

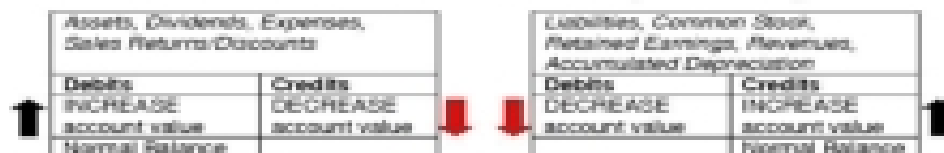


The Recording Process

The focus of this worksheet is the recording process which shows how account values change during transactions using a system of debits and credits. An entry to the left side of an account is called a **debit**, and an entry to the right side of the account is called a **credit**. Recall from the basic accounting equation that every transaction must affect two or more accounts to keep the equation balanced — the same is true for the debit-credit system. The debit amount must equal the credit amount for each transaction.

There are certain types of accounts that are normally **debit balanced** (meaning there will always be more on the debit side than the credit side) and others that are normally **credit balanced** (more value on the credit side than the debit side). The left-hand side of the accounting equation (assets) are debit-balanced accounts. The right-hand side of the equation (liabilities and stockholders' equity) are credit-balanced accounts, with the exception of **DIVIDENDS** and **EXPENSES** (because they decrease the value of SE).

What does this mean for the recording process? If there is an increase to a debit-balanced account, then we debit the account. If there is a decrease to a debit-balanced account, we credit the account. The reverse is true for a credit-balanced account (see table below).



These debit and credit entries are recorded in the **general journal**, where the date of the transaction, the account titles, the reference number for the account, and debits/credits are shown. Note that the DEBIT entry always appears FIRST. Optionally a description of the transaction can be included. The information is then transferred to the individual accounts in the **general ledger** where the balances of each account are shown.

Example: October 1, Rent for October of \$1,100 is paid in cash. October 4, Received \$2,600 for services rendered. Journalize the above transactions. Cash is account No. 101, rent expense is No. 728, and service revenue is No. 400.

Solution:

Date	Account Name	Ref	Debit	Credit
Oct 1	Rent expense	728	\$1,100	
	Cash	101		1,100
Oct 4	Cash	101	2,600	
	Service revenue	400		2,600

Cash is an asset account (debit-balanced account), so a payment of cash decreases the account value. Credit cash to decrease the account value.