

Double-Entry Accounting

DOUBLE-ENTRY ACCOUNTING keeps the accounting equation in balance. The term “double-entry” reminds us that at least two accounts are affected in every accounting transaction. To analyze accounting transactions, break the transactions into “give and get” pieces. For example, if you pay cash for a new printer, you are giving up cash and getting new office equipment.

Objective:



Apply the concepts of debit, credit, and normal balance.

Key Terms:



credit

debit

double-entry accounting

general journal

journalizing

normal balance

T-account

Double-Entry Accounting: Keeping the Accounting Equation in Balance

Accounting has unique terminology to describe the effect of a transaction on the accounting equation, $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$. The accounting equation must always remain in balance for the system of accounting to work. So, instead of reporting that assets increase or assets decrease, accountants use more precise terms: “debit,” “credit,” and “normal balance.”

Double-entry accounting (or double-sided accounting) is the recording of each transaction in a minimum of two accounts. For example, each transaction requires a minimum of one debit and a minimum of one credit. Every accounting entry has a debit side (left side) and a credit side (right side).

DEBIT, CREDIT, AND THE NORMAL BALANCE

Debit Accounts

Debit is the left side; a debit amount is entered on the left side of an account. “Debit” is derived from the Latin word *debere* (“what is due”). “Debit” is abbreviated “DR.”

The **normal balance** is the side of an account that transactions normally increase. Each account has a normal balance. An asset or expense account increases with a debit. So the normal balance of an asset or expense account is a debit. For example, a business purchases a vehicle. A vehicle is an asset; it has value to the business. When the vehicle is purchased, the result is an increase to assets (something was acquired).

It is proper accounting practice to say, “Debit Vehicles account” instead of “Vehicles account increased.”

Credit Accounts

Credit is the right side; a credit amount is entered on the right side of an account. “Credit” is derived from the Latin word *credere* (“something loaned”). “Credit” is abbreviated “CR.”

A liability, equity, or revenue account increases with a credit. So the normal balance of a liability, equity, and revenue account is a credit. For example, the vehicle mentioned above was purchased with cash. Recall that every transaction has a minimum of two components. Cash is an asset and would decrease because of the outlay of the cash.

It is proper accounting practice to say, “Credit Cash account” instead of “Cash account decreased.”

When declaring an entire transaction, the debit portion of the entry is always listed and/or spoken of first. (Think reading from left to right.) So the full transaction is “Debit Vehicles and credit Cash.”

REMINDER: In addition to the accounting equation remaining in balance, debits must equal credits.



FIGURE 1. Accountants double- and triple-check their work to ensure accuracy.

T-ACCOUNTS

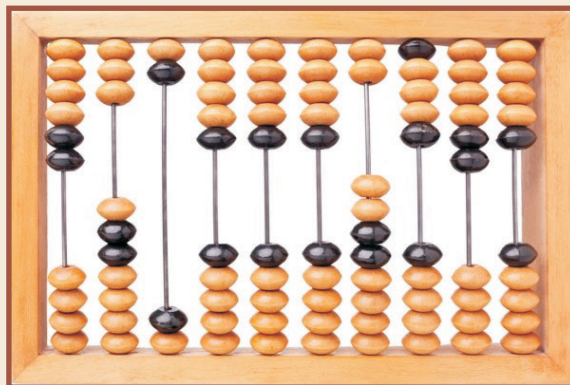
A **T-account** (or T-chart) is a visual aid that illustrates the effect of debits and credits on accounts. Using T-account visuals provides an informal method of recording transactions. The



DIGGING DEEPER...

UNCOVERING ADDITIONAL FACTS: The History of Double-Entry Accounting

The double-entry system of accounting has been in practice not just for decades but for centuries. It is a worldwide method for maintaining financial records. Research where and when accounting originated. Begin your research with the article “The History of Accounting” at <http://www.accountingedu.org/history-of-accounting.html>.



