24) Salary outstanding account
(25) Sales expense account	(26) Rent payable account
(27) Wages payable (outstanding) account	(28) United Insurance Co. account
(29) Railway freight account	(30) Royalty account
(31) Machine repairing account	(32) Vehicle account
(33) Dividend received account	(34) Income tax account
(35) Ramaben account	(36) Sharmisthaben account
(37) Vasani Brothers account	(38) Jasani & Sons account
(39) Vasani account	(40) Jasani account
(41) Commission received account	(42) Commission allowed account
(43) Discount received account	(44) Discount allowed account
(45) Stationery stock account	(46) Sales account
(47) Sales return account	(48) Purchase return account
(49) Purchase account	(50) Goods destroyed by fire account

**Answer :**

Sr.No.	Name of Account	Type of Account	Explanation
(1)	Bills receivable account	Personal account	Bills receivable is receivable of business
(2)	Demurrage account	Nominal account (Expense account)	Demurrage account is expense of business
(3)	Bills payable account	Personal account	Bills payable is payable of business
(4)	Bijal's account	Personal account	Bijal is natural person
(5)	Closing stock account	Real account (Asset Account)	Closing stock is asset of business
(6)	Himani's account	Personal account	Himani is natural person
(7)	Patent account	Real account (Asset Account)	Patent is non-current fixed intangible asset
(8)	Bank of Baroda account	Personal account	Bank of Baroda is legal artificial person
(9)	Bank overdraft account	Personal account	Bank overdraft is liability of business

Sr.No.	Name of Account	Type of Account	Explanation
(10)	R & L Pandya high school account	Personal account	R & L Pandya High school is legal artificial person
(11)	Petty cash account	Real account (Asset Account)	Petty cash account is asset of business
(12)	Gujarat University account	Personal account	Legal artificial person
(13)	Interest on drawings account	Nominal account (Income account)	Interest on drawings is income of business
(14)	Tata company account	Personal account	Legal artificial person
(15)	Interest on capital account	Nominal account (Expense account)	Interest on capital is expense of business
(16)	Share of Tata Company account	Real account (Asset Account)	Share of Tata company (investment) is asset of business
(17)	Loan borrowed account	Personal account	Borrowed loan is to be obtained from person. It is liability of business
(18)	Debenture of Tata Company account	Real account (Asset Account)	Debenture of Tata company (investment) is asset of business
(19)	Interest paid account	Nominal account (Expense account)	Interest paid is expense of business
(20)	Interest received on debenture account	Nominal account (Income account)	Interest received on debenture is income of business
(21)	Insurance premium account	Nominal account (Expense account)	Insurance premium is expense of business
(22)	Bad debts return account	Nominal account (Income account)	Bad debts return is income of business
(23)	Office expense account	Nominal account (Expense account)	Office expenses, is expense of business
(24)	Salary outstanding account	Personal account	Salary outstanding is liability of business
(25)	Sales expense account	Nominal account (Expense account)	Sales expenses is expense of business
(26)	Rent payable account	Personal account	Rent outstanding is payable to person, thus it is liability
(27)	Wages payable (outstanding) account	Personal account	Wages is payable to workers, thus it is liability
(28)	United Insurance Co. a/c	Personal account	United Insurance co is legal artificial person
(29)	Railway freight account	Nominal account (Expense account)	Railway freight is expense of business
(30)	Royalty account	Nominal account (Expense account)	Royalty is expense of business

