Bean Counter's Accounting and Bookkeeping "Cheat Sheet"

Provided by: Bean Counter

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These accounts are often referred to as temporary or nominal accounts because at the end of a year (period) they are closed and their balances are transferred to a permanent Equity (Capital) Account (Balance Sheet Account).

Debit / Credit Columns</td><td colspan="2"><table><tr><td>Increase</td><td>Decrease</td><td>Decrease</td><td>Increase</td></tr><tr><td>Left Side</td><td>Right Side</td><td>Left Side</td><td>Right Side</td></tr><tr><td>Debit</td><td>Credit</td><td>Debit</td><td>Credit</td></tr></table></td></tr>
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Note: Bold highlighted items in my cheat sheet represent the Normal Type Of Balance For an Account - Debit or Credit

The purpose of my cheat sheet is to serve as an aid for those needing help in determining how to record the debits and credits for a transaction.

My "Cheat Sheet" Table begins by illustrating that source documents such as sales invoices and checks are analyzed and then recorded in Journals using **debits and credits**. These Journals are then summarized and the debit and credit balances are Posted (transferred) to the General Ledger Accounts and the amounts are posted to the left side of the general ledger accounts for debit balances and to the right side of the general ledger accounts for credit balances. The General Ledger Accounts are made up of Balance Sheet and Income Statement Accounts.

At the end of a year (period), the revenue and expenses accounts (Ma's Kids) are set to zero and their balances are transferred to a permanent equity account in the Balance Sheet such as Owner's Capital (Mom) or Retained Earnings. This process is what is known as Closing The Books. Since the balances of these accounts are set to zero (closed out) at the end of a period, these accounts are sometimes referred to as temporary or nominal accounts. After closing the books for a year, the only accounts that have a balance are the Balance Sheet Accounts. That's why the Balance Sheet Accounts are also referred to as Permanent Accounts.

Of course my cheat sheet is based on the Accounting Equation (Assets = Liabilities + Owner's Equity) which must be kept in balance and double-entry accounting, where for every debit to an account there must be an equal credit to another account.

Account Definition

An **Account** is a separate record for each type of asset, liability, equity, revenue, and expense used to show the beginning balance and to record the increases and decreases for a period and the resulting ending balance at the end of a period.

You should be aware that **All Accounts**:

- Can Be Debited and Credited
- Have an Increase Side and a Decrease Side
- Have a Debit Side and a Credit Side
  Debit Side is the Left Side (Left Column)
  Credit Side is the Right Side (Right Column)
- Have a Normal Balance Amount that is normally a Debit Balance or a Credit Balance
- Have a Type and are classified as an Asset, Liability, Equity, Revenue, Expense, or Draw
- Are Either a Balance Sheet or Income Statement Account

Major Types of Accounts

Assets
Formal Definition:The properties used in the operation or investment activities of a business.

Informal Definition:All the good stuff a business has (anything with value). The goodies.

Additional Explanation: The good stuff includes tangible and intangible stuff. Tangible stuff you can physical see and touch such as vehicles, equipment and buildings. Intangible stuff is like pieces of paper (sales invoices) representing loans to your customers where they promise to pay you later for your services or product. Examples of assets that many individuals have are cars, houses, boats, furniture, TV's, and appliances. Some examples of business type assets are cash, accounts receivable, notes receivable, inventory, land, and equipment.

Liabilities
Formal Definition:Claims by creditors to the property (assets) of a business until they are paid.

Informal Definition:Other's claims to the business's good stuff. Amounts the business owes to others.

Additional Explanation: Usually one of a business's biggest liabilities (hopefully they are not past due) is to suppliers where a business has bought goods and services and charged them. This is similar to us going out and buying a TV and charging it on our credit card. Our credit card bill is a liability. Another good personal example is a home mortgage. Very few people actually own their own home. The bank has a claim against the home which is called a mortgage. This mortgage is another example of a personal liability. Some examples of business liabilities are accounts payable, notes payable, and mortgages payable.

Owner's Equity also called Owner's Capital
Comment: Both terms may be used interchangeably. In my tutorial lessons, I may refer to both terms or just

use one or the other.

Formal Definition:The owner's rights to the property (assets) of the business; also called proprietorship and net worth.

Informal Definition:What the business owes the owner. The good stuff left for the owner assuming all liabilities (amounts owed) have been paid.

Additional Explanation:Owner's Equity (Capital) represents the owner's claim to the good stuff (assets). Most people are familiar with the term equity because it is so often used with lenders wanting to loan individuals money based on their home equity. Home equity can be thought of as the amount of money an owner would receive if he/she sold their house and paid off any mortgage (loan) on the property.

