Three Fundamental Bookkeeping Equations

Assets = Liabilities + Stockholders' Equity

Sum of Debits = Sum of Credits

Beginning account balance + Increases - Decreases = Ending account balance

- **These equations must be in balance at all times!**
- **The balance sheet equation can be preserved through the use of "debits" and "credits"**
- **Definitions of Debit and Credit:**
  - Debit (Dr.) = Left-side Entry
  - Credit (Cr.) = Right-side Entry

Debit/Credit Bookkeeping

Assets = Liabilities + Shareholders' Equity

Assets = Liabilities + Contrib. Capital + Retained Earnings + Revenues – Expenses

Assets + Expenses = Liabilities + Contrib. Capital + Retained Earnings + Revenues

Debits = Credits

- **Rules of Debits and Credits:**
  - **Every transaction must have *at least* one debit and *at least* one credit**
  - **Debits must equal credits for all transactions**
  - **No negative numbers are allowed**

Wharton
UNIVERSITY of PENNSYLVANIA

Accounts and Account Balances

- **Normal Balance**
  - The type of balance (debit or credit) the account carries under normal circumstances

- **T Account**
  - A record of all changes in an accounting quantity
  - Debits are listed on the left side of the T
  - Credits are listed on the right side of the T

- **Account Balance**
  - Difference between sum of debits and sum of credits for the account

- **Change in Account Balance Equation:**
  - Beginning Balance + Increases - Decreases = Ending Balance

Normal Balances and T-accounts

- **Assets, Expenses**
  - **Normal Balance is Debit (Left side of T)**
  - **Increases through Debits (Left entries)**
  - **Decreases through Credits (Right entries)**
  - **Beginning (Debit) Balance + Debits - Credits = Ending (Debit) Balance**

Accounts Receivable (A)

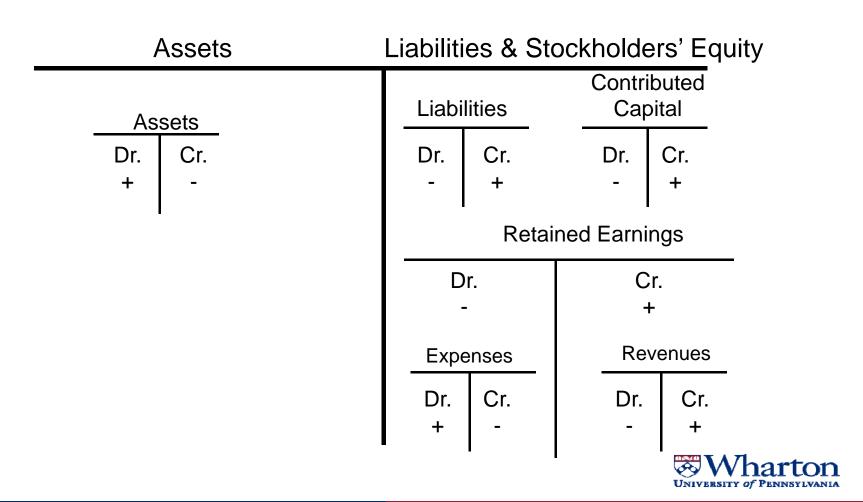|			
Beg. Balance	1,000		
New Sales (Increase)	100	80	Cash Collections (Decrease)
End. Balance	1,020		

Normal Balances and T-accounts

- **Liabilities, Stockholders' Equity, Revenues**
  - **Normal Balance is Credit (Right side of T)**
  - **Decreases through Debits (Left entries)**
  - **Increases through Credits (Right entries)**
  - **Beginning (Credit) Balance + Credits - Debits = Ending (Credit) Balance**

Accounts Payable (L)

		1,000	Beg. Balance
Cash Payments (Decrease)	80	100	New Purchases (Increase)
		1,020	End. Balance

Wharton
UNIVERSITY *of* PENNSYLVANIA

Super T-account

| | Assets | | Liabilities & Stockholders' Equity |

Super T-account

Assets | Liabilities & Stockholders' Equity

Assets

Dr.	Cr.
+	-

Liabilities

Dr.	Cr.
-	+

Contributed Capital

Dr.	Cr.
-	+

Retained Earnings

Dr.	Cr.
-	+

Expenses

Dr.	Cr.
+	-

Revenues

Dr.	Cr.
-	+

Wharton
UNIVERSITY of PENNSYLVANIA

Analyzing Transactions & Journal Entries

- **Three questions in analyzing transactions**
  - Which specific asset, liability, stockholders' equity, revenue or expense accounts does the transaction affect?
  - Does the transaction increase or decrease the affected accounts?
  - Should the accounts be debited or credited?
- **Journal entry format**

  Dr. <Name of Account Debited> $XXX

      Cr. <Name of Account Credited> $XXX
- **Always list Debits first and always indent Credits**