

## Topic 1 Terminology

**Account** - a device for recording the effects of transactions under one title

**Debit** - the left side of an account

**Credit** - the right side of an account

**Rule for Opening Accounts** - an account is opened by placing its beginning amount, called the opening balance, on the same side that the account appears in the account equation ( $A = L + OE$ )

**Ledger** - a file or group of accounts

## Topic 2 - Recording Asset and Liability Changes in T-Accounts

- rules for using debits and credits to record changes in the owner's equity section of the equation will be studied in Topic 3

**Rule for Increasing All Accounts** - an increase in an account is recorded on the same side that the account appears in the accounting equation.

**Rule for Recording Increases in Asset Accounts** - an increase in an asset account is recorded on the debit side, because assets appear on the left side of the accounting equation.

How would you record a transaction that causes an increase of \$5000 in the cash account?

| CASH    |      |
|---------|------|
| Oct 24. | 5000 |

Accountants sometimes use expressions such as  
"Debit Cash for \$5000"

What does this mean?

The accountant could say recording Cash with amount of \$5000 on the left side of the T-Account, instead say debiting cash \$5000.

The noun "debit" means - the left side of the account, the verb "debit" means to record an amount on the left side of the account.

DEBITING - recording an amount on the left side

### Rule for Recording Increases in Liability Accounts

An increase in a liability account is recorded on the credit side, because liabilities appear on the right side of the beginning accounting equation

How would you record an increase of \$1500 to Accounts Payable

| Accounts Payable |                   |
|------------------|-------------------|
|                  | Oct. 24      1500 |

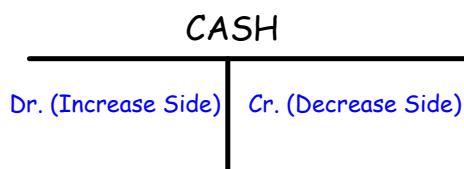
When you recorded the credit you are crediting the account.

Crediting: recording an amount on the right side

If accounts are increased on the side on which they appear in the accounting equation, the following rule makes sense.

**Rule for Decreasing Accounts:** A decrease in an account is recorded on the side opposite to that on which the account appears in the accounting equation

**Rules for Recording Decreases in Asset Accounts:** A decrease in an asset account is recorded on the side opposite to one on which the element *A* appears. In other words, the credit side.

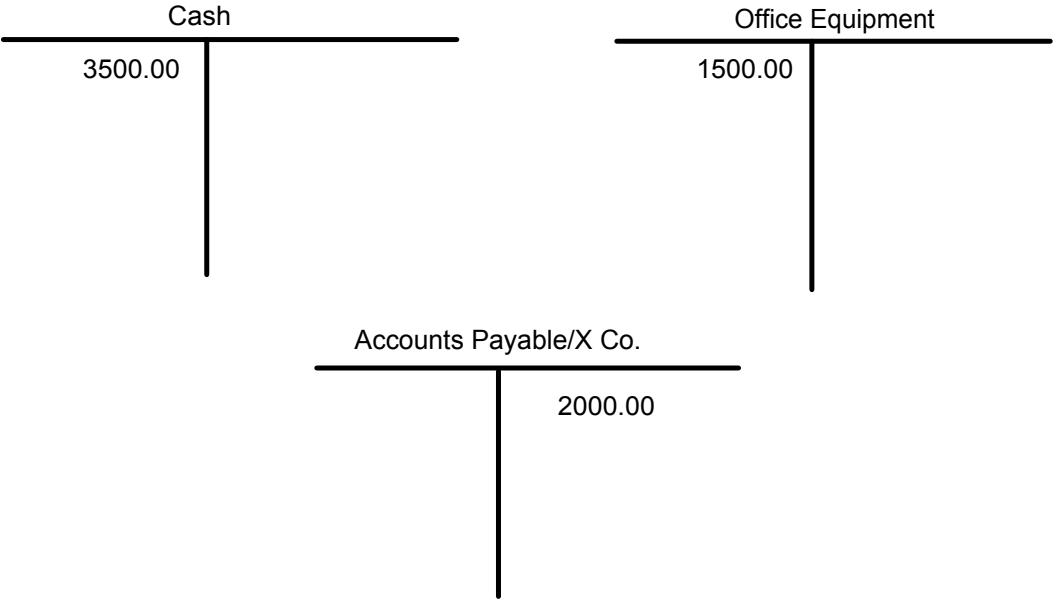




### Rules for Recording Decreases to Liability Accounts

a decrease in a liability account is recorded on the side opposite to the one which the element L appears in the accounting equation - in other words the debit side.

| Accounts Payable   |                    |
|--------------------|--------------------|
| Dr (Decrease Side) | Cr (Increase Side) |



**Rule for Showing Normal Balance in an Account**

- the balance will normally appear on the same side that the account appears in the accounting equation.

| Cash        |             |
|-------------|-------------|
| Dr          | Cr          |
| 5000        | 400         |
| <u>2000</u> | <u>1600</u> |
| 7000        | 2000        |

| Accounts Payable/ABC Co. |     |
|--------------------------|-----|
| Dr                       | Cr  |
| 25                       | 400 |

The account balance is the difference between the total debits and total credits.

In the case of **assets** total debits are normally greater than total credits. **Assets** are expected to have a **Debit (DR)** balance.

