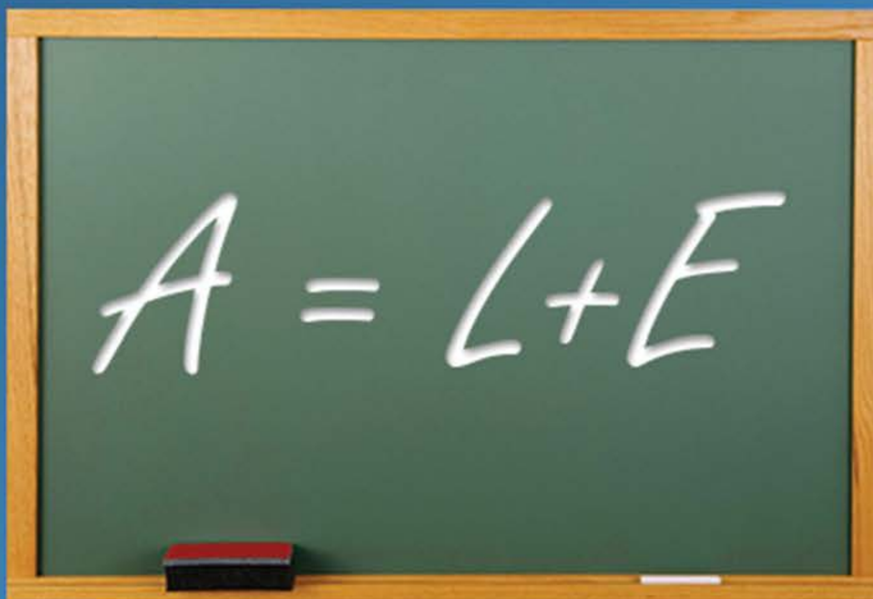
LEARN DEBITS AND CREDITS .COM



ACCOUNTING PLAY .COM

JOHN GILLINGHAM, CPA

LEARN DEBITS AND CREDITS

Written by

John Gillingham, CPA

LEARN DEBITS AND CREDITS

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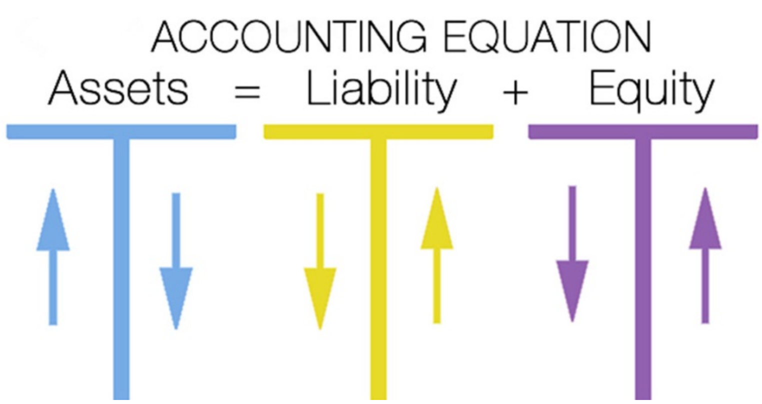
INTRODUCTION

Before you do anything – Download your exclusive copy of this book in PDF form so that you may print the worksheets HERE (http://accountingplay.com/bonus/).

Hi – I am John, CPA :) . I have an accounting firm and have a huge passion for teaching financial accounting – especially the introductory and intermediate course. It makes me sad that so many students drop the class because they never understand debits and credits. This stuff is not hard, but just takes time. Once you "get it" it will let you focus on the point of accounting, which to me, is all about business.



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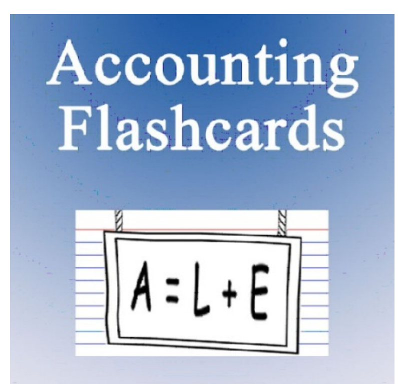

