The accounting equation grid discussed in Section 1.4 displays the transactions in an easy-to-read format. However, this layout is good for individual transactions and becomes cumbersome when a large number of transactions are involved. The accounting process is streamlined by instead using two record keeping processes for analysing, classifying and recording transactions. These are the journal and the ledger.

In Step 2 of the Accounting Cycle, financial transactions are written down throughout the accounting period as they happen in a record book called the **journal.**

Below is a sample of a few rows in a journal. Each transaction impacts at least two accounts, and therefore at least two rows will be filled in, with one account in the debit column and one account in the credit column.



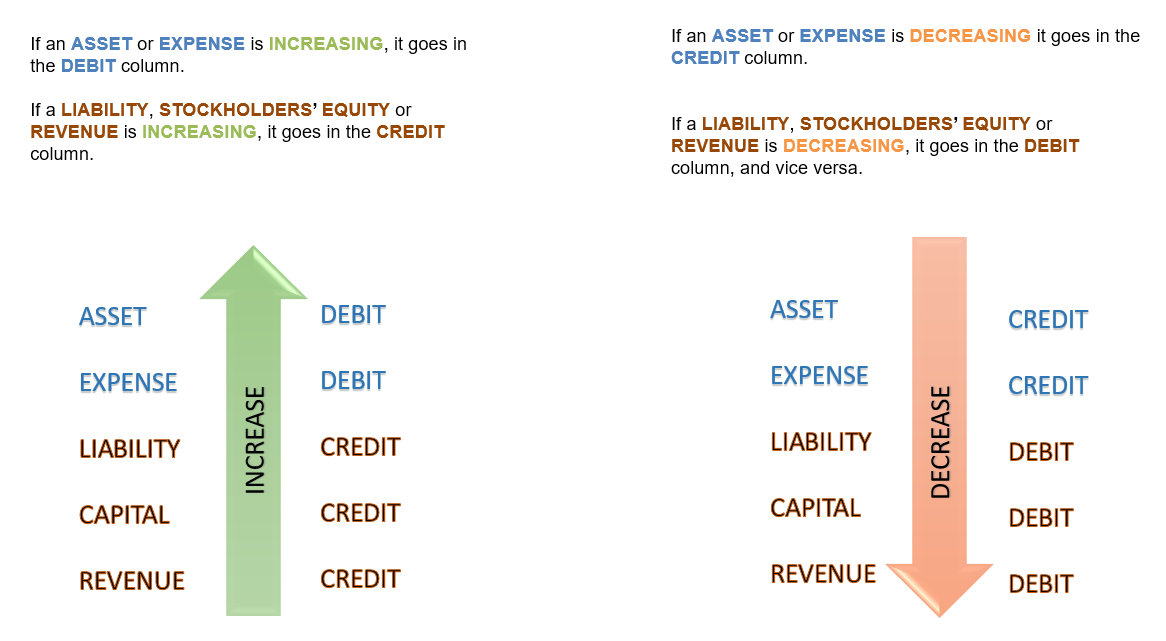
Good To Remember

To **debit** an account, means to enter the amount into the **left side** of the Journal.

To **credit** an account, means to enter the amount into the **right side** of the Journal.

Rules of Debit and Credit

When deciding if a transaction should be in the debit (left) or credit (right) column of the journal we can use the following rule of thumb:



Now let’s look at two Core Fit transactions and how they will be entered into the Journal.

On September 1, a new member joins Core Fitness and pays $50 in monthly membership fees. Cash is increasing so it goes in the Debit column. Revenue is also increasing so it goes in the Credit column.

The next day, Core Fitness pays $100 in cash for cleaning supplies to sanitize its gym equipment. In this transaction, Supplies Expense increases by $100 so it goes in the Credit column. Meanwhile, Cash decreases by $100 so it goes in the credit column.

Whether an account’s amount should be entered in the debit column or the credit column is based on

* Type of account
* Whether the account is increasing or decreasing.

The following table summarizes the rules of debit and credit for commonly used accounts.



Tip

Since the Cash Account is used in many transactions, it is useful to remember the following rule:

When the company **receives** cash, **debit** cash

When the company **gives** cash, **credit** cash

## Interactive Exercise 3 – Account classifications and behaviors

Instruction**:** For each one of the accounts listed below, enter the corresponding Account Type. Then type “Debit” if an increase in the Account would be a debit or type “Credit” if an increase would be a credit.

Here is the list of “Account Types” to choose from: Asset, Liability, Stockholders’ Equity, Revenue, Expense