Going back to the equation, assets are found on the left side or DR side.

In the case of **liabilities** total credits are normally greater than total debits. **Liabilities** are expected to have a **Credit (CR)** balance.

Going back to the equation, liabilities are found on the right side or CR side

Summary of Basic Rules for Recording Increase and Decreases to Asset and Liability Accounts:

- All accounts are increased on the same side as the one on which the account appears in the accounting equation.
- All accounts are decreased on the opposite side to the one on which the account appears in the accounting equation.
- Asset accounts (which appear on the left side of the accounting equation) are increased on the debit side and decreased on the credit side.

Summary of Basic Rules for Recording Increase and Decreases to Asset and Liability Accounts: (continued)

- **Liability** accounts (which appear on the right side of the accounting equation) are **increased on the credit side** and **decreased on the debit side**.
- The balance of **any** account will normally be placed on the same side as the one on which the account appears in the accounting equation.
- The balance of an **asset** account will normally be on the debit side.
- The balance of any **liability** account will normally be on the credit side.

### Illustrating Asset and Liability Changes in T-Accounts

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October 1 . J. Emery Real Estate buys more furniture for \$1000 from Enns Furniture Ltd., and pays by cheque.

What happens

- Furniture ↑
- Cash ↓

Accounting Rule

Accounting Entry

- Dr. Furniture 1000
- Cr. Cash 1000

| Furniture |             |
|-----------|-------------|
| 2010      |             |
| Sept. 30  | 8 000       |
|           | Oct 1. 1000 |
|           | 9000        |

| Cash    |             |
|---------|-------------|
| 2010    |             |
| Sept 30 | 60 000      |
|         | Oct 1. 1000 |
|         | 59000       |

October 3 . J. Emery Real Estate buys more office equipment for \$12000 from Ryan Equipment Co, on 60 days credit.

October 4 . J. Emery Real Estate returns one calculator costing \$200 to Ryan Equipment Co. Because it arrived damaged. The creditor has accepted the return.

What happens

Accounting Rule

Accounting Entry

Oct 3

Office Equipment ↑  
A/P Ryan Equipment ↑

DR. office equip. \$12000  
CR. A/P Ryan Equip. \$12000

Oct 4

Office Equipment ↓  
A/P Ryan Equipment ↓

CR. office equip. \$200  
DR A/P Ryan Equip \$200

Office Equipment

|         |       |           |
|---------|-------|-----------|
| 2009    |       |           |
| Sept 30 | 7 000 |           |
| Oct 3   | 12000 | Oct 4 200 |

Accts. Pay./Ryan Equipment Co.

|         |       |             |
|---------|-------|-------------|
| 2009    |       |             |
| Sept 30 | 2 000 |             |
| Oct 4   | 200   | Oct 3 12000 |



Oct. 5 - J. Emery Real Estate makes out a cheque for \$5000 to Westown Motors Ltd.

|                      |                        |                  |
|----------------------|------------------------|------------------|
| What happens         | Accounting Rule        | Accounting Entry |
| Cash ↓               | Decreasing an Asset    | CR. Cash         |
| A/P Westown Motors ↓ | Decreasing a Liability | DR. A/P (WML)    |

| Accts. Pay./Western Motors Ltd. |      |         |       |
|---------------------------------|------|---------|-------|
|                                 | 2010 |         |       |
| Oct 5                           | 5000 | Sept 30 | 5 000 |

| Cash    |        |               |       |
|---------|--------|---------------|-------|
|         | 2010   |               |       |
| Sept 30 | 60 000 | 2010<br>Oct 1 | 1 000 |
|         |        | Oct 5         | 5000  |

Oct. 15 J. Emery Real Estate makes out a cheque for \$4000 to the Royal Bank of Canada in partial payment of the bank loan

What happens

Accounting Rule

Accounting Entry

Cash ↓

Decreasing an Asset

CR Cash

Bank Loan ↓

Decreasing a Liability

DR. Bank Loan

| Bank Loan Payable |        |
|-------------------|--------|
| 2010              |        |
| Sept 30           | 20 000 |
| Oct 15            | 4000   |
|                   | *16000 |

| Cash    |        |
|---------|--------|
| 2010    |        |
| Sept 30 | 60 000 |
| Oct 1   | 1 000  |
| 5       | 5 000  |
| 15      | 4000   |
|         | *50000 |

$$\begin{aligned}
 & \text{CR.} - \text{DR.} \\
 & = 20000 - 4000 \\
 & = 16000
 \end{aligned}$$

$$\begin{aligned}
 & \text{DR} - \text{CR.} \\
 & = 60000 - 10000 \\
 & = 50000
 \end{aligned}$$

Guidelines to help you analyze business transactions in the problems:

- Every transaction affects **at least** two accounts
- If **only** two accounts are affected, the debit entry in one account must equal to the credit entry in the other.
- If **more than** two accounts are affected, the total debits must be equal to the total credits.

P 3-5

DEBIT ENTRY

CREDIT ENTRY

| What Happens | Account Debited | What Happens | Account Credited |
|--------------|-----------------|--------------|------------------|
| Asset ↑      | Supplies        | Asset ↓      | Cash             |
|              |                 |              |                  |
|              |                 |              |                  |
|              |                 |              |                  |
|              |                 |              |                  |
|              |                 |              |                  |
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