

Title:

The Double Entry Method Of Book Keeping And How To Know If It's A Debit Or A Credit

Word Count:

479

Summary:

I remember getting this really confused in high school. I think it's a concept that takes some pondering and one day the light bulb goes on for those of us who aren't accountants. In this article I share the basics of the double entry book keeping method and various examples of debit and credit. I hope it clears it up for most of you as well.

Keywords:

card credit debt eliminate, credit rating report, free credit report rating, aspire credit card

Article Body:

Debit and credit are the two most basic concepts in accountancy. Today, almost all countries follow the double entry method of book keeping. Under this method, for every account that is debited by a certain amount, another account must be credited by the same amount. Thus, at any given point, the sum total of all debits must be equal to the sum total of credits.

For any given transaction, the account to be debited and which credited is based on certain principles of accountancy.

Broadly, the rule for debit/credit is as follows:

A) For real (or asset) accounts (e.g. furniture, cash, machinery, land, etc.): Debit is what comes in, credit is what goes out.

b) For nominal (or income / expense) accounts (e.g. salary, purchase, sales, etc.): Debit is all expenses and losses, credit is all income and gains. This would include our bank chequing accounts and is why we're all so used to knowing debit and credit under these conditions.

c) For personal (or individual's) accounts (E.g. Mr. Johnson's A/C, Forsyth Inc. A/C, etc.): Debit is the receiver, credit the giver.

Thus, for example, if a person buys furniture worth \$1000 and pays for it in

cash, he would apply rule (a) Debit the furniture account and credit cash a/c.

Let's take another transaction. A business pays salary to their employee, Mr. Smith, amounting to \$1500 by cheque. In this case, following Rule (b), salary a/c shall be debited, and following rule (c), bank a/c will be credited, since in accounting, the banker is treated as a personal account.

At the end of any given period the balances in all the accounts are put in a table format, called the trial balance. The debit balances are put in the debit side of the trial balance and the credit balances on the credit. Since every debit has a corresponding credit, it naturally follows that both sides of the trial balance must be equal. Any discrepancy in the same would point out that an error has taken place somewhere in making an entry.

The layman may get confused with the terms debit and credit as used by his banker. The banker will "credit" you for all deposits of funds in your accounts, i.e., whenever your bank balance increases, and debit you with all withdrawals. But the entries in the bank book for a business are just the opposite. In other words, when you deposit funds in your bank, you debit the bank book and when you make payments or withdrawals, you credit the bankbook. Thus the bank's passbook or statement will have the same entries as your bankbook, but on the opposite sides.

So next time your accountant tells you that your bank book has been debited by \$1000 be happy, for it is a deposit and not a payment!