

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

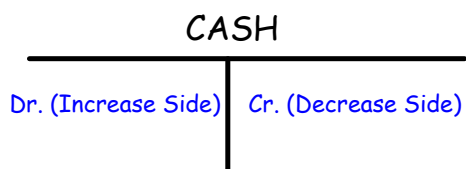
When you recorded the credit you are crediting the account.

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

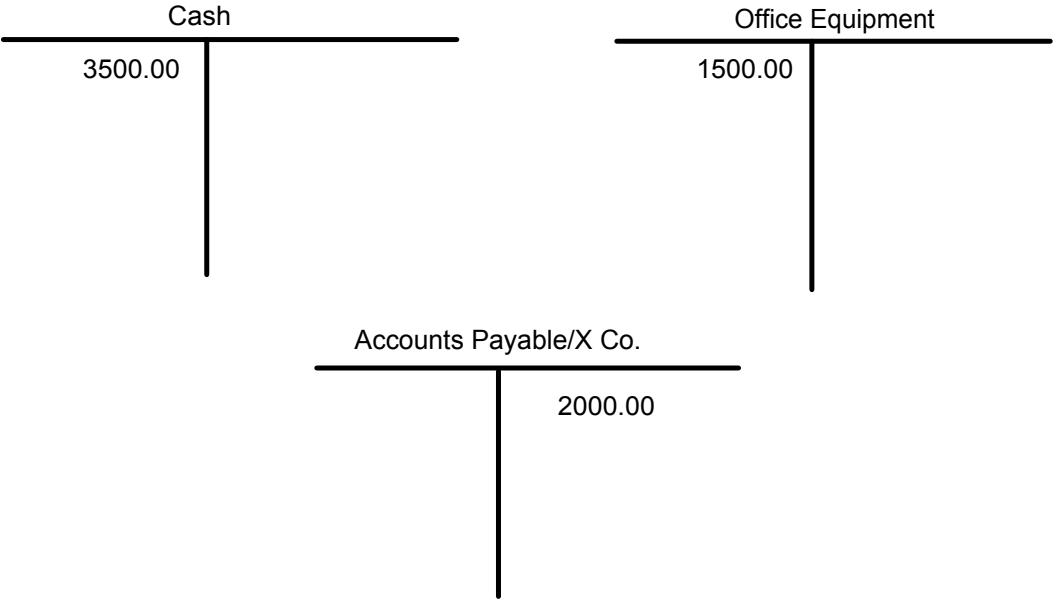
Rules for Recording Decreases in Asset Accounts: A decrease in an asset account is recorded on the side opposite to one on which the element *A* appears. In other words, the credit side.



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

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 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.

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DEBIT ENTRY

CREDIT ENTRY

	What Happens	Account Debited	What Happens	Account Credited
1	Asset ↑	Supplies	Asset ↓	Cash
2	Asset ↑	Equipment	Liability ↑	A/P XYZ Co.
3	Asset ↑	Building	Liability ↑	Mortgage Payable
4	Liability ↓	A/P XYZ Co.	Asset ↓	Equipment
5	Asset ↑	Cash	Asset ↓	Accounts Receivable
6	Asset ↑	Cash	Liability ↑	Bank Loan
7	Liability ↓	A/P XYZ Co.	Asset ↓	Cash
8	Asset ↑	Truck	Owner's Equity ↑	Capital