Sr.No.	Name of Account	Type of Account	Explanation
(31)	Machine repairing account	Nominal account (Expense account)	Machine repairing is expense of business
(32)	Vehicle account	Real account (Asset Account)	Vehicle is asset of business
(33)	Dividend received account	Nominal account (Income account)	Dividend received is income of business
(34)	Income tax account	Personal account	Income tax is personal expense of owner
(35)	Ramaben's account	Personal account	Ramaben is natural person
(36)	Sharmisthaben's account	Personal account	Sharmisthaben is natural person
(37)	Vasani Brothers account	Personal account	Vasani Bros is legal artificial person (it is firm)
(38)	Jasani & Sons account	Personal account	Jasani & Sons is legal artificial person (it is firm)
(39)	Vasani's account	Personal account	Vasani is natural person
(40)	Jasani's account	Personal account	Jasani is natural person
(41)	Commission received account	Nominal account (Income account)	Commission received is income of business
(42)	Commission allowed account	Nominal account (Expense account)	Commission allowed is expense of business
(43)	Discount received account	Nominal account (Income account)	Discount received is income of business
(44)	Discount allowed account	Nominal account (Expense account)	Discount allowed is expense of business
(45)	Stationery stock account	Real account (Asset Account)	Closing stock of stationery is asset of business
(46)	sales account	Real account (Asset Account)	Due to sales goods decreases from business
(47)	Sales return account	Real account (Asset Account)	Due to sales return goods increase in business
(48)	Purchase return account	Real account (Asset Account)	Due to purchase return goods decreases in business
(49)	Purchase account	Real account (Asset Account)	Due to purchase goods increase in business
(50)	Goods destroyed by fire	Nominal account (Expense (loss) account)	Goods destroyed by fire is loss of business



Classification of accounts can be as follows also:

Personal Accounts		Real Accounts		Nominal Accounts	
Sr. No.	Name of Account	Sr. No.	Name of Account	Sr. No.	Name of Account
	<b>Natural Person Account</b>		<b>Goods Accounts</b>		<b>Income Accounts</b>
(1)	Bills receivable account	(5)	Closing stock account	(13)	Interest on drawings account
(3)	Bills payable	(46)	Sales account	(20)	Interest received on debenture account
(4)	Bijal's account	(47)	Sales return account		Bad debts return account
(6)	Himani's account	(48)	Purchase return account	(22)	Dividend received account
(17)	Loan borrowed account	(49)	Purchase account	(33)	Commission received a/c
(24)	Outstanding salary			(41)	Discount received account
(26)	Rent payable			(43)	
(27)	Wages payable (outstanding)				
(34)	Income tax account				
(35)	Ramaben's account				
(36)	Sharmisthaben's account				
(39)	Vasani's account				
(40)	Jasani's account				
	<b>Legal Artificial Person A/c</b>		<b>Assets Account</b>		<b>Expense Account</b>
(8)	Bank of Baroda account	(7)	Patent account	(2)	Demurrage account
(9)	Bank overdraft account	(11)	Petty cash account	(15)	Interest on capital account
(10)	R & L Pandya High School account	(16)	Share of Tata Company account	(19)	Interest paid account
(12)	Gujarat University account	(18)	Debenture of Tata Company	(21)	Insurance premium account
(14)	Tata company account	(32)	Vehicle account	(23)	Office expenses account
(28)	United Insurance Co. account	(45)	Stationery stock account	(25)	Sales expense account
(37)	Vasani Brothers account			(29)	Railway freight account
(38)	Jasani & Sons account			(30)	Royalty account
				(31)	Machine repairing account
				(42)	Commission allowed account
				(44)	Discount allowed account
				(50)	goods destroyed by fire

In item no. (50) of question, the emphasis is given to the expense (loss). There is outward of goods. Thus, considering other aspects it can be treated and credited as a type of real account.

**Precautions to be taken to recognize types of accounts:** There will be wrong accounting effect for transaction if there is error to identify types of account. It is very essential to identify the applicable account of respective transaction. E.g. For both Salary and outstanding salary, separate accounts are applicable. For salary income-expenditure account (expense account) is applicable and to outstanding salary personal account (Natural person account) is applicable. Let us have further study of it in the context of income expenditure account.

