

Week 1 - DQ 2

What are debits and credits? How are debits and credits used to record business transactions? Why do accountants debit asset accounts to increase them but credit liability accounts to increase them? Why do accountants debit expenses to increase them but credit revenues to increase them?

Response #1

A debit indicates the left side of an account while credit indicates the right side. We know that both sides of the basic equation (Assets = Liabilities + Stockholders' Equity) must be equal. It therefore follows that increases and decreases in liabilities will have to be recorded opposite from increases and decreases in assets. Thus, increases in liabilities must be entered on the right or credit side, and decreases in liabilities must be entered on the left or debit side. When a company earns revenues, stockholders' equity is increased. Revenue accounts are increased by credits and decreased by debits. Thus, expense accounts are increased by debits and decreased by credits.

- Kimmel, P.D., Weygandt, J.J., & Kieso, D.E. (2010). Financial accounting: Tools for business decision making (5th ed). Hoboken, NJ: John Wiley & Sons.

Response #2

Debits are a component of an accounting transaction that will increase assets and decrease liabilities and equity.

Credits are a component of an accounting transaction that will increase liabilities and equity and decrease assets.

Any item or items of financial impact that increases your assets, such as your bank balance, equipment, or accounts receivable, is recorded as a debit to the respective asset account; at this moment, you will have created a credit transaction that must be recorded.

<http://www.moneyinstructor.com/art/debitcred>

Debits and credits are a system of notation used in bookkeeping to determine how to record any financial transaction.

In financial accounting or bookkeeping, "Dr" (Debit) means the left side of a ledger account and "Cr" (Credit) is the right side of a ledger account.

Debits and Credits usage and implication is the fundamental concept in the double-entry bookkeeping system, in which every debit transaction must have a corresponding credit transaction(s) and vice versa.

Debits and Credits form two opposite aspects of every financial transaction.

IN summary: an increase (+) to an asset account is a debit.

An increase (+) to a liability account is a credit.

Conversely, a decrease(-) to a liability account is a debit.

<http://www.enwikipedia.org/wiki/Debitsandcredits>

Accountants debit assets accounts to increase them but credit liability accounts to increase them because this is the correct manner and rule in bookkeeping to achieve accurate account balances and check systems. For the same purpose, accountants also debit expenses to increase them but credit revenues to increase them. This is the proper and correct manner of doing accounting and bookkeeping.

Each transaction that the business makes consists of at least one debit to one account and at least one credit to another account.

A debit to one account can be balanced by more than one credit to other accounts, and vice-versa.

For all transactions, the total debits must be equal to the total credits and therefore balance.

For Every Transaction; The Value of Debits = The Value of Credits

The general accounting equation is : $Assets = Equity + Liabilities$ ($A = E + L$)

The extended accounting equation is :

$Assets + Expenses = Equity/Capital + Liabilities + Income$ ($A + Ex = E + L + I$)

Both sides of these equations must be equal (balance).

When a transaction takes place, traditionally the transaction would be recorded in a ledger or "T" account.

A "T" account represents any account that is opened "Bank" that can be effected with either a debit or credit transaction.

In accounting it is acceptable to draw up a ledger account.

Response #3

"Debits are a component of an accounting transaction that will increase assets and decrease liabilities and equity" (Accounting Transactions: Rules of Debits and Credits.2009). Debits are describes as assets, dividends and expenses within a company's financial statement. Whereas, credits are described as liabilities, stockholders equity, and revenue within in a company's financial statement. "Credits are a component of an accounting transaction that will increase liabilities and equity and decrease assets" (Accounting Transactions: Rules of Debits and Credits.2009). In the basic equation for accounting " $Assets=Liabilities+Stockholders Equity$ " (Weygandt & Kieso, D.E. 2010), it shows that debits and credits are used to determine how much assets, liabilities and stockholders' equity a company has. Accountants debit asset accounts because the transactions within an asset account such as "dividends and expenses decrease stockholders equity" (Weygandt & Kieso, D.E. 2010). Whereas, accountants credit liability accounts because "owners investments and revenues to increase stockholders equity" (Weygandt & Kieso, D.E. 2010). The effect of debits and credits on revenue accounts is the same as their effect on stockholders' equity (Weygandt & Kieso, D.E. 2010). For this same reason accountants debit "expenses because they decrease stockholders equity" (Weygandt & Kieso, D.E. 2010) and credit revenue to increase stockholders equity. "The purpose of earning revenue is to benefit the stockholder" (Weygandt & Kieso, D.E. 2010).