##### The accounting equation grid discussed in [Section 1.4](file:///C:\\Users\\Neelu_singh\\Dropbox\\Accounting%20Courseware\\Chapter_1_Introduction_to_business_and_accounting_concepts\\documents\\ITEM_CODE:Chapter_1_Introduction\\Common_Accounting_Transactions) displays the transactions in an easy-to-read format in terms of the accounts impacted and the related amounts. However, this layout becomes a bit cumbersome when a large number of transactions are involved. The accounting process is streamlined by instead using two record keeping processes for analyzing, classifying and recording transactions. These are the **journal** and the **ledger**.

Financial transactions are written down throughout the accounting period as they happen in a record book called the **journal.**

This is a sample of a few rows in a journal. It has four columns:*Date, Account, Debit, Credit.*



Note

In financial accounting, “Debit” indicates the left side of a ledger account and “Credit” indicates the right.

## Rules of Debit and Credit

When deciding if a journal entry should be in the debit or credit column we can use the following rule of thumb:

If an **ASSET** or **EXPENSE** is **INCREASING**, it goes in the **DEBIT** column.

If a **LIABILITY**, **STOCKHOLDERS’ EQUITY** or **REVENUE** is **INCREASING**, it goes in the **CREDIT** column.

If an **ASSET** or **EXPENSE** is **DECREASING** it goes in the **CREDIT** column.

If a **LIABILITY**, **STOCKHOLDERS’ EQUITY** or **REVENUE** is **DECREASING**, it goes in the **DEBIT** column, and vice versa.

{ 
"Format" : "SVG",
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}

For example, on September 1, Core Fitness paid $100 of cash for cleaning wipes to sanitize its gym equipment. In this transaction, cash decreases by $100 and supplies expense increases by $100. The Supplies Expense account increases so it goes in the Debit column and Cash decreases so it goes in the Credit column.

**[Insert Transaction Grid here**]

The next day, a new members join Core Fitness and pay $50 in monthly membership fees. Cash is increasing this time so it goes in the Debit column. Simultaneously, Revenue is increasing so it goes in the Credit column.

[**[Insert Transaction Grid here]**

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.



## Interactive Exercise 3 – Account classifications and behaviors

Instruction**:** For each one of the accounts listed below, enter the corresponding Account Type and whether an increase in the Account would be a Debit or a Credit.

