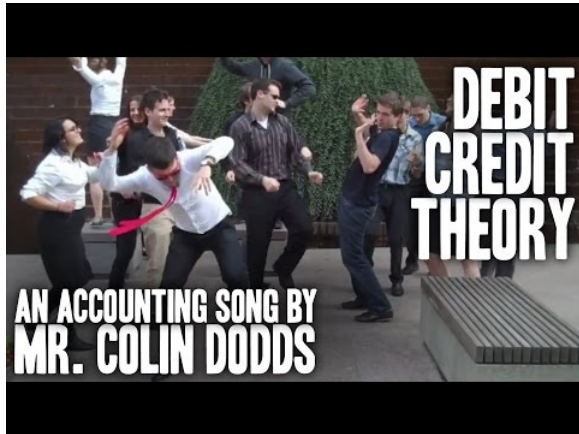


## 2.4: General Rules for Debits and Credits

One of the first steps in analyzing a business transaction is deciding if the accounts involved increase or decrease. However, we do not use the concept of increase or decrease in accounting. We use the words “debit” and “credit” instead of increase or decrease. The meaning of debit and credit will change depending on the account type. **Debit simply means left side; credit means right side.** Remember the accounting equation?  $ASSETS = LIABILITIES + EQUITY$  The accounting equation must always be in balance and the rules of debit and credit enforce this balance.

In each business transaction we record, the total dollar amount of debits must equal the total dollar amount of credits. When we debit one account (or accounts) for \$100, we must credit another account (or accounts) for a total of \$100. The accounting requirement that each transaction be recorded by an entry that has equal debits and credits is called **double-entry procedure**, or duality. Watch this video to help you remember this concept:



A YouTube element has been excluded from this version of the text. You can view it online [here](#).

Rules of Debit and Credit  
Quick Reference Guide

ACCOUNT CLASSIFICATION	DEBIT	CREDIT
Assets	↑	↓
Liabilities	↓	↑
Owner's Equity	↓	↑
Revenues	↓	↑
Expenses	↑	↓

The rules of debit and credit are really pretty simple. The number of debits and credits for each transaction must be equal. If you have a debit of \$100, you must have a credit of \$100. If you have a credit of \$100, you must have a debit of \$100. This is the basic rule of accounting. The rules of debit and credit are really pretty simple. The number of debits and credits for each transaction must be equal. If you have a debit of \$100, you must have a credit of \$100. If you have a credit of \$100, you must have a debit of \$100. This is the basic rule of accounting.

Review this quick guide to recording debits and credits. It will be necessary for you to commit the rules for debits and credits to memory before you move forward in this course. *Note: These are general guidelines and we will have exceptions to these rules.*

After recognizing a business event as a business transaction, we analyze it to determine its increase or decrease effects on the assets, liabilities, stockholders' equity items, dividends, revenues, or expenses of the business. Then we translate these increase or decrease effects into debits and credits.

### Recording Changes in Balance Sheet Accounts

Balance Sheet accounts are assets and liabilities and equity. The balance sheet proves the accounting equation. Recording transactions into journal entries is easier when you focus on the equal sign in the accounting equation. Assets, which are on the left of the equal sign, increase on the left side or DEBIT side. Liabilities and stockholders' equity, to the right of the equal sign, increase on the right or CREDIT side.

Assets	Liabilities & Equity
DEBIT increases	CREDIT increases
CREDIT decreases	DEBIT decreases

There is an exception to this rule: Dividends (or withdrawals for a non-corporation) is an equity account but it reduces equity since the owner is taking equity from the company. This is called a **contra-account** because it works opposite the way the account

normally works. For Dividends, it would be an equity account but have a normal DEBIT balance (meaning, debit will increase and credit will decrease).

## Recording changes in Income Statement Accounts

We learned that net income is added to equity. We also learned that net income is revenues – expenses and calculated on the income statement. The recording rules for revenues and expenses are:

Revenues	Expenses
CREDIT increases	DEBIT increases
DEBIT decreases	CREDIT decreases

The reasoning behind this rule is that revenues increase retained earnings, and increases in retained earnings are recorded on the right side. Expenses decrease retained earnings, and decreases in retained earnings are recorded on the left side.

The side that increases (debit or credit) is referred to as an account's **normal balance**. Remember, any account can have both debits and credits. Here is another summary chart of each account type and the normal balances.

Account Type	Normal Balance
Asset	DEBIT
Liability	CREDIT
Equity	CREDIT
Revenue	CREDIT
Expense	DEBIT
<b>Exception:</b>	
Dividends	DEBIT

Regardless of what elements are present in the business transaction, a journal entry will always have AT least one debit and one credit. You should be able to complete the debit/credit columns of your chart of accounts spreadsheet (click [Chart of Accounts](#)).

Next, we look at how to apply this concept in journal entries.

An Open Assessments element has been excluded from this version of the text. You can view it online [here](#).

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