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Perspective

Rules for Debits and Credits in Accounts

Tang Guo*

Department of Accounting, Finance and Institutions, Sun Yat–sen University, Guangzhou, China

DESCRIPTION

There are two categories of accounts: debit and credit. The foundation of the double entry accounting system is debits and credits. Many accounting students are perplexed by how these terminologies are used. Many attempt to comprehend them by making a connection with something they already understand, such as plus and minus. Debits and credits, however, differ significantly from plus and minus. A debit input may cause an account balance to increase or decrease depending on the circumstance. Let's attempt to comprehend the operation of this debit and credit mechanism.

The debit-credit system can be thought of as having two layers. The following procedures must be followed in order to determine whether an account should be credited or debited:

Determine the account type.

Determine the nature of the transaction

In accounting, there are four main categories for accounts. Assets, liabilities, income, and costs are what they are. Any object can be put into precisely one of these categories. The same thing can, however, be divided in two and be part asset, part expense, etc. Establish Two Groups: These four categories could be combined into only two. Assets and expenses show how much money is leaving the company. Income and liabilities show how much money the company is bringing in. As a result, accounts can be divided into outflow and inflow.

a) The outflow accounts, which include assets and expenses, by default have a debit balance.

b) Sales and income are inflow accounts that by default have a credit balance.

To raise the value of an account with a default debit balance when we debit it. An account with a default debit balance loses value when we credit it. Additionally, this holds true for credit accounts.

We can now select whether to debit or credit a certain account. Suppose we need to raise the cash balance. Because cash is an asset, it has a default debit balance. Its balance rises as more debits are made. We will therefore debit the cash account. Similar to that, we can decide whether something needs to be credited or debited. We must make sure that each transaction's debits and credits balance out as a check. This is comparable to the foundational accounting principle.

The basis of the double entry bookkeeping system is the debit and credit system. Although it is tremendously helpful, using it in practice is really challenging. The ability to comprehend the debits and credits system may be a need for the job. However, no business could ever afford to spend so much money on record keeping. Most often, office personnel and store employees handle it. As a result, accounting's golden rules were developed. Golden rules simplify complicated bookkeeping regulations into a set of concepts that are simple to understand and put into practice.

Personal accounts fall under the purview of this principle. A person must be given credit in the books of accounts when they donate something to the company since it counts as an input. This also applies to the contrary, thus the receiver must be debited.

Applying this theory to real-world accounts Real accounts involve things like buildings, land, and machinery. By default, they have a debit balance. Therefore, when we debit what is received, we are increasing the balance of the account. This is the precise action that must be taken. Similar to crediting what comes in, when a tangible asset leaves the company, the account balance is decreased.

When the account in question is a notional account, this rule is applied. The company's capital is a liability. As a result, there is a default credit balance. Capital is increased when all gains and losses are credited, and decreased when losses and expenses are debited. To keep the system in balance, this is exactly what must be done.

Correspondence to: Tang Guo, Department of Accounting, Finance and Institutions, Sun Yat–sen University, Guangzhou, China, E-mail: tangguo@gmail.com

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