**Illustration 6 : Transactions in reference to expenses and types of accounts:**

Sr.No.	Transaction	Types of Account
(1)	Salary Salary Outstanding Salary paid in Advance	Nominal Account (It is expense) Personal Account (It is liability) Personal Account (It is receivable)
(2)	Rent paid Rent Outstanding Rent paid in Advance	Nominal Account (It is expense) Personal Account (It is liability) Personal Account (It is receivable)
(3)	Commission paid Commission Outstanding Commission paid in Advance	Nominal Account (It is expense) Personal Account (It is liability) Personal Account (It is receivable)
(4)	Brokerage paid Brokerage Outstanding Brokerage paid in Advance	Nominal Account (It is expense) Personal Account (It is liability) Personal Account (It is receivable)

**Note:** Some transactions of business can be expense and income. Rent paid, Rent received, Commission paid, Commission received, Brokerage paid, Brokerage received, Discount allowed, Discount received etc are illustrations for this.

**Transactions in reference to income types of accounts :**

Sr	Transaction	Types of Account
1	Commission received Commission Outstanding Commission received in Advance	Nominal Account (It is income) Personal Account (It is receivable) Personal Account (It is liability)
2	Brokerage received Brokerage Outstanding Brokerage received in Advance	Nominal Account (It is income) Personal Account (It is receivable) Personal Account (It is liability)
3	Dividend received Dividend Outstanding Dividend received in Advance	Nominal Account (It is income) Personal Account (It is receivable) Personal Account (It is liability)
4	Rent received Rent Outstanding Rent received in Advance	Nominal Account (It is income) Personal Account (It is receivable) Personal Account (It is liability)

Students should undertake frequent exercises for the above-mentioned transactions. Due to frequent exercises the fundamental rules and principles can be easily understood.

## 7. Rules of Debit and Credit of Accounts

In this chapter, we have studied dual effect of transaction in point No. 5. Under double entry system (accounting) as per its name, it is a method to give two effects of transaction.

While giving two-fold effect, it may affect two or more than two accounts. Transaction of business is also made between two parties.

We have acquired information of dual effect in the form of first effect and second effect.

First effect means, debit effect of transaction.

Second effect means, credit effect of transaction

From the above presentation, it can be said that the dual effect of transaction means first debit effect and second credit effect. In brief, every transaction of business has effect means debit and credit.

There are pre-determined rules in accounting for debit effect and credit effect. Debit and credit rules are made for the following three accounts.

- (1) Personal Account : (Any person taking benefit from business or giving benefit to business)
- (2) Real Account : (Increase (receipt) of goods / assets in business or decrease of goods / asset in business.)
- (3) Nominal Account : (Occurrence of expense / loss to the business or realization of income / gain to the business.)

**The Table explains First (Debit) and Second (Credit) effect of transaction :**

Sr. No.	Types of account	First effect of transaction means debit effect of transaction		Second effect of transaction means credit effect of transaction	
(1)	Personal accounts	1(a)	Debit the receiver	1(b)	Credit the giver
(2)	Real accounts	2(a)	Debit what comes in	2(b)	Credit what goes out
(3)	Nominal accounts	3(a)	Debit expense and loss	3(b)	Credit income and gain

(1) **Personal Accounts:** Two types of persons are included in personal accounts : (i) Natural Persons (ii) Legal Artificial Persons. Business undertakes transactions with the persons, who takes benefit from business or gives benefit to business.

**Rule of Personal Account :** “Debit the Receiver, Credit the Giver.”

If person has taken the benefit of business, debit his account and if person has given benefit to business credit his account. In brief, debit the receiver account and credit the giver account. Let us understand this matter with the following illustration :

**Illustration 7 :**

- (1) Goods sold worth ₹ 20,000 sold to Jayshree.
- (2) ₹ 10,000 deposited with Bank of Baroda.
- (3) ₹ 30,000 paid to Bhumika.
- (4) Rent receivable from Shilpa ₹ 2000.
- (5) Goods worth ₹ 20,000 purchased from Jayshree.
- (6) ₹ 10,000 withdrawn from Bank of Baroda.
- (7) ₹ 30,000 received from Bhumika.
- (8) Rent payable to Shilpa ₹ 2000.

**Note:** In personal account for transaction, the name of person is at centre.

For above-mentioned transaction no 1 to 4 all persons have taken benefit from business. Thus, their accounts will be debited. While for transaction no 5 to 8 all persons have given benefit to business, thus, their accounts will be credited.

