

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

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

Super T-account

Assets		Liabilities & Stockholders' Equity			
Assets		Liabilities		Contributed Capital	
Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
+	-	-	+	-	+
		Retained Earnings			
		Dr.		Cr.	
		-		+	
		Expenses		Revenues	
		Dr.	Cr.	Dr.	Cr.
		+	-	-	+

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**