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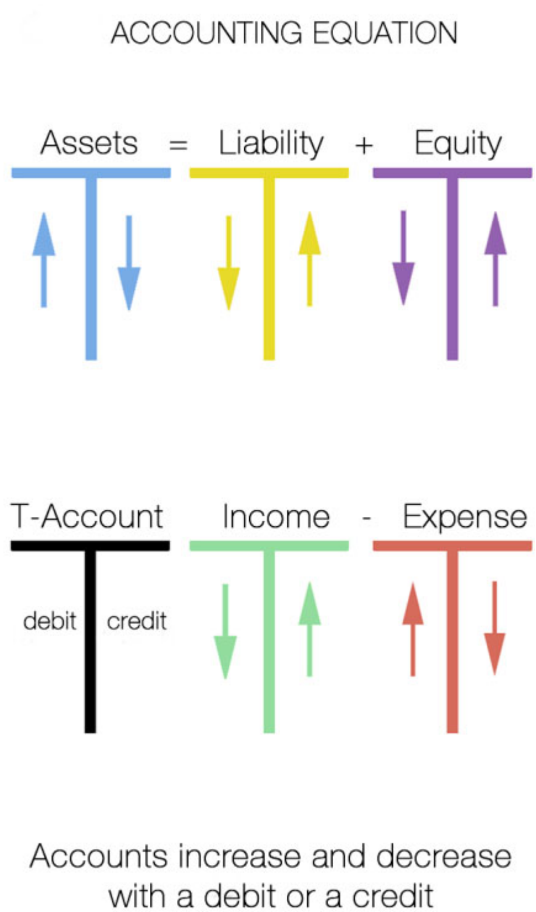
INTRO TO DEBITS AND CREDITS

Audio

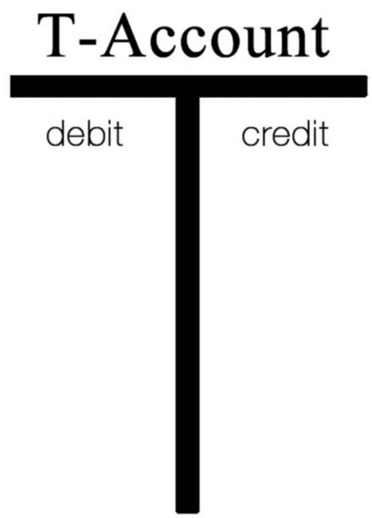
Video

Debits and Credits Accounting System

Debits and credits form the foundation of the accounting system. The mechanics of the system must be memorized. Once understood, you will be able to properly classify and enter transactions. These entries make up the data used to prepare financial statements, such as the balance sheet and income statement. While software has simplified entering daily transactions, debit and credit entries are always recorded in the background.



Learning about debits and credits requires a combination of memorization and application of the terms. Memorization of account types, as well as increase and decrease rules, is a good first step. Next, you must understand how transactions are recorded into the system. The goal is to be able to manually record and adjust transactions using debits and credits. Use all resources: lessons, flashcards, rap memory aid, practice sets, video, and Accounting Play – Debits & Credits game for iPhone and iPad. For video and downloads, please go to AccountingPlay.com.



Every accounting transaction involves at least one debit and one credit. The sum of debits and the sum of credits for each transaction and the total of all transactions are always equal. This equaling process is referred to as balancing. A list of all transactions appears in the general ledger and the sum of assets will equal the sum of liability and equity accounts on the balance sheet. Transactions are manually entered into the accounting record using adjusting journal entries (AJEs) which present debits before credits. Accountants may use a trial balance to summarize all accounts in debit and credit format so they can be further adjusted with AJEs.

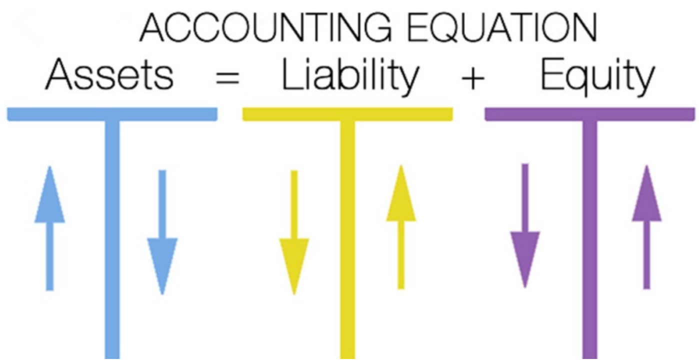
Memorize rule: debits always equal credits
Memorize rule: debits before credits

THE DOUBLE ENTRY SYSTEM

The process of recording transactions with debits and credits is referred to as double entry accounting, because there are always at least two accounts involved. The result of using double entry accounting ensures that every transaction is classified and recorded.

The double entry system requires us to pick at least two accounts to record a transaction. Let's say a business receives $1,000 cash. To record the transaction, the cash account is increased $1,000. As a rule we need at least one other account to record the activity. The other account will help explain the source and purpose of the transaction. Cash can come from a variety of sources, such as: revenue, loans, investments, investors, or cash back from returning an item. In this example, the business was paid cash for services performed. The revenue account therefore also increases $1,000 the same time cash increases $1,000.

