

Debits and Credits

In double entry accounting, rather than using a single column for each account and entering some numbers as positive and others as negative, we use two columns for each account and enter only positive numbers. Whether the entry increases or decreases the account is determined by choice of the column in which it is entered. Entries in the left column are referred to as debits, and entries in the right column are referred to as credits.

Two accounts always are affected by each transaction, and one of those entries must be a debit and the other must be a credit of equal amount. Actually, more than two accounts can be used if the transaction is spread among them, just as long as the sum of debits for the transaction equals the sum of credits for it.

The double entry accounting system provides a system of checks and balances. By summing up all of the debits and summing up all of the credits and comparing the two totals, one can detect and have the opportunity to correct many common types of bookkeeping errors.

To avoid confusion over debits and credits, avoid thinking of them in the way that they are used in everyday language, which often refers to a credit as increasing an account and a debit as decreasing an account. For example, if our bank credits our checking account, money is added to it and the balance increases. In accounting terms, however, if a transaction causes a company's checking account to be credited, its balance decreases. Moreover, crediting another company account such as accounts payable will increase its balance. Without further explanation, it is no wonder that there often is confusion between debits and credits.

The confusion can be eliminated by remembering one thing. In accounting, the words "debit" and "credit" have the following meanings:

Debit	Credit
"Enter in the left column of"	"Enter in the right column of"

That's all. Debit refers to the left column; credit refers to the right column. To debit the cash account simply means to enter the value in the left column of the cash account. There are no deeper meanings with which to be concerned.

The reason for the apparent inconsistency when comparing everyday language to accounting language is that from the bank customer's perspective, a checking account is an asset account. From the bank's perspective, the customer's account appears on the balance sheet as a liability account, and a liability account's balance

is increased by crediting it. In common use, we use the terminology from the perspective of the bank's books, hence the apparent inconsistency.

Whether a debit or a credit increases or decreases an account balance depends on the type of account. Asset and expense accounts are increased on the debit side, and liability, equity, and revenue accounts are increased on the credit side. The following chart serves as a graphical reference for increasing and decreasing account balances:

Assets		=	Liabilities		+	Owner's Equity																											
<table border="1"> <tr><td colspan="2">Cash</td></tr> <tr><td>Debit</td><td>Credit</td></tr> <tr><td>+</td><td>-</td></tr> </table>		Cash		Debit	Credit	+	-		<table border="1"> <tr><td colspan="2">A/P</td></tr> <tr><td>Debit</td><td>Credit</td></tr> <tr><td>-</td><td>+</td></tr> </table>		A/P		Debit	Credit	-	+		<table border="1"> <tr><td colspan="4">Retained Earnings</td></tr> <tr><td colspan="2">Debit</td><td colspan="2">Credit</td></tr> <tr><td colspan="2">-</td><td colspan="2">+</td></tr> </table>				Retained Earnings				Debit		Credit		-		+	
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						<table border="1"> <tr><td colspan="2">Expense</td><td colspan="2">Revenue</td></tr> <tr><td>Debit</td><td>Credit</td><td>Debit</td><td>Credit</td></tr> <tr><td>+</td><td>-</td><td>-</td><td>+</td></tr> </table>		Expense		Revenue		Debit	Credit	Debit	Credit	+	-	-	+														
Expense		Revenue																															
Debit	Credit	Debit	Credit																														
+	-	-	+																														

Note:

- + means increase
- means decrease

