Accounting Equation Approach[1]

This approach is also called the American approach. Under this approach transactions are recorded based on the accounting equation, i.e., Assets = Liabilities + Capital.[14] The accounting equation is a statement of equality between the debits and the credits. The rules of debit and credit depend on the nature of an account. For the purpose of the accounting equation approach, all the accounts are classified into the following five types: assets, liabilities, income/revenues, expenses, or capital gains/losses.

If there is an increase or decrease in one account, there will be equal decrease or increase in another account. There may be equal increases to both accounts, depending on what kind of accounts they are. There may also be equal decreases to both accounts. Accordingly, the following rules of debit and credit in respect to the various categories of accounts can be obtained. The rules may be summarised as below:

1. Assets Accounts: debit increases in assets and credit decreases in assets
2. Capital Account: credit increases in capital and debit decreases in capital
3. Liabilities Accounts: credit increases in liabilities and debit decreases in liabilities
4. Revenues or Incomes Accounts: credit increases in incomes and gains and debit decreases in incomes and gains
5. Expenses or Losses Accounts: debit increases in expenses and losses and credit decreases in expenses and losses

Ref

[1] Wikipedia: Double-entry bookkeeping system http://en.wikipedia.org/wiki/Double-entry_bookkeeping_system