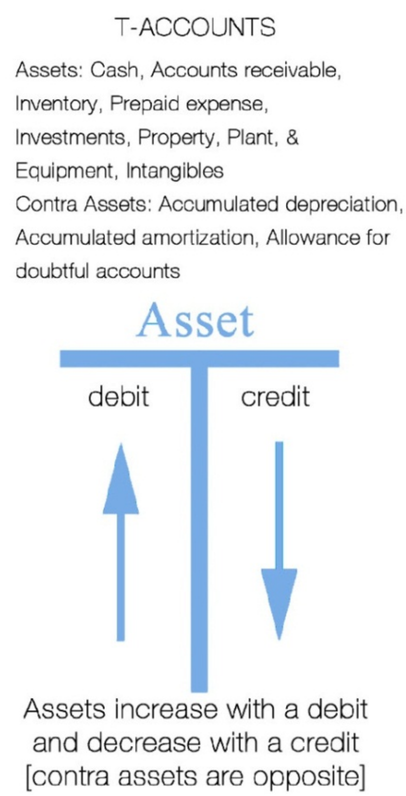
The double entry system is used to categorize all transactions in the accounting record. Let's say $200 cash is paid from the bank. Cash is decreased $200, which explains where the money came from. Another account is required to explain the destination and purpose of the transaction. Cash is used for a variety of things: equipment, investments, loan payments, expenses, and stock repurchases. In this example, the business paid a $200 phone bill in cash. The telephone expense account therefore increases $200. The combined entry will be to increase telephone expense and reduce cash for the same amount. The increase and decrease will be expressed on the accounting record as one debit and one credit.



The double entry system categorizes transactions using five account types: assets, liabilities, equity, income, and expense. The same account may be used if there is an increase and a decrease of the same category, such as a cash transfer. Assets, liabilities, and equity make up the balance sheet and form the accounting equation: Assets (A) = Liabilities (L) + Equity (E). Revenue and expenses make up the income statement and can generally be expressed as Revenue – Expenses = Income or Loss.

DIFFERENT ACCOUNT TYPES

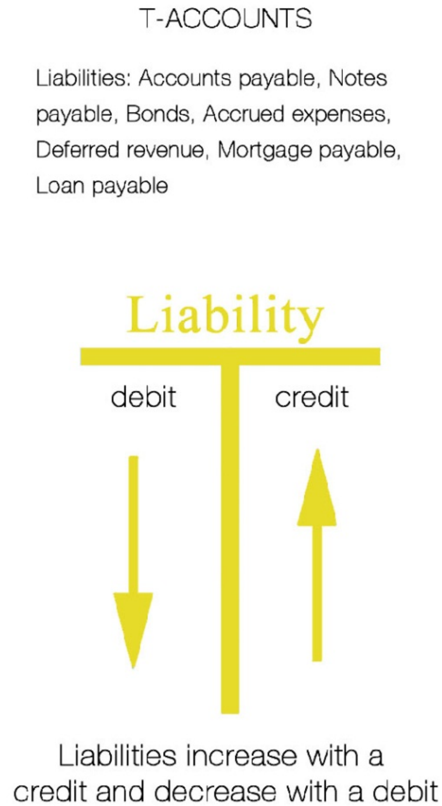
Every account is classified in one of five different classifications: assets, liabilities, equity, revenue, and expense. Each account is increased or decreased with a debit or credit, depending on the classification.



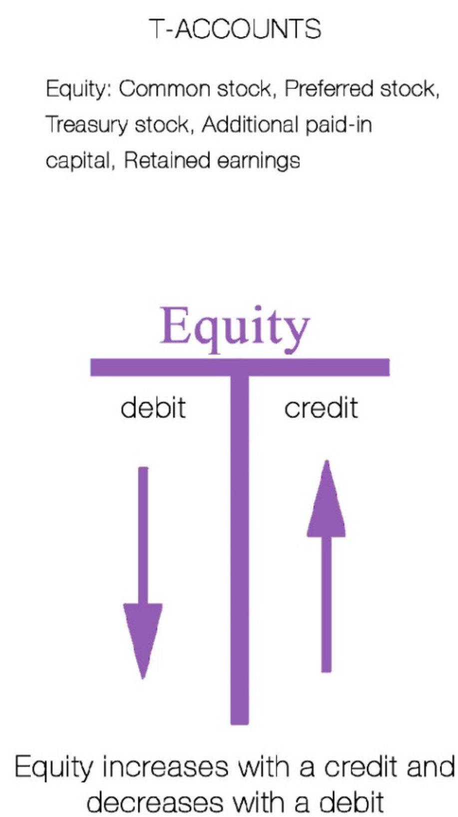
Assets: cash and cash equivalents, accounts receivable, inventory, prepaid expense, investments, property, plant, and equipment, intangible assets,