**Ans. : Explanation:**

- (1) Goods sold to Jayshree ₹ 20,000. Jayshree is benefit receiver. Her account will be debited.
- (2) ₹ 10,000 deposited with Bank of Baroda. Bank is benefit receiver. It's account will be debited.
- (3) ₹ 30,000 paid to Bhumika. Bhumika is benefit receiver. Her account will be debited.
- (4) Shilpa has taken service from business, her account will be debited.
- (5) Goods worth ₹ 20,000 purchased from Jayshree. Jayshree is benefit giver. Her account will be credited.
- (6) ₹ 10,000 withdrawn from Bank of Baroda. Bank is benefit giver. It account will be credited.
- (7) ₹ 30,000 received from Bhumika. Bhumika is benefit giver. Her account will be credited.
- (8) Business has taken benefit of service of Shilpa. Her account will be credited.

(2) **Real accounts:** Real accounts also can be categorized into two categories : (i) Goods accounts (ii) Assets accounts.

Transactions take place pertaining to goods and assets. Either goods or an asset comes in or goods or an asset goes out.

**Rule of Real Account :** "Debit what comes in, Credit what goes out."

If goods or an asset comes in business, debit respective goods or asset account and if goods or an asset goes out from business, credit respective goods or asset account. Let us understand this matter with following illustration.

**Illustration 8 :**

- (1) Goods of ₹ 20,000 purchased from Rohini.
- (2) Goods of ₹ 8000 purchased from Salama on cash.
- (3) Furniture of ₹ 10,000 purchased from Rajesh.
- (4) Machine of ₹ 20,000 purchased on cash.
- (5) Goods of ₹ 20,000 sold to Rohini.
- (6) Goods of ₹ 8000 sold to Salama on cash.
- (7) Old furniture of ₹ 10,000 sold to Rajesh.
- (8) Machine of ₹ 20,000 sold on cash.

**Note:** In real account for transaction, the goods / asset is at center.

From above-mentioned transactions no 1 to 4 goods or asset comes in. Thus, their accounts will be debited. While for transactions no 5 to 8 goods or asset goes out, their accounts will be credited.

**Ans. : Explanation:**

- (1) Goods of ₹ 20,000 purchased from Rohini. Goods comes in, purchase account will be debited.
- (2) Goods of ₹ 8000 purchased from Salama on cash. Goods comes in, purchase account will be debited.
- (3) Furniture of ₹ 10,000 purchased from Rajesh. Furniture is an asset. Furniture comes in, furniture account will be debited.
- (4) Machine of ₹ 20,000 purchased on cash machine comes in. Machine is as asset, machine account will be debited
- (5) Goods of ₹ 20,000 sold to Rohini. Goods goes out, sales account will be credited.
- (6) Goods of ₹ 8000 sold to Salama on cash. Goods goes out, sales account will be credited.



- (7) Old furniture of ₹ 10,000 sold to Rajesh. Furniture is an asset. furniture goes out. Furniture account will be credited.
- (8) Machine of ₹ 20,000 sold on cash. Machine is an asset. Machine goes out. Machine account will be credited.

(3) **Nominal Accounts:** Under nominal accounts due to transaction Either : (i) Income (revenue) realizes or (ii) Expense incurs.

All expenses are debited and incomes are credited.

**Rule of Nominal account :** “Debit expense and losses, Credit incomes and gains.”

Let us understand this matter with following illustration :

**Illustration 9 :**

- |                                 |                                    |
|---------------------------------|------------------------------------|
| (1) ₹ 5000 paid for salary.     | (2) ₹ 3000 paid for rent.          |
| (3) Paid telephone bill ₹ 2000. | (4) Bad debts incurred for ₹ 3000. |
| (5) Brokerage received ₹ 2500.  | (6) Dividend received ₹ 3300.      |
| (7) Commission received ₹ 1800. | (8) Interest received ₹ 2200.      |

**Note:** In nominal account, for transaction, income or expense is at center.

For above-mentioned transaction no 1 to 4 pertaining to expense or loss. Thus, their accounts will be debited. While for transaction no 5 to 8 pertaining to income. Thus, their accounts will be credited.

