Date: 01/11/2025
By: Ashutosh Pawan
Department of BCA
H. D. Jain College, Ara

Accounts type and their classification

Accounting systems use two primary approaches to classify accounts: the traditional (British) approach and the modern (American or Accounting Equation) approach. Both methods use the double-entry system to ensure accurate financial records, with the final result being the same regardless of the method used

.

Traditional Approach

The traditional approach, often called the "golden rules" of accounting, groups accounts into three types:

- **Personal Accounts:** Relate to individuals and organizations the business interacts with. All the accounts representing either a natural person or an artificial person belong to this type.

  The rule is to **Debit the Receiver** and **Credit the Giver**.

  Examples include Debtors and Creditors, Customer’s account, Capital, Drawings, Supplier’s account, Bank Account, Loan Account, Outstanding expenses, Prepaid Incomes etc..

- **Real Accounts:** Represent business assets (tangible/ intangible), Liability and stockholder’s equity.

  The rule is to **Debit what Comes In** and **Credit what Goes Out**.

  Examples include Cash and Buildings, Machinery, Furniture, Land, Goodwill, Patents, Copyrights, Accounts payable, Accounts Receivable, Owner’s equity, Common Stock.

- **Nominal Accounts:** Cover incomes, gains, expenses, and losses.

  The rule is to **Debit all Expenses and Losses** and **Credit all Incomes and Gains**.

  Examples include Salaries and Sales, Electricity, Bill, Discount Received/Allowed, Rent, Wages etc..

Modern Approach

The modern approach, or Accounting Equation Approach, categorizes accounts based on their impact on the equation **Assets = Liabilities + Capital**. This approach is in line with current accounting standards.

- **Assets:** Resources owned by the business.

  The rule is to **Debit** for an increase and **Credit** for a decrease.

- **Liabilities:** The business's obligations.

  The rule is to **Debit** for a decrease and **Credit** for an increase.

- **Equity (Capital):** Represents the owner's investment in the business.

  The rule is to **Debit** for a decrease and **Credit** for an increase.

- **Revenues:** Income from business operations.

  The rule is to **Debit** for a decrease and **Credit** for an increase.

- **Expenses:** Costs incurred to generate revenue.

  The rule is to **Debit** for an increase and **Credit** for a decrease.