

FUNCTION OF DEBITS AND CREDITS

<i>Assets</i>		<i>=</i>	<i>Liabilities</i>		<i>+</i>	<i>Owners' Equity</i>					
						(Beginning Capital + Contributions) - (Withdrawals) + (Revenues) - (Expenses)					
Assets			Liabilities			Owners' Equity		Revenues		Expenses	
DR	CR		DR	CR		DR	CR	DR	CR	DR	CR
+	-		-	+		-	+	-	+	+	-
Increase	Decrease		Decrease	Increase		Decrease	Increase	Decrease	Increase	Increase	Decrease
Normal Balance				Normal Balance			Normal Balance		Normal Balance	Normal Balance	
Contra-Assets						Contra-Equity					
DR	CR					DR	CR				
-	+					+	-				
Decrease	Increase					Increase	Decrease				
	Normal Balance					Normal Balance					

NOTE: This is a tool to assist you in learning and understanding the functions of debits and credits. Use these four steps in analyzing each accounting transaction and determining the debits and credits to record the accounting entry. Use this handout when doing all homework and reading the chapters, until the debits and credits become so familiar, that it is no longer necessary as a reference.

Steps to determine the debits and credits for recording an accounting transaction. Analyze the transaction thoroughly from the source document.

- 1) Determine the individual accounts that the transaction affects -- Cash, Equipment, A/P, Capital, Sales, Rent Expense, etc.
- 2) Determine if the transaction increases or decreases each of those accounts.
- 3) Determine the category of each of those accounts -- Asset, Liability, Equity, Revenue, Expense, Contra-Account.
- 4) Using the T accounts on this handout, convert that increase or decrease for each account to a debit or credit for each account.

FOR NOW, PERFORM THESE STEPS VERY MECHANICALLY