##### 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 analysing, 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.*

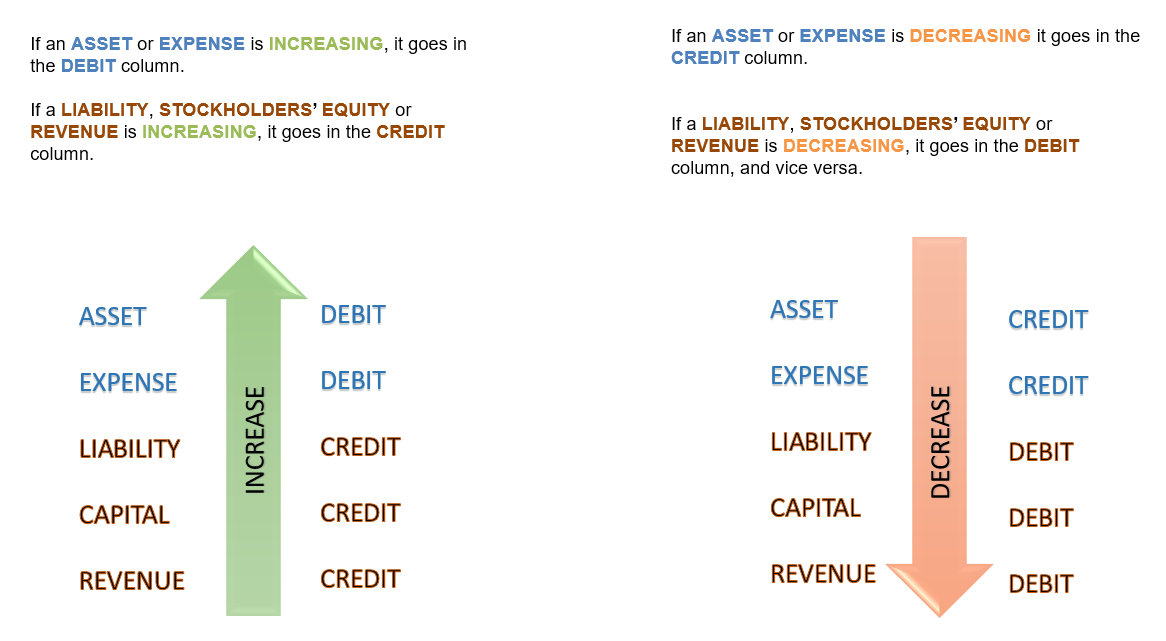


Note

The term **debit** refers to the **left** side of an account and **credit** refers to the **right** side of an account.

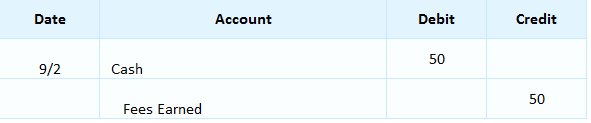
## Rules of Debit and Credit

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



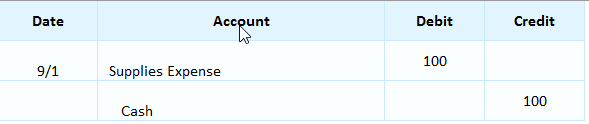
For example, on September 1, a new member joins Core Fitness and pays $50 in monthly membership fees. Cash is increasing so it goes in the Debit column. Revenue is also increasing so it goes in the Credit column.

**[Insert 2.2.1\_rules1.xls**]



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.

**[Insert 2.2.2\_rules2.xls]**



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.

