

ACMP 4.0, IBA

Session-1 (Part-2)

**Debit-Credit
Concept**

THE ACCOUNT

- An **account** is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item.
- There are separate accounts for the items we used in transactions such as **cash**, **salaries expense**, **accounts payable**, etc.

BASIC FORM OF ACCOUNT

- The simplest form an account consists of
 - 1 the title of the account
 - 2 a left or debit side
 - 3 a right or credit side
- The alignment of these parts resembles the letter T = **T account**

Title of Account	
Left or debit side	Right or credit side
Debit balance	Credit balance

DEBITS AND CREDITS

- **Debit** indicates left and **Credit** indicates right
- Recording \$ on the **left** side of an account is debiting the account
- Recording \$ on the **right** side is crediting the account
- If the total of debit amounts is bigger than credits, the account has a **debit** balance
- If the total of credit amounts is bigger than debits, the account has a **credit** balance

DEBITING AN ACCOUNT

Cash	
Debits	Credits
15,000	

Example: The owner makes an initial investment of \$15,000 to start the business. **Cash** is debited as the owner's **Capital** is credited.

CREDITING AN ACCOUNT

Cash	
Debits	Credits
	7,000

Example: Monthly rent of \$7,000 is paid.
Cash is credited as **Rent**
Expense is debited.

DEBITING / CREDITING AN ACCOUNT

Cash

Debits	Credits
15,000	7,000
8,000	

Example: **Cash** is debited for **\$15,000** and credited for **\$7,000**, leaving a debit balance of **\$8,000**.

DOUBLE-ENTRY SYSTEM

- equal debits and credits made accounts for each transaction
- total debits always equal the total credits
- accounting equation always stays in balance

Assets



Liabilities



Equity

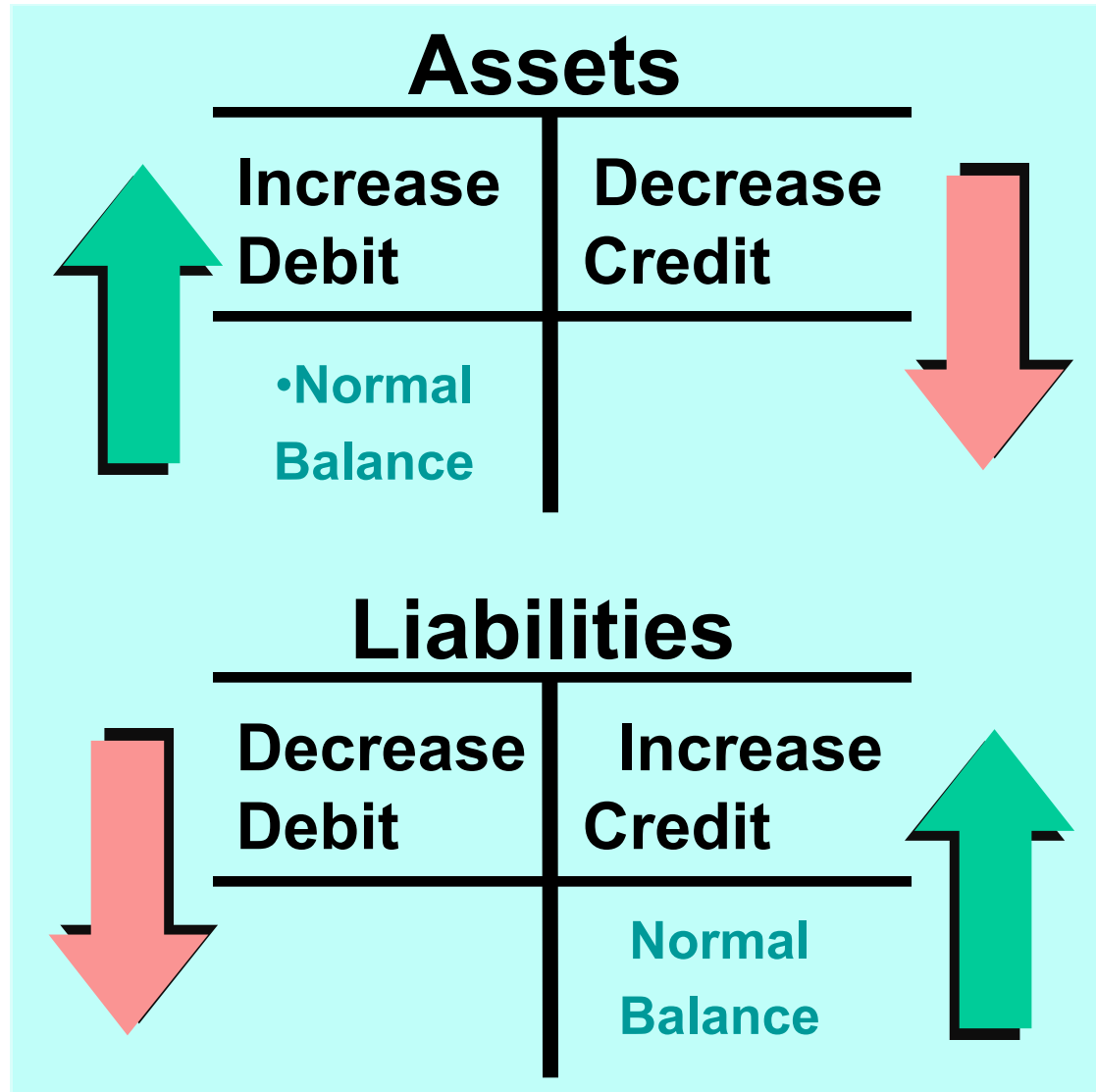
DEBIT AND CREDIT EFFECTS — ASSETS AND LIABILITIES

Debits	Credits
Increase assets Decrease liabilities	Decrease assets Increase liabilities

NORMAL BALANCE

- every account has a designated **normal** balance.
 - It is either a debit or credit.
- accounts rarely have an abnormal balance.

