3 Golden Rules of Accounting

The foundation of bookkeeping are the golden rules of account. You must identify the type of account for each transaction in accordance with the golden standards of accounting. There are specific guidelines for each type of account that must be followed for every transaction. The three guiding principles of accounting are as follows:

Rule 1: Debit what comes in, credit what goes out

This regulation is applied to real accounts that include tangible assets such as equipment, buildings, land, furniture, etc. By default, they have a debiting balance, which debits all incoming funds and adds them to the account balance.

Similar to this, when a physical asset departs the business, the account balance needs to be credited.

Example:

You purchased furniture for Rs. 2,5000 in cash. Debit your Furniture Account (what comes in) and credit your Cash Account (what goes out).

Date	Account	Debit	Credit
XX/XX/XXXX	Furniture Account	25000	
	Cash Account		25000

Rule 2: Debit the receiver, credit the giver

For personal accounts, the "Debit the receiver, Credit the giver" rule is in effect. Donations to a business, whether made by a natural or artificial entity, are referred to as inflows. As a result, the company receiving the donation must be credited in the books and the receiver must be debited.

Example:

You purchase 5000 worth of goods from Company XYZ. In your books, you need to debit your Purchase Account and credit Company XYZ. Because the giver, Company XYZ, is providing goods, you need to credit Company XYZ. Then, you need to debit the receiver, your Purchase Account.

Date	Account	Debit	Credit
XX/XX/XXXX	Purchase Account	5000	
	Account Payable		5000

Rule 3: Debit all expenses and losses, credit all incomes and gains

Nominal accounts are covered under this golden accounting rule. It has a credit balance because it views the capital of a corporation as a liability. As a result, when gains and income are credited, the capital will rise. Conversely, when losses and expenses are deducted from it, this capital is decreased.

Example:

You purchase 6,000 of goods from Company. To record the transaction, you must debit the expense (6,000 purchase) and credit the income.

Date	Account	Debit	Credit
XX/XX/XXXX	Purchase Account	6000	
	Cash Account		5000