An accounting abacus first appeared about 5,000 years ago. Users of the abacus slid beads across a frame to do simple counting and to perform addition and subtraction calculations.

website Investopedia defines “T-account” as “an informal term for a set of financial records that use double-entry bookkeeping.”

T-accounts go hand-in-hand with the left-side, right-side practice of debits and credits. For example:

Using the previous transaction about the purchase of a vehicle, assume the cash purchase price was \$15,000.00. You know from information presented earlier that Vehicles is debited and Cash is credited.

The T-accounts would look like this:

Cash	
	15,000.00

Vehicles	
15,000.00	

Someone familiar with using T-accounts would immediately notice the debit to the Vehicle account, the credit to the Cash account, and the effects of the transaction.

Multiple transactions can be recorded in T-accounts to “map out” transactions and determine balances. To obtain a balance, add debits together, add credits together, and then com-

pute the difference between debits and credits. For example, assume your business made a cash sale of \$40,000.00. This second transaction and the respective account balances would appear as:

Cash		Vehicles		Sales	
	15,000.00	15,000.00			
40,000.00					40,000.00
25,000.00		15,000.00			40,000.00

Check for yourself using the T-accounts above:

- ◆ Do the debits equal the credits?
- ◆ Is the accounting equation in balance?

JOURNALIZE TRANSACTIONS

The **general journal** is the book of original entry: the formal method of recording transactions, whether using a manual or automated system. Every transaction is recorded here first, then posted to the individual accounts. **Journalizing** is the process of recording transactions in the general journal. Debits are always listed first, and debits must equal credits.

The general journal has columns for “Date,” “Account Title,” “Posting Reference,” and “Debit” or “Credit” amount.

- ◆ **DATE:** The date is written once per transaction to show where each new transaction begins.
- ◆ **ACCOUNT TITLE:** The debit account is written flush left within the space; the credit account is indented.
- ◆ **POSTING REFERENCE:** A checkmark or an account number is placed here when an account has been posted.
- ◆ **DEBIT or CREDIT:** The amount is written here. Dollar signs are not used when transactions are recorded manually. They may be used in an automated system depending on the programming of the software.

GENERAL JOURNAL					PAGE ____		
					1	2	
					GENERAL		
					DEBIT	CREDIT	
1	May	1	Vehicles		15,000.00		1
2			Cash			15,000.00	2
3	May	3	Cash		40,000.00	40,000.00	3
4			Sales				4
5							5
6							6

FIGURE 2. This is how the two transactions described in this E-unit would be recorded in a general journal.

The general journal shows no totals.

Summary:



Double-entry accounting requires that every recorded transaction affect a minimum of two accounts. Further, each transaction must have a debit and a credit. “Debit” means left side, and “credit” means right side; and to individual accounts, the terms mean increase or decrease. Assets and expenses always increase with a debit. Liabilities, owner’s equity, and revenue always increase with a credit.

T-accounts are used to visually record and “map out” transactions. T-accounts show the left-side, right-side format for debits and credits. The general journal is used to formally record each transaction and to maintain a permanent listing of all accounting transactions.

Checking Your Knowledge:



1. What is double-entry accounting?
2. What does the term “debit” mean? What does the term “credit” mean?
3. Explain what is meant by an account’s normal balance.
4. What is a T-account?
5. What is another name for the book of original entry?

Expanding Your Knowledge:



Cut a few pieces of paper into six or eight rectangles, or ask your instructor for index cards. On one side of each piece or card, write an account name—for example, “Cash.” On the other side, write the normal balance of the account. For the Cash example, “debit.” Quiz yourself or your classmates. Then, test yourself using the “Basic Accounting Test” at <http://www.accounting-basics-for-students.com/basic-accounting-test.html>.

Web Links:



Debit and Credit Chart

<http://www.dwmbeancounter.com/tutorial/DrCrTChart.html>

Double-Entry Accounting Transactions

<http://www.accountingtools.com/double-entry-accounting>

Journalizing Examples

<http://financereading.com/journalizing.htm>