REVIEWER

The rules of debit and credit are fundamental in accounting and are used to record transactions in the double-entry accounting system. The basic rules can be summarized as follows:

1. Assets:

- **Debit: Increases the asset account.**
- **Credit: Decreases the asset account.**

Example:

- **If a company purchases equipment, it debits the Equipment account because the asset increases.**

2. Liabilities:

- **Debit: Decreases the liability account.**
- **Credit: Increases the liability account.**

Example:

- **If a company takes a loan, it credits the Loan Payable account because the liability increases.**

3. Equity (Owner's Equity or Shareholders' Equity):

- **Debit: Decreases the equity account.**
- **Credit: Increases the equity account.**

Example:

- **When the company earns a profit, it credits the Retained Earnings or Capital account to increase equity.**

4. Revenue (Income):

- **Debit: Decreases the revenue account.**
- **Credit: Increases the revenue account.**

Example:

- **If the company makes a sale, it credits the Sales Revenue account to recognize the income.**

5. Expenses:

- **Debit: Increases the expense account.**
- **Credit: Decreases the expense account.**

Example:

- **If the company pays for rent, it debits the Rent Expense account because the expense increases.**

- Manufacturing costs are typically tracked in the expenses section of the chart of accounts.
- A compound journal entry involves more than one debit or more than one credit or both.
- When equipment is purchased on credit, the Equipment account is debited, and Accounts Payable is credited.
- A credit typically decreases an asset or increases a liability or equity.
- Purchasing equipment on account should credit Accounts Payable, not Cash, as payment hasn't been made yet.

- **To facilitate easier recording of future transactions**
  The primary purpose of a reversing journal entry is to simplify the recording of future transactions, especially for accruals.
- **Adjusting entries are made at the end of an accounting period to update account balances, while closing entries are made to reset the balances of temporary accounts.**
  This is the main difference between adjusting and closing entries.
- Billing increases revenue, and when payment is received, it increases assets (Cash or Accounts Receivable).
- The accrual assumption states that revenue should be recorded in the period it is earned, regardless of when cash is received.
- The Periodicity concept allows businesses to break down their operations into regular time periods, such as a year or a quarter.
- Personal transactions of the owner should not be recorded in the business's accounting books, as per the business entity assumption.
- The purchase of computers for personal use is a violation of the business entity assumption, which requires personal transactions to be kept separate.
- Personal purchases made from business funds violate the business entity assumption.
- When service revenue is earned on credit, the Accounts Receivable account is debited.
- The withdrawal of business funds for personal use should be recorded as a debit to Owner's, Withdrawal (owner's equity) and a credit to Cash.
- **A detailed description of the reason why management entered into the transaction**
  While a short description is important, a detailed reason isn't usually included in journal entries unless necessary for clarification.
- **Accounts Payable, debit; Office Supplies, credit**
  The return of office supplies purchased on account should involve debiting Accounts Payable and crediting Office Supplies.
- Posting to the ledger is not part of the third step in the accounting cycle, which involves collecting and verifying source documents.
- This is the correct order in the accounting cycle: **Journalize transactions, post to ledger accounts, prepare unadjusted trial balance, journalize and post adjusting entries.**
- **To show the company's revenues and expenses over a specific period of time**
  The income statement's purpose is to show how much the company earned and spent over a period.
- **Recording**
  Business transactions are recorded systematically in the recording phase of the accounting cycle.
- **By the category within the accounting equation they belong in**
  Accounts in a chart of accounts are grouped by their classification under the accounting equation.
- **Current Asset**
  Cash in the bank is considered a current asset on the balance sheet.
- **Assets = Liabilities + Owners Equity**
  This is the basic accounting equation.
- **Non-current Liability**
  A mortgage is classified as a non-current liability on the balance sheet.
- **Side represented by increases in the account balance**
  The normal balance of an account is on the side where increases are recorded (debits for assets and expenses, credits for liabilities and equity).
- **Accounts payable**
  When cash is debited, the typical credit is made to Accounts Payable if it's a payment on credit.
- **Account titles- asset, liability, equity, income, and expense account.**
  A ledger contains accounts for assets, liabilities, equity, income, and expenses.

- **To record purchases of computer equipment, computer equipment is increased and cash is decreased by P46,000.**
  This transaction maintains the equality of the accounting equation: both assets (computer equipment and cash) are affected.
- **Posting Reference**
  PR in the journal entry refers to the Posting Reference, which links journal entries to the ledger.
- **Single journal entry**
  A simple journal entry typically involves one debit and one credit account.
- This records the advance payment for services to be rendered in the future as a liability (Advance Payment): **Debit to Cash and Credit to Advance Payment**
- **Objectivity**
  The accountant ensures that information in the financial statements is supported by corresponding pertinent documents, which aligns with the principle of objectivity, where information should be verifiable and free from bias.
- **The company will continue its operations in the foreseeable future**
  The Going Concern Principle assumes that the company will continue to operate in the future. An auditor questions this assumption if there's evidence suggesting the company may not continue as a going concern.
- **When the service is provided, regardless of payment**
  The Revenue Recognition Principle states that revenue should be recognized when it is earned, regardless of whether payment has been received.
- **Historical Cost**
  The principle being challenged is the Historical Cost principle, which requires assets to be recorded at their original cost rather than current market value.
- **Revenue Recognition**
  This principle dictates that revenue should be recognized when it is earned, not necessarily when the payment is made.
- **Business entity assumption**
  Under the economic entity concept, the business's financial records should be kept separate from the personal transactions of its owners.
- **Accounting cycle**
  The accounting cycle refers to the series of procedures used to accomplish the accounting process, from recording transactions to preparing financial statements.
- A debit increases an asset, and a credit decreases it.
- Debiting a liability account decreases its balance.
- Revenue accounts increase with a credit entry.
- Closing entries involve transferring the balances of revenue and expense accounts to the owner's equity at the end of the accounting period.
- **Journalize transactions, post to ledger accounts, prepare unadjusted trial balance, journalize and post adjusting entries.**
  This is the correct order of steps in the accounting cycle.
- **To show the company's revenues and expenses over a specific period of time**
  The income statement reports a company's revenues and expenses for a given period.
- **Recording**
  In the recording phase, business transactions are recorded systematically and chronologically.
- **By the category within the accounting equation they belong in**
  Accounts in the chart of accounts are grouped according to the category they fall under in the accounting equation (assets, liabilities, equity).
- **To organize a company's financial transactions into specific categories**
  The primary use of a chart of accounts is to categorize financial transactions in a structured manner.

- **The chart of accounts should be ordered in a logical sequence based on type of account.**
  The chart of accounts is typically ordered in a systematic way based on account type (assets, liabilities, equity, revenue, expenses).