**Ans. : Explanation:**

- (1) ₹ 5000 paid for salary. Salary is expense. Salary account will be debited
- (2) ₹ 3000 paid for rent. Rent is expense. Rent account will be debited
- (3) Paid telephone bill ₹ 2000. Telephone bill is expense. Telephone bill account will be debited
- (4) Bad debts incurred for ₹ 3000. A bad debt is loss. Bad debt account will be debited.
- (5) Brokerage received ₹ 2500. Brokerage is income. Brokerage account will be credited.
- (6) Dividend received ₹ 3300. Dividend is income. Dividend account will be credited.
- (7) Commission received ₹ 1800. Commission is income. Commission account will be credited.
- (8) Interest received ₹ 2200. Interest is income. Interest account will be credited.

- **Rules of debit – credit :** Study the following table to remember debit – credit rules:

Rules of Debit – Credit		
Types of account :	Debit	Credit
Personal Account :	Debit Receiver	Credit Giver
Real Account :	Debit what comes in	Credit what goes out
Nominal Account :	Debit expense / loss	Credit income / gain

**8. Steps to Debit-Credit Account :**

(1) **Determines whether transaction is economic or non-economic :** Only economic transactions are recorded in the books of accounts. Non-economic transactions are not recorded in the books of business. e.g. An order is received for goods of ₹ 2000. This transaction does not affect any above mentioned account. Thus it is not economic transaction.

**(2) Determine two different accounts associated with transaction:** Every transaction has dual effect. Dual effect means debit and credit effect. Determine which account has debit effect and which account has credit effect. On that basis both the accounts will be determined. On the basis of above mentioned table, first determine debit effect and subsequently determine credit effect. In this context let us undertake study of the following illustration.

**Illustration 10 :** To which account the following transactions will be debited and credited in the books of Ranchhod ? Describe :

- (1) Ranchhod commenced business with capital of ₹ 50,000.
- (2) ₹ 20,000 deposited with Bank of Baroda.
- (3) Goods of ₹ 2000 purchased on cash.
- (4) Goods of ₹ 6000 sold to Radha.
- (5) Goods of ₹ 1000 purchased on cash.
- (6) Goods of ₹ 2000 purchased from Mira.
- (7) Purchased furniture of ₹ 1000.
- (8) Sundry expense incurred for ₹ 300.
- (9) Dividend received ₹ 200.
- (10) Wages paid ₹ 200.
- (11) Machine of ₹ 15,000 purchased from Ramesh Bros.

**Ans. :**

Sr. No.	Transaction	Debit Effect			Credit Effect		
		Benefit receiver person	Goods / Asset comes in	In case of Expense/ Loss	Benefit giver person	Goods / Asset goes out	In case of Income / gain
1.	Ranchhod commenced business with capital of ₹ 50,000	-	Debit to cash account	-	Credit to capital account	-	-
2.	₹ 20,000 deposited with Bank of Baroda	Debit to Bank of Baroda account	-	-	-	Credit to cash account	-
3.	Goods of ₹ 2000 purchased on cash	-	Debit to purchase account	-	-	Credit to cash account	-
4.	Goods of ₹ 6000 sold to Radha	Debit to Radha account	-	-	-	Credit to sales account	-
5.	Goods of ₹ 1000 purchased on cash	-	Debit to purchase account	-	-	Credit to cash account	-
6.	Goods of ₹ 2000 purchased from Mira	-	Debit to purchase account	-	Credit to Mira account	-	-
7.	Purchased furniture of ₹ 1000	-	Debit to Furniture account	-	-	Credit to cash account	-
8.	Sundry expense incurred for ₹ 300	-	-	Debit Sundry expense account	-	Credit to cash account	-
9.	Dividend received ₹ 200	-	Debit to Bank account	-	-	-	Credit to dividend account
10.	Wages paid ₹ 200	-	-	Debit wages account	-	Credit to cash account	-
11.	Machine of ₹ 15,000 purchased from Ramesh Bros.	-	Debit to Machine account	-	Credit to Ramesh Bros. a/c	-	-