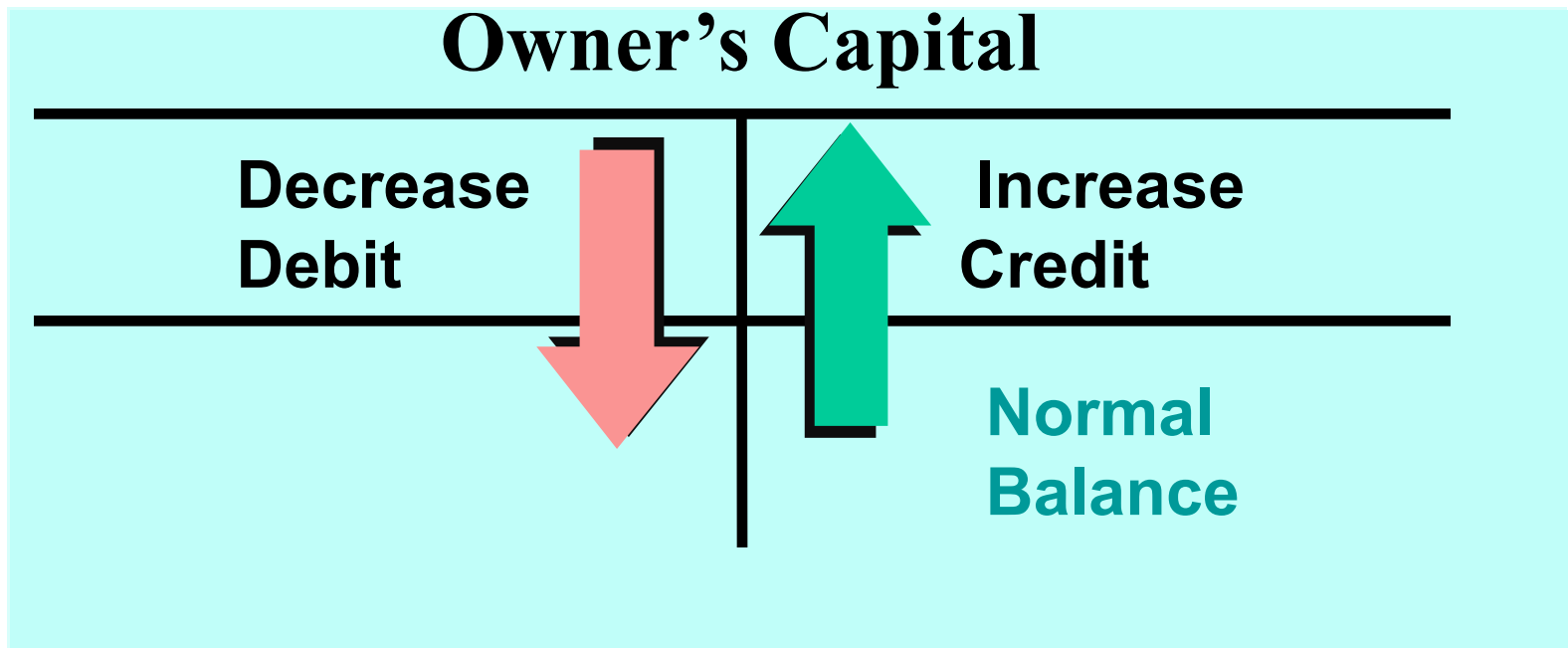
NORMAL BALANCES — ASSETS AND LIABILITIES



DEBIT AND CREDIT EFFECTS — OWNER'S CAPITAL

Debits	Credits
Decrease owner's capital	Increase owner's capital

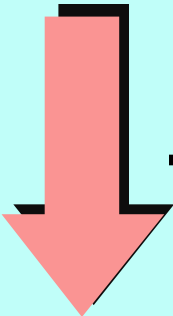

NORMAL BALANCE — OWNER'S CAPITAL


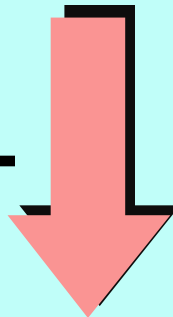


DEBIT AND CREDIT EFFECTS — REVENUES AND EXPENSES

Debits	Credits
Decrease revenues Increase expenses	Increase revenues Decrease expenses

NORMAL BALANCES — REVENUES AND EXPENSES

Revenues	
 Decrease Debit	Increase Credit 
	Normal Balance

Expenses	
 Increase Debit	Decrease Credit 
Normal Balance	