



Recording Transactions

The recording process shows how a business's accounts change value during a transaction using a system of debits and credits called *double-entry accounting*. An entry to the left side of an account is a **debit**; an entry to the right side of an account is a **credit**. To balance the accounting equation, the total debits **must equal the** total credits for each transaction.

Certain accounts are normally **debit balanced** (meaning there will always be more on the debit side than the credit side) and others accounts are normally **credit balanced** (more value on the credit side than the debit side). All assets are debit-balanced accounts with the exception of *accumulated depreciation*. Liabilities and stockholders' equity are credit-balanced accounts, with the exception of *dividends* and *expenses*.

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

Assets, Dividends, Expenses, Sales Returns/Discounts		Liabilities, Common Stock, Retained Earnings, Revenues, Accumulated Depreciation	
Debits	Credits	Debits	Credits
INCREASE account value	DECREASE account value	DECREASE account value	INCREASE account value
Normal Balance			Normal Balance

These debit and credit entries are recorded in the **general journal**, where the date of the transaction, account titles, reference number for the account, and debits/credits are shown. The DEBIT entry always appears FIRST. 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 \$1100 is paid in cash. October 4. Received \$2,800 for services rendered. Journalize the above transactions. Cash is account No. 101, rent expense is No. 729, and service revenue is No. 400.

Solution:

Date	Account Name	Ref	Debit	Credit
Oct 1	Rent expense	729	\$1,100	
	Cash	101		1,100
Oct 4	Cash	101	2,800	
	Service revenue	400		2,800

Oct 1: Cash is an asset account, so a cash payment decreases the account value → credit cash. Expenses are a debit-balanced account. Claiming an expense means increasing the value of an expense account → debit rent expense.

Oct 4: Cash is received, so the cash account value increases → debit cash. Since the company has provided a service, service revenue (part of stockholders' equity) is increased → credit service revenue.



Example 2: If the cash balance as of September 30 was \$1,300, use a T-account to show the new balance of cash after the October transactions.

Solution:

Cash			
<i>Debit</i>		<i>Credit</i>	
10/1	1,300	10/1	1,100
10/4	2,800		
<i>Bal.</i>	3,000		

Practice Problems

- Put a check mark to indicate whether the normal balance of each of the following accounts is on the Debit (Dr.) or Credit (Cr.) side.

Account	Dr.	Cr.	Account	Dr.	Cr.
Cash			Dividends		
Revenue			Account Payable		
Expense			Stockholders' Equity		
Inventory			Sales Discount		
Sales			Accumulated Depreciation		
Sales Returns			Unearned Revenue		
Cost of Goods Sold			Prepaid Expense		
Equipment			Interest Payable		

- Selected transactions from the journal of South Beach Events are presented below. Post the transactions to T-accounts.

Date	Account Title and Explanation	Debit	Credit
Jan 01	Cash	9,600	
	Common Stock		9,600
	(Investment of cash for stock)		
Jan 10	Cash	2,800	
	Service Revenue		2,800
	(Received cash for service provided)		
Jan 12	Equipment	4,500	
	Cash		2,000
	Notes payable		2,500
	(Purchased equipment for cash & notes payable)		
Jan 25	Accounts Receivable	1,650	
	Service Revenue		1,650
	(Billed for services provided)		
Jan 31	Cash	1,200	
	Accounts Receivable		1,200
	(Receipt of cash on account)		



3. A1 Corp. was started on August 01, 2009. The following selected events and transactions occurred during August.

August 01	Invested \$50,000 cash in exchange for common stock
August 02	Hired a sales manager at a salary of \$2,500 per month
August 05	Purchased \$2,000 of supplies on account from B2 Corp.
August 05	Paid office rent of \$1,200 for the month
August 10	Billed clients \$1,500 for services rendered
August 15	Received \$5,000 advance for a construction contract
August 20	Received cash of \$3,000 for services completed
August 26	Paid sales manager \$2,500 salary for the month
August 27	Paid 50% of balance due B2 Corp.