**Explanation :**

1	Cash comes in business Cash A/c Debit	Owner gave capital to business Capital A/c Credit
2	Bank has received cash Bank A/c Debit	Cash goes out from business Cash A/c Credit
3	Purchase made. Goods comes in Purchase A/c Debit	Cash goes out from business Cash A/c Credit
4	Radha has received goods Radha A/c Debit	Sales made. Goods goes out Sales A/c Credit
5	Purchase made. Goods comes in Purchase A/c Debit	Purchase in cash. Cash goes from business Cash A/c Credit
6	Purchase made. Goods comes in Purchase A/c Debit	Not through cash. Mira is giver. Mira A/c Credit
7	Purchase of furniture. Asset comes in Furniture A/c Debit	Purchase in cash. Cash goes from business Cash A/c Credit
8	Sundry expense incurred Sundry expense A/c Debit	Cash goes out from business Cash A/c Credit
9	Cash comes in business Cash A/c Debit	Dividend is income Dividend A/c Credit
10	Wages paid. It is expense Wages A/c Debit	Cash goes out from business Cash A/c Credit
11	Machine purchased. Asset comes in business Machine A/c Debit	Not through cash. Ramesh Bros is giver. Ramesh Bros A/c Credit

**Illustration 11 :** To which account the following transactions will be debited and credited in the books of Amrut ? Describe :

- (1) Commenced business with introduction of capital ₹ 40,000.
- (2) Loan obtained of ₹ 60,000 from Ramnik.
- (3) ₹ 20,000 deposited with Union Bank and opened account.
- (4) Brokerage received of ₹ 4000.
- (5) Goods of ₹ 10,000 purchased on credit from Bachubhai.
- (6) Goods of ₹ 20,000 sold on credit to Laxmi.
- (7) Shop rent paid ₹ 5000.
- (8) ₹ 200 paid to Ramakant for carriage.
- (9) ₹ 500 becomes receivable for interest from Kundan.
- (10) Salary paid to Dinesh ₹ 1200.
- (11) Commission received ₹ 3000.
- (12) Goods of ₹ 15,000 purchased on cash.
- (13) Goods of ₹ 20,000 sold on cash.
- (14) Vehicle purchased of ₹ 10,000.
- (15) Furniture of ₹ 2000 purchased from Raj furniture mart.
- (16) Laxmi returned goods of ₹ 400.
- (17) Goods of ₹ 500 returned to Bachubhai.
- (18) Withdrawn ₹ 2000 from Union Bank.
- (19) ₹ 300 paid for postage.
- (20) ₹ 200 paid for advertisement.

Ans. :

Sr. No.	Transaction	Debit Effect			Credit Effect		
		Benefit receiver person	Goods / Asset comes in	In case of Expense/ Loss	Benefit giver person	Goods / Asset goes out	In case of Income / gain
1.	Commenced business with introduction of capital ₹ 40,000	-	Debit to cash a/c	-	Credit to capital a/c	-	-
2.	Loan obtained of ₹ 60,000 from Ramnik	-	Debit to cash account	-	Credit to Ramnik Loan Account	-	-
3.	₹ 20,000 deposited with Union Bank and opened account	Debit to Union Bank account	-	-	-	Credit to cash account	-
4.	Brokerage received of ₹ 4000	-	Debit to cash account	-	-	-	Credit to Brokerage account
5.	Goods of ₹ 10,000 purchased on credit from Bachubhai	-	Debit to purchase account	-	Credit to Bachubhai account	-	-
6.	Goods of ₹ 20,000 sold on credit to Laxmi	Debit to Laxmi a/c	-	-	-	Credit to sales a/c	-
7.	Shop rent paid ₹ 5000	-	-	Debit to rent a/c	-	Credit to cash a/c	-
8.	₹ 200 paid to Ramakant for carriage	-	-	Debit to carriage a/c	-	Credit to cash a/c	-
9.	₹ 500 becomes receivable for interest from Kundan	Debit to Kundan a/c	-	-	-	-	Credit to interest a/c
10.	Salary paid to Dinesh ₹ 1200	-	-	Debit to salary	-	Credit to cash a/c	-
11.	Commission received ₹ 3000	-	Debit to cash account	-	-	-	Credit to commission account
12.	Goods of ₹ 15,000 purchased on cash	-	Debit to purchase account	-	-	Credit to cash account	-
13.	Goods of ₹ 20,000 sold on cash	-	Debit to cash a/c	-	-	Credit to cash a/c	-
14.	Vehicle purchased of ₹ 10,000	-	Debit to vehicle a/c	-	-	Credit to cash a/c	-
15.	Furniture of ₹ 20,000 purchased from Raj furniture mart	-	Debit to Furniture account	-	-	Credit to Raj Furniture Mart	-
16.	Laxmi returned goods of ₹ 400	-	Debit to sales return account	-	Credit to Laxmi	-	-
17.	Goods of ₹ 500 returned to Bachubhai	Debit to Bachubhai account	-	-	-	Credit to purchase return a/c	-
18.	Withdrawn ₹ 2000 from Union Bank	-	Debit to cash a/c	-	Credit to Union Bank a/c	-	-
19.	₹ 300 paid for postage	-	-	Debit to postage a/c	-	Credit to cash a/c	-
20.	₹ 200 paid for advertisement	-	-	Debit to advertisement account	-	Credit to cash account	-