Revenue (Income), Expenses, Investment, and Draws
Revenues, expenses, investment, and draws are sub categories of owner's equity (capital). Think of owner's equity as a mom named Capital with four children to keep up with (I know she's only got one clinging to her leg but she left Expense, Investment, and Draws at home). The kids are named Revenue, Expense, Investment, and Draws and each kid has one job that they are responsible for in order to earn their allowance. **Kid Revenue** is responsible for keeping track of increases in owner's equity (Ma Capital) and **Kid Expense** is responsible for keeping track of decreases in owner's equity (Ma Capital) resulting from business operations. **Kid Draws** has the job of keeping up with decreases in owner's equity (Ma Capital) resulting from owner withdrawals for living expenses and other personal expenses. **Kid Investment** has the job of keeping up with increases in owner's equity (Ma Capital) resulting from additional amounts invested in the business.

Revenue also called Income
Formal Definition:The gross increase in owner's equity (capital) resulting from the operations and other activities of the business.

Informal Definition:Amounts a business earns by selling services and products. Amounts billed to customers for services and/or products.

Additional Explanation:Individuals can best relate by thinking of revenue as their earnings/wages they receive from their job. Most business revenue results from selling their products and/or services.

Expense also called Cost
Formal Definition:Decrease in owner's equity (capital) resulting from the cost of goods, fixed assets, and services and supplies consumed in the operations of a business.

Informal Definition:The costs of doing business. The stuff we used and had to pay for or charge to run our business.

Additional Explanation:Some examples of personal expenses that most individuals are familiar with are utilities, phone, clothing, food, gasoline, and repairs. Some examples of business expenses are office supplies, salaries & wages, advertising, building rental, and utilities.

Owner's Investments
Formal Definition: Increase in owner's equity (capital) resulting from additional investments of cash and/or other property made by the owner.

Informal definition: Additional amounts, either cash or other property, that the owner puts in his business.

Additional Explanation:Although these amounts can be kept up with as a separate item, they are usually recorded directly in the Owner's Capital Account. In other words, immediately put into Ma Equity's purse.

Owner's Drawing
Formal Definition: Decrease in owner's equity (capital) resulting from withdrawals made by the owner.

Informal definition: Amounts the owner withdraws from his business for living and personal expenses.

Additional Explanation:The owner of a sole proprietorship does not normally receive a "formal" pay check from the business, but just like most of the rest of us needs money to pay for his house, car, utilities, and groceries. An owner's draw is used in order for the owner to receive money or other "goodies" from his business to take care of his personal bills.

Definitions of Debits and Credits

Debit

- An entry in the financial books of a firm that increases an asset or an expense or an entry that decreases a liability, owner's equity (capital) or income.
- Also, an entry entered on the left side (column) of a journal or general ledger account.
- Let's combine the two above definitions into one complete definition.

An entry (amount) entered on the left side (column) of a journal or general ledger account that increases an asset, draw or an expense or an entry that decreases a liability, owner's equity (capital) or revenue.

Credit

- An entry in the financial books of a firm that increases a liability, owner's equity (capital) or revenue, or an entry that decreases an asset or an expense.
- Also, an entry entered on the right side (column) of a journal or general ledger account.
- Let's combine the two above definitions into one complete definition.

An entry (amount) entered on the right side (column) of a journal or general ledger account that increases a liability, owner's equity (capital) or revenue, or an entry that decreases an asset, draw, or an expense.

The term debit refers to the left side of an account and credit refers to the right side of an account. A debit is always entered in the left hand column of a Journal or Ledger Account and a credit is always entered in the right hand column. Debit is abbreviated Dr. and Credit is abbreviated Cr.

When you post (record) an entry in the left hand column of an account you are debiting that account. Whether the debit is an increase or decrease depends on the type of account. Likewise, when you post (record) an entry in the right hand column of an account you are crediting that account. Whether the credit is an increase or decrease depends on the type of account.

How To Use and Apply The Debit and Credit Rules:

(1) Determine the types of accounts the transactions affect-asset, liability, revenue, expense or draw account.

(2) Determine if the transaction increases or decreases the account's balance.
(3) Apply the debit and credit rules based on the type of account and whether the balance of the account will increase or decrease.

