

# Accounting Guidelines

## A. Different Accounting Systems

1. Double entry system or, Scientific system.
2. Single entry system or, Unscientific system.
3. Mixed accounting system or, Semi-double entry system.

## B. Steps to be followed before Recording of transactions

1. Identification of monetary transactions.
2. Determination of accounts involved.
3. Finding out the accounts to be debited and the accounts to be credited.
4. Selection of primary book in which each of the transaction will be recorded.
5. Recording of transactions.

## C. Classification of Accounts under double entry system-

### (a) According to British Approach or Golden Rule:

1. Real account.
2. Personal account.
3. Nominal account.

### (b) According to American Approach or Modern Rule:

1. Asset account.
2. Liability account.
3. Capital account.
4. Income account.
5. Expense account.

## D. Rules for determining Debit or Credit Accounts for each Transaction

### (a) According to British Approach or Golden Rule:

1. Real Account: Debit what comes in. Credit what goes out.
2. Personal Account: Debit the receiver. Credit the giver.
3. Nominal Account: Debit expenses and losses. Credit incomes and gains.

### (b) According to American Approach or Modern Rule:

1. Asset Account: Debit when it is increased. Credit when it is decreased.
2. Liability Account: Debit when it is decreased. Credit when it is increased.
3. Capital Account: Debit when it is decreased. Credit when it is increased.
4. Income Account: Debit when it is decreased. Credit when it is increased.
5. Expense Account: Debit when it is increased. Credit when it is decreased.

## E. Accounting or Balance Sheet Equation

1. Initially —

$$\text{Assets} = \text{Capital}$$

or,  $A=C$ .

2. For more funds there may be borrowing. In that case —Assets =

$$\text{Liabilities} + \text{Capital}$$

or,  $A=L+C$ .

3. Due to trading activities, profit or loss may arise. Then the equation will be : Assets =

$$\text{Liabilities} + \text{Capital} + \text{Profit}$$

or,  $\text{Assets} = \text{Liabilities} + \text{Capital} + (\text{Revenue} - \text{Expense})$  or,  $\text{Assets} +$

$\text{Expenses} = \text{Liabilities} + \text{Capital} + \text{Revenue}$ .