

2.5: Debit and Credit Review

Four Steps to Determine What to Debit or Credit

Here is a handy list of questions to help guide students through the thought process involved with determining what to debit or credit in a given transaction.

Step 1: Pick ONE account that is affected by this transaction

Step 2: Is this account you picked in Step 1 INCREASING or DECREASING?

Step 3: What type of account is this?

CHOICES

- **Assets** – something that has future economic benefit – Cash, Accounts Receivable, Inventory, Prepaid Insurance, Equipment, etc.
- **Liabilities** – a debt owed to others – Accounts Payable, Unearned Revenue, Notes Payable, Bonds Payable, Long-term Mortgage Payable
- **Equity** – Common Stock, Retained Earnings
- **Revenues** – Sales Revenue, Service Revenue, Sales
- **Expenses** – Cost of Goods Sold, Salaries Expense, Insurance Expense
- **Dividends** – these are dividends that the company has declared and has, or will, pay to its stockholders

Step 4: Combine your answer from Step 2 and Step 3 to find whether you DEBIT or CREDIT the account you identified in Step 1

Type of account	How to INCREASE	How to DECREASE
Assets	Debit	Credit
Liabilities	Credit	Debit
Equity	Credit	Debit
Revenues	Credit	Debit
Expenses	Debit	Credit
Dividends	Debit	Credit

Repeat Steps 1 through 4 for the OTHER account in this transaction

Remember:

- Total debits in a journal entry (transaction) must equal the total credits in that transaction
- You need at least one debit and one credit for every journal entry
- Debits are on the left, credits are on the right

2.5: Debit and Credit Review is shared under a [CC BY-NC](#) license and was authored, remixed, and/or curated by LibreTexts.