Our Simple Debit / Credit Rule:

- All Accounts that **Normally Have a Debit Balance** are **Increased with a Debit** by placing the amount in the **Left Column** of the account and **Decreased with a Credit** by placing the amount in the **Right Column** of the account.
    - **A**ssets
    - **D**raws
    - **E**xpenses
- All Accounts that **Normally have a Credit Balance** are **Increased with a Credit** by placing the amount in the **Right Column** of the account and **Decreased with a Debit** by placing the amount in the **Left Column** of the account.
    - **L**iabilities
    - **O**wner's Equity (Capital)
    - **R**evenue

All You Need To Know About Debits and Credits Summarized In One Sentence:

Enter an amount in the **Normal Balance Side** of an Account to **Increase the Balance** of an Account and in the **Opposite Side** of an Account to **Decrease the Balance** of an Account.

Additional Clarification:
Since **A**ssets, **D**raw, and **E**xpense Accounts **normally have a Debit Balance**, in order to Increase the Balance of an **A**sset, **D**raw, or **E**xpense Account enter the amount in the Debit or Left Side Column and in order to Decrease the Balance enter the amount in the Credit or Right Side Column.

Likewise, since **L**iabilities, **O**wner's Equity (Capital), and **R**evenue Accounts **normally have a Credit Balance** in order to Increase the Balance of a **L**iability, **O**wner's Equity, or **R**evenue Account the amount would be entered in the Credit or Right Side Column and the amount would be entered in the Debit or Left Side column to Decrease the Account's Balance.

The Debit and Credit Rules Presented as A Table

Account Type	Normal Balance	Increase To Account Balance	Decrease To Account Balance	Account Example
Property Accounts				
Asset	**Debit**	**Debit - Left Column** Of Account	**Credit - Right Column** Of Account	Cash, Accounts Receivable
Property Rights Accounts				
Liability	**Credit**	**Credit - Right Column** Of Account	**Debit - Left Column** Of Account	Accounts Payable
Owner's Equity	**Credit**	**Credit - Right Column** Of Account	**Debit - Left Column** Of Account	Owner's Capital
Revenue	**Credit**	**Credit - Right Column** Of Account	**Debit - Left Column** Of Account	Sales
Costs and Expenses	**Debit**	**Debit - Left Column** Of Account	**Credit - Right Column** Of Account	Rent, Utilities, Advertising
Owner Draws	**Debit**	**Debit - Left Column** Of Account	**Credit - Right Column** Of Account	Owner Draws

Typical Types Of Business Transactions
and the Debits and Credits and Accounts Used To Record Them

In a typical business transaction we get something and we give up something.

Sale-Sell goods and/or services

- **(1)** Cash Sale-customer pays at the time of sale
  The business **gets** cash or a check from their customer and **gives** up a product or service to their customer.
  Accounts Used:
  Debit: Cash
  Credit: Sales

- **(2)** On Account Sale-business allows the customer time to pay
  The business **gets** a promise to pay from their customer and **gives** up a product or service to their customer.
  Accounts Used:
  Debit: Accounts Receivable
  Credit: Sales

Purchase goods and/or services

- **(3)** Cash Purchase-business pays the supplier at the time of purchase
  The business **gets** a product or service from their supplier and **gives** up cash or a check to their supplier.
  Accounts Used:
  Debit: Expense or Inventory Account
  Credit: Cash

- **(4)** On Account Purchase-supplier allows the business time to pay
  The business **gets** a product or service from a supplier and **gives** up a promise to pay to their supplier.

  Accounts Used:
  Debit: Expense or Inventory Account
  Credit: Accounts Payable

(5) Pay Supplier Charge Purchases -pay suppliers for products and/or services that we promised to pay for later (charge).
The business **gets** the amount of their promise to pay the supplier reduced and **gives** up cash or a check.
Accounts Used:
Debit: Accounts Payable
Credit: Cash

(6) Receive Customer Charge Payments -receive payments from a customer that promised to pay us later (charge sale).
The business **gets** cash or a check from their customer and **gives** up (reduces the amount of) their customer's promise to pay.
Accounts Used:
Debit: Cash
Credit: Accounts Receivable

(7) Borrow Money (Loans) The business **gets** cash or equipment and **gives** up a promise to pay.
Accounts Used:
Debit: Cash or Equipment
Credit: Note Payable

(8) Repay a Loan
The business **gets** the amount of their promise to pay reduced and **gives** up cash or a check.
Accounts Used:
Debit: Note Payable
Credit: Cash

(9) Draw
The business **gets** the owner's claim to the business assets reduced and **gives** up cash or a check.
Accounts Used:
Debit: Owner's Draw
Credit: Cash

(10) Payroll (not covered in this tutorial)
The business **gets** services from their employees and **gives** up a check.
Accounts Used:
Debit: Salary & Wages Expense
Credit: Cash