A1 Corp. uses the following chart of accounts: No. 101 Cash; No. 112 Accounts Receivable; No. 126 Supplies; No. 201 Accounts Payable; No. 205 Unearned Revenue; No. 311 Common Stock; No. 400 Service Revenue, No. 726 Salaries expense and No. 729 Rent Expense.

Instructions:

- Journalize the transactions.
- Post to the ledger accounts.
- Prepare a trial balance on August 31, 2009.

Answers

1.

Account	Dr.	Cr.	Account	Dr.	Cr.
Cash	✓		Dividends	✓	
Revenue		✓	Account Payable		✓
Expense	✓		Stockholders' Equity		✓
Inventory	✓		Sales Discount	✓	
Sales		✓	Accumulated Depreciation		✓
Sales Returns	✓		Unearned Revenue		✓
Cost of Goods Sold	✓		Prepaid Expense	✓	
Equipment	✓		Interest Payable		✓

Note:

- Sales is used interchangeably with Revenue in accounting (credit account). Sales Returns and Sale Discount are **contra revenue accounts** to Sales. They are both debit accounts.
- Cost of goods sold is the total cost of merchandise sold. This is an expense account.
- Accumulated Depreciation is a negative asset and is a credit account.
- Unearned revenue should not be confused with other revenue accounts. It is a liability, thus a credit account.

2.

Cash	
Dr.	Cr.
Jan 01 9,600	Jan 12 2,000
Jan 10 2,800	
Jan 31 1,200	
Bal. 11,600	

Accounts Receivable	
Dr.	Cr.
Jan 25 1,650	Jan 31 1,200
Bal. 450	

Notes Payable	
Dr.	Cr.
	Jan 12 2,500
	Bal. 2,500

Common Stock	
Dr.	Cr.
	Jan 01 9,600
	Bal. 9,600



Equipment		Service Revenue	
Dr.	Cr.	Dr.	Cr.
Jan 12	4,500	Jan 10	2,800
Bal.	4,500	Jan 25	1,650
		Bal.	4,450

3. i.)

Date	Account Titles and Explanation	Ref	Debit	Credit
Aug 01	Cash	101	50,000	
	Common Stock	311		50,000
Aug 02	No entry – not a transaction			
Aug 05	Supplies	126	2,000	
	Accounts Payable	201		2,000
Aug 05	Rent Expense	729	1,200	
	Cash	101		1,200
Aug 10	Accounts Receivable	112	1,500	
	Service Revenue	400		1,500
Aug 15	Cash	101	5,000	
	Unearned Revenue	205		5,000
Aug 20	Cash	101	3,000	
	Service Revenue	400		3,000
Aug 26	Salaries Expense	726	2,500	
	Cash	101		2,500
Aug 27	Accounts Payable	201	1,000	
	Cash	101		1,000

ii.)

Account Title: Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 01		J1	50,000		50,000
Aug 05		J1		1,200	48,800
Aug 15		J1	5,000		53,800
Aug 20		J1	3,000		56,800
Aug 26		J1		2,500	54,300
Aug 27		J1		1,000	53,300

Account Title: Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 10		J1	1,500		1,500



Account Title: Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 05		J1	2,000		2,000

Account Title: Accounts Payable					No. 201
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 05		J1		2,000	2,000
Aug 27		J1	1,000		1,000

Account Title: Unearned Revenue					No. 205
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 15		J1		5,000	5,000

Account Title: Common Stock					No. 311
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 01		J1		50,000	50,000

Account Title: Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 10		J1		1,500	1,500
Aug 20		J1		3,000	4,500

Account Title: Salaries Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 26		J1	2,500		2,500

Account Title: Rent Expense					No. 729
Date	Explanation	Ref.	Debit	Credit	Balance
Aug 05		J1	1,200		1,200

iii.)

**A1 Corp.
Trial Balance
August 31, 2009**

Account	Debit	Credit
Cash	\$ 53,300	
Accounts Receivable	1,500	
Supplies	2,000	
Accounts Payable		\$ 1,000
Unearned Revenue		5,000
Common Stock		50,000
Service Revenue		4,500
Salaries Expense	2,500	
Rent Expense	1,200	
Balance	\$ 60,500	\$ 60,500