**Explanation:**

1	Cash comes in business Cash A/c Debit	Owner gave capital to business Capital A/c Credit
2	Cash comes in business Cash A/c Debit	Ramnik is giver Ramnik A/c Credit
3	Bank has received cash Bank A/c Debit	Cash goes out from business Cash A/c Credit
4	Cash comes in business Cash A/c Debit	Commission is income Commission A/c Credit
5	Purchase made. Goods comes in Purchase A/c Debit	Not through cash. Bachubhai is giver. Bachubhai A/c Credit
6	Laxmi is receiver Laxmi A/c Debit	Sales made. Goods goes out Sales A/c Credit
7	Shop rent is expense Rent A/c Debit	Cash goes out from business Cash A/c Credit
8	Carriage is expense Carriage A/c Debit	Cash goes out from business Cash A/c Credit
9	Kundan has not paid interest (Kundan is benefit receiver) Kundan A/c Debit	Interest is income  Interest A/c Credit
10	Salary is expenses. Dinesh gave service Salary A/c Debit	Cash goes out from business Cash A/c Credit
11	Cash comes in business Cash A/c Debit	Commission is income Commission A/c Credit
12	Purchase made. Goods comes in Purchase A/c Debit	Cash goes out from business Cash A/c Credit
13	Cash comes in business Cash A/c Debit	Sales made. Goods goes out Sales A/c Credit
14	Asset comes in business Vehicle A/c Debit	Cash goes out from business Cash A/c Credit
15	Furniture purchased, asset comes in Furniture A/c Debit	Raj Furniture Mart is giver Raj Furniture A/c Credit
16	Sales return. Goods comes in Sales return A/c Debit	Laxmi is person. Laxmi is giver. Laxmi A/c Credit
17	Bachubhai is person. Bachubhai is receiver Bachubhai A/c Debit	Purchase returned. Goods goes out Purchase return A/c Credit
18	Cash comes in business Cash A/c Debit	Bank is person. Bank is giver. Union Bank A/c Credit
19	Postage is expense Postage expense A/c Debit	Cash goes out from business Cash A/c Credit
20	Advertisement is expense Advertisement expenses A/c Debit	Cash goes out from business Cash A/c Credit

**Remember specifically :**

(1) First effect is always debit effect:		
Person A/c Debit	}	Person takes benefit of business
OR		
Goods / Asset A/c Debit		Goods / Asset comes in business
OR	}	
Expenses / Loss A/c Debit		Expenses / Loss incurred to business
(2) Second effect is always credit effect		
Person A/c Credit	}	Person gives benefit to business
OR		
Goods / Asset A/c Credit		Goods / Asset goes from business
OR	}	
Income / Gain A/c Credit		Income / Gain realizes by business

