Principles of Debit and Credit
(for Beginners)

Debit and Credit

Debit and Credit are two actions of opposing nature that are relevant to the process of accounting.

They are as fundamental to accounting as addition (+) and subtraction (−) are to mathematics. It would not be appropriate to apply this mathematical analogy in all cases as it would give a distorted meaning. Thus, it would not be appropriate to consider debit to be an equivalent of addition and credit to be an equivalent of subtraction.

You just need to understand that debit and credit are two actions that are opposite in nature.

An element (account) that is effected by an accounting transaction is either debited or credited (with an amount that is reflected in the transaction) depending on the nature of the account and the rule applicable to it.

- A purchase of Furniture worth Rs. 10,000 for Cash.

  This transaction would result in

  i. Furniture a/c being debited by an amount of Rs. 10,000 and
  ii. Cash a/c being credited by a similar amount.
- A payment of Rs. 5,000 received from Mr. Narayan by Cheque.

  This transaction would result in

  i. Mr. Narayan a/c being credited to the extent of Rs. 5,000 and
  ii. The Bank a/c being debited with a similar amount.

Rules/Principles of Debit and Credit

The total process of accounting is driven by

- The dual entity concept
- The nature of the accounts and
- The rules/principles of debit and credit.

All the account heads used in the accounting system of an organisation are classified under three heads Real, Personal and Nominal.

Each account type, has a pair of principles or rules of debit and credit relevant to it. One for debit and another for Credit.

• Real Accounts

» Debit what comes in

Consider the following Transaction : **Bought Furniture for Credit from M/s Wood Mart**
The two elements effected by the transaction are

i. Furniture a/c (Real account) and
ii. M/s Wood Mart a/c (Personal account).

Since furniture is being bought, we can say that it is coming in.
Thus we say that Furniture a/c is to be debited based on the principle "Debit what comes in".

[Please ignore the effect relating to the other element]

» Credit what goes out

Consider the following Transaction : **Sold Goods to Mr. Murty on credit**

The two elements effected by the transaction are

i. Goods a/c (Real account) and
ii. Mr. Murty a/c (Personal account).

Since we are selling goods, we can say that it is going out.
Thus we say that Goods a/c is to be credited based on the principle "Credit what goes out".

[Please ignore the effect relating to the other element]

» Thought to be applied : Is it Coming in (Or) Is it Going out

To decide whether a particular Real Account (element) effected by an accounting transaction is to be debited or credited, we need to identify whether the element is coming into the organisation or going out of it.

• Personal Accounts

» Debit the benefit receiver

Consider the following Transaction : **Paid Cash to Mr. Ibrahim**

The two elements effected by the transaction are

i. Cash a/c (Real account) and
ii. Mr. Ibrahim a/c (Personal account).

Since cash is being paid, we can say that Mr. Ibrahim is receiving (benefit) from the organisation.
Thus we say that Mr. Ibrahim a/c is to be debited based on the principle "Debit the benefit receiver".

[Please ignore the effect relating to the other element]

» Credit the benefit giver

Consider the following Transaction : **Bought Goods on Credit from M/s Maghan Lal & Co**

The two elements effected by the transaction are

i. Goods a/c (Real account) and
ii. M/s Maghan Lal & Co a/c (Personal account).

Since the goods are being bought on credit, we can say that M/s Maghan Lal & Co is giving (benefit) to the organisation.
Thus we say that M/s Maghan Lal & Co a/c is to be credited based on the principle "Credit the benefit giver".

[Please ignore the effect relating to the other element]

» Thought to be applied » Is he/she/it Giving (Or) Is he/she/it Taking

To decide whether a particular personal account (element) effected by an accounting transaction is to be debited or credited, we need to identify whether the element is giving the benefit to the organisation or taking the benefit from the organisation.

• Nominal Accounts

In dealing with nominal accounts in a transaction we generally come across situations where the element is related to either an expenditure/loss or income/gain to the organisation.

» Debit all Expenses and Losses

Consider the following Transaction : **Paid Wages to Workers**

The two elements effected by the transaction are

i. Cash a/c (Real account) and
ii. Wages a/c (Nominal account).

Since wages are being paid, it amounts to an expenditure for the organistion.
Thus we say that Wages a/c is to be debited based on the principle "Debit all expenses and losses"

[Please ignore the effect relating to the other element]

» Credit all Incomes and Gains

Consider the following Transaction : **Received Commission from M/s Onyx Chemicals by Cheque**

The two elements effected by the transaction are

i. Bank a/c (Personal account) and
ii. M/s Commission a/c (Nominal account).

Since commission is being received, it amounts to an income for the organistion.
Thus we say that Commission a/c is to be credited based on the principle "Credit all incomes and gains".

[Please ignore the effect relating to the other element]

» Thought to be applied » Is it an Expenditure/Loss (Or) Is it an Income/Gain

To decide whether a particular nominal account (element) effected by an accounting transaction is to be debited or credited, we need to identify whether it represents an expenditure (or loss) or an income (or gain) to the organisation.

One element is Debited & the other element is Credited

Each accounting transaction has its effect on two elements. Where one element has to be debited the other has to be credited invariably.

Consider the following Transaction : **Bought Goods on Credit from M/s Maghan Lal & Co**

The two elements effected by the transaction are

i. Goods a/c (Real account) and
ii. M/s Maghan Lal & Co a/c (Personal account).

Debit » Goods a/c

Since goods are being bought, we can say that the goods are coming in.

Thus we say that Goods a/c is to be debited based on the principle "Debit what comes in".

Credit » M/s Maghan Lal & Co a/c

Since the purchase is being made on credit (without paying any cash), we can say that M/s Maghan Lal & Co is giving (benefit) to the organisation.

Thus we say that M/s Maghan Lal & Co a/c is to be credited based on the principle "Credit the benefit giver".

Once we identify the element to be debited, we can conclude that the other element is to be credited and vice versa.

• Caution

In the initial stages of learning process, please do not resort to the habit of concluding that the second element is debited or credited based on what is done with the first element.

Supporting both debit and credit with the relevant principles would help you in forming a concrete foundation for your accounting knowledge (all through your life).

• **Exception**

The above explanation that where one account is debited, the other should be credited holds good only when an accounting transaction effects only two elements.

As you enhance your knowledge on accounting, you will come across what are called simple compound and complex compound entries wherein you will find that more than two elements are being effected by the same transaction. This logic should not (cannot) be applied in case of those/such transactions.

An Account » Debited in some transactions, Credited in some other transaction

An account may be debited in some transactions and the same account may be credited in some other transactions.

- In a transaction of cash sale Cash a/c is debited and
- In a transaction of cash purchase the same Cash a/c is credited.