404 AEC Agriculture Accounting

Lecture#3

GOLDEN RULE OF ACCOUNTING

By

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Duality concept

Duality concept provides that every transaction has two sides to it –

(1) The debit and

(2) The credit.

Then it said that_

From_debit

To_credit

In other words every financial transaction involves the simultaneous receiving and giving the value.

Accounting transactions involves recording of assets, debtors, expenses and capital, creditors and incomes. Incomes and expenses are known as Nominal Accounts, Assets and Capital are known as Real Accounts. In between these two groups, personal accounts like debtors and creditors are also recorded in financial books.

Golden Rule

The Golden Rule of accounting provides how the duality aspect of transactions is to be recorded in the books of accounts. These rules are –

	Nominal Account	Real Account	Personal Account
Debit	all expenses and losses	what comes in	the receiver
Credit	all incomes and profits	what goes out	the giver

Illustration

During the month of January 2001, ABC Ltd. has made the following transactions –

Item No.	Date	Transactions
1	January 1	Issued 10,000 shares of Rs. 10 each in cash
2	January 2	Purchased machinery costing Rs. 50,000 from Y Ltd.
3	January 3	Purchased raw materials from Z Ltd. worth Rs. 10,000
4	January 15	Paid wages in cash Rs. 15,000
5	January 17	Sold goods to PQR Ltd. for Rs. 25,000
6	January 18	Paid cash to Y Ltd. Rs. 20,000
7	January 19	Received from PQR Ltd. Rs. 20,000

ACCOUNTING RECORDS

Accounting Records are maintained on the dual concept basis which states that –

Assets = Liabilities + Capital.

The above terms mean:

i) Asset is a resource **owned** used to derive income in the future.

ii) Liability is an amount **owed** by a business or organization, e.g. creditors, loans received, bank overdraft, etc.

iii) Capital is the amount owed by the pro-prietor, partners or shareholders of a business or organization.

Assets

Assets are mainly classified as tangible or intangible.

- Tangible assets are those assets which can be physically seen, such as land, building, plant, cash etc.
- Intangible assets are those assets which cannot be physically seen e.g. goodwill, patent, copy right, etc.

Again, assets can be classified as fixed and current assets.

- Fixed Assets are those assets which are held for a longer period of use e.g. land, building, plant, goodwill, copyright, etc.
- Current Assets are those assets which are held for a shorter period, generally not exceeding one year, such as cash, debtors, stock, short term investments etc.

Assignment

Analyze and Journalize the following transactions and record theme in the journal book

April 1 Ravi started business with Rs. 15,000 of which Rs. 4,000 were borrowed at 15% p.a. from Shri Sashi.

2	Purchased goods worth Rs. 4,000 from Anant at 2% trade discount.
3	Cash sales to Madan Rs. 1,200.
6	Credit sales to Salvi Rs. 2,000 less trade discount 2%.
9	Paid cash Rs. 1,950 to Anant and received discount of Rs. 10
12	Received Rs. 1,950 from Salvi in full settlement of his dues.
14	Returned goods of the price of Rs. 100 to Anant.
16	Paid into bank Rs. 5,000.
18	Issued a cheque for Rs. 1,000 to Anant on account.
19	Purchased goods of Rs. 2,000 from Anant.
22	Sold foods costing Rs. 1,000 at 25% profit to Ratan.
22	Received commission Rs. 800 from S & Co.
24	Received a cheque for Rs. 395 from Ratan & he was allowed discount Rs. 5.
25	Ratan returned goods of Rs. 50.
30	Paid Interest on loan Rs. 50 to Sashi.
30	Paid Salaries Rs. 2,000 out of which Rs. 1,200 paid by cheque.
30	Paid into Bank Rs. 500.
30	Paid Office Rent by cheque Rs. 300.

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