**Exercise**

**1. Select appropriate alternative for each question :**

- (1) Which of the following characteristic is not applicable to economic transaction ?
  - (a) Cash transaction
  - (b) Credit transaction
  - (c) External transaction
  - (d) Transaction without monetary value
- (2) Rent paid ₹ 10,000. What type of transaction is it ?
  - (a) Cash transaction of asset
  - (b) Non-cash transaction of service
  - (c) Cash transaction of service
  - (d) Cash transaction of liability
- (3) Which of the following transactions is a transaction of special nature ?
  - (a) Goods purchased of ₹ 5000.
  - (b) Goods of ₹ 5000 purchased from B.
  - (c) Goods of ₹ 5000 purchased through cheque
  - (d) Goods destroyed by fire ₹ 5000
- (4) Which transaction discloses relation of debtor and creditor ?
  - (a) Goods purchased of ₹ 8000.
  - (b) Goods of ₹ 8000 purchased from B.
  - (c) Goods of ₹ 8000 purchased through cheque
  - (d) Goods destroyed by fire ₹ 8000

**2. Answer in one sentence :**

- (1) What is dual effect?
- (2) What is cash transaction?
- (3) Explain credit transaction.
- (4) Give illustration of cash transaction of goods.
- (5) Give illustration of cash transaction of service.

- (6) Give illustration of credit transaction of goods.
- (7) Give illustration of credit transaction of service.
- (8) Which transaction is called non economic transaction?

**3. Answer in two or three sentences :**

- (1) Distinguish between cash and credit transaction.
- (2) Distinguish between economic and non economic transaction.
- (3) Explain internal and external transaction.
- (4) Explain other transactions.

**4. To which account, the following transactions will be debited and credited in the books of Nilima? Describe with reason :**

- (1) ₹ 50,000 brought in cash and started business.
- (2) A loan of ₹ 10,000 taken from Jasleen.
- (3) Bank account opened by depositing ₹ 30,000.
- (4) A computer purchased for ₹ 8000.
- (5) Stationery purchased ₹ 1000.
- (6) Purchase made of ₹ 20,000.
- (7) Purchase is made of ₹ 30,000 from Raman.
- (8) Goods of ₹ 15,000, sold on cash for ₹ 28,000.
- (9) Goods of ₹ 8000 sold to Nila for ₹ 15,000.
- (10) Goods returned to Raman of ₹ 2000.
- (11) Goods returned by Nila of ₹ 1500.
- (12) Paid ₹ 500 for carriage.
- (13) Goods of ₹ 200 destroyed by fire.
- (14) Commission received ₹ 5000.
- (15) ₹ 2000 paid for salary.

**5. To which account, the following transactions will be debited and credited in the books of Ganesh? Describe with reason.**

- (1) ₹ 75,000 brought in cash and commenced business.
- (2) Incurred Puja expenses of ₹ 2000.
- (3) Brought personal furniture of ₹ 10,000.
- (4) Deposited ₹ 30,000 to the State Bank of India.
- (5) Obtained loan of ₹ 30,000 from wife .
- (6) Purchase is made of ₹ 20,000 and amount is paid by cheque.
- (7) Sales is made of ₹ 42,000 and amount is received by cheque.
- (8) Withdrawn ₹ 22,000 from Bank.
- (9) ₹ 2000 paid Insurance premium by cheque.

- (10) ₹ 3500 received for brokerage.
- (11) Goods of ₹ 12,000 sold to Dani. Amount received by cheque.
- (12) Goods of ₹ 8000 purchased from Dipak. Amount paid by cheque.
- (13) Withdrawn ₹ 2500 from business for personal use.
- (14) Withdrawn goods of ₹ 1500 from business for personal use.
- (15) Dividend received ₹ 2000 through cheque. Cheque deposited with bank.
- (16) Bank has credited ₹ 200 of interest.
- (17) Bank has debited ₹ 100 of bank charges.
- (18) Wages paid ₹ 300.
- (19) Paid loan interest of ₹ 350.
- (20) Machine purchased of ₹ 12,000.

