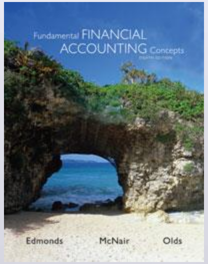
Principles of Financial Accounting

Chapter 3



The Double-Entry Accounting System

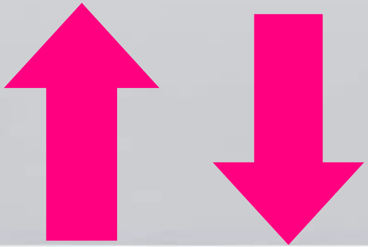
Every accounting transaction has at least two sides.

These transactions are recorded in accounts.

The Double-entry Accounting System

What are accounts?

Accounts are individual records of increases and decreases.



The Double-Entry Accounting System

The T-account

The T-account is a simplified form of an actual account used for record keeping.

Account

DEBIT = LEFT side	CREDIT = RIGHT side

The Double-Entry Accounting System

Debits **DO NOT** mean:

-Good or bad

-Increase or decrease

The Double-Entry Accounting System

Credits **DO NOT** mean:

-Good or bad

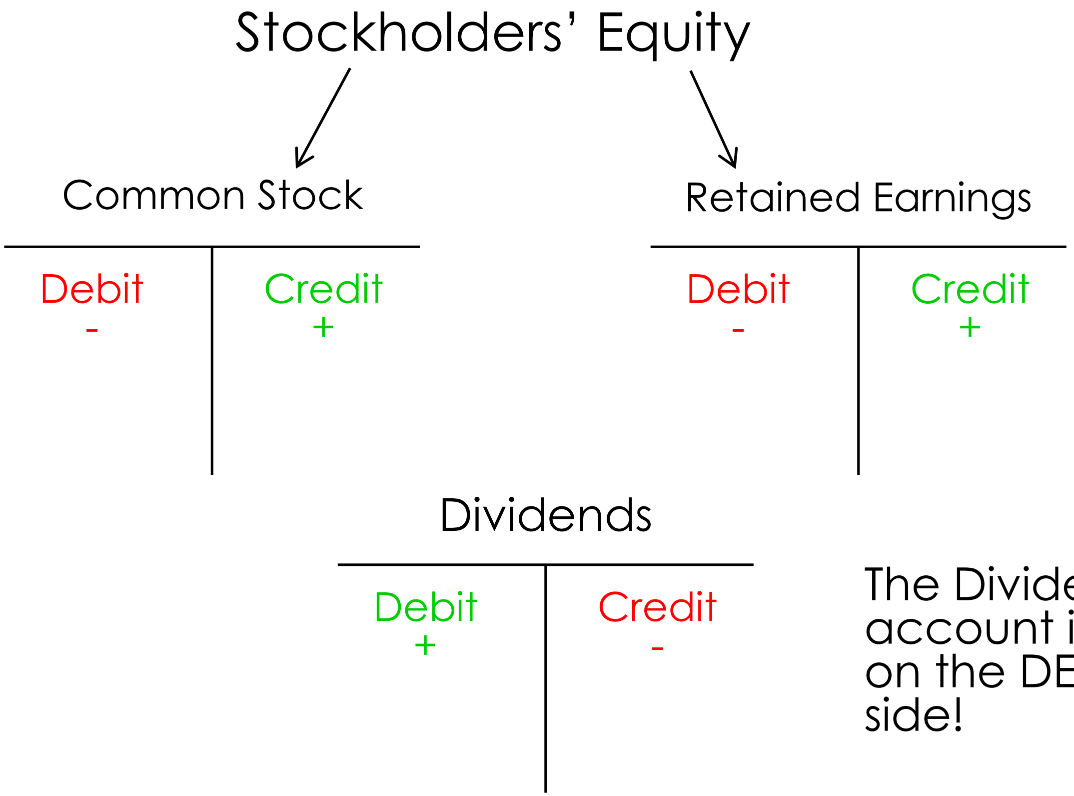
-Increase or decrease

The Double-Entry Accounting System

Instead, the decision to use a debit or credit to increase or decrease an account depends on the account!

Assets		=	Liabilities		+	Stockholders Equity	
Debit	Credit		Debit	Credit		Debit	Credit
+	-		-	+		-	+

The Double-Entry Accounting System



The Dividends account increases on the DEBIT (left) side!

The Double-Entry Accounting System

Revenues & Expenses

Revenues

Debit	Credit
-	+

–

Expenses

Debit	Credit
+	-

= Net Income (Loss)

Retained Earnings

Debit	Credit
-	+

Net Income(Loss) is transferred to Retained Earnings during the Closing Process.

The Double-Entry Accounting System

Confused?

Only need to remember which side each account increases on.

We call this side the “Normal Balance” for the account.

ACCOUNT TYPE	DEBIT (Normal Balance*)	CREDIT (Normal Balance*)
Balance Sheet		
Assets	DEBIT	
Liabilities		CREDIT
Capital (Owner’s Equity)		CREDIT
Dividends (Owner’s Equity)	DEBIT	
Income Statement		
Revenue		CREDIT
Expenses	DEBIT	