Contra assets: allowance for doubtful accounts, accumulated depreciation, accumulated amortization

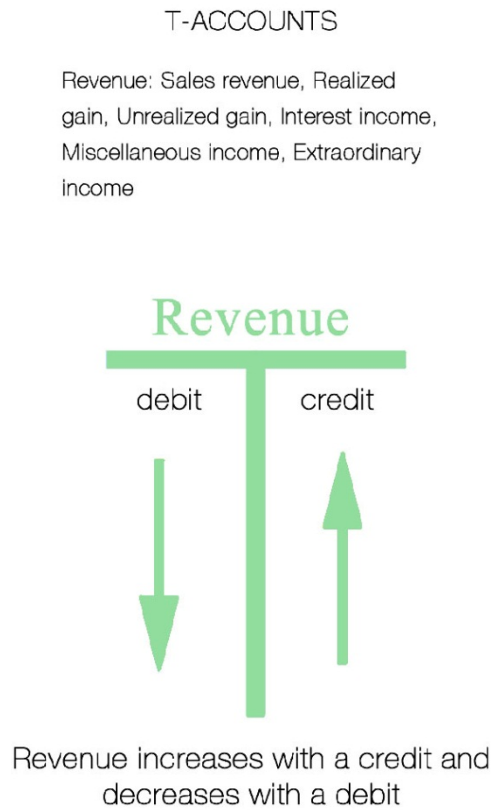
Liabilities: accounts payable, notes payable, accrued expenses, deferred revenue, long-term bonds payable
Contra liability: bond discount



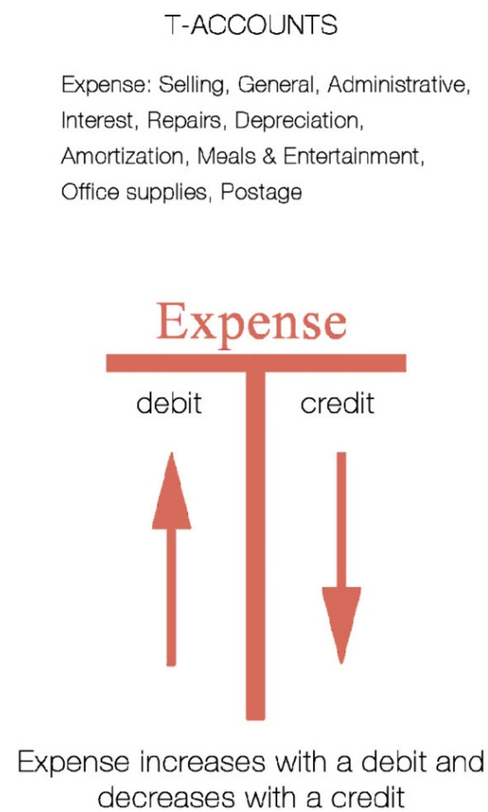
Equity: common stock, additional paid-in capital, retained earnings
Contra equity: treasury stock



Revenue: sales revenue, interest income, investment income



Expense: selling, general, and administrative, interest, repairs, depreciation



DEBITS AND CREDITS INCREASES AND DECREASES

INCREASES AND DECREASES

Audio

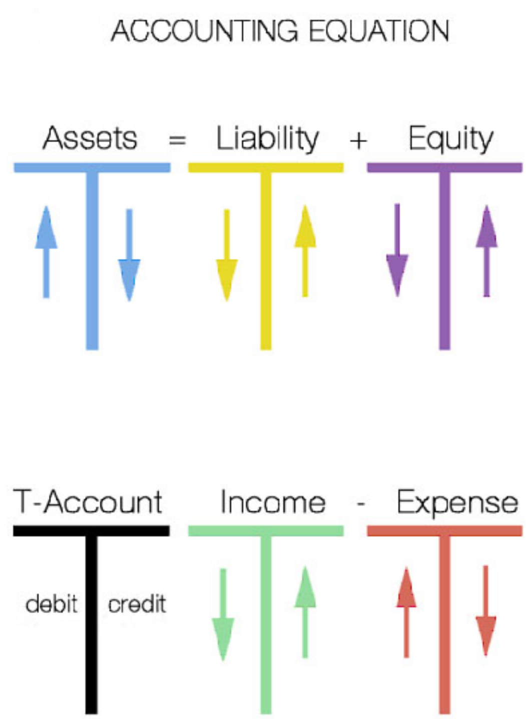
Video

The debit and credit rules used to increase and decrease accounts were established hundreds of years ago and do not correspond with banking terminology. Careful, as banks refer to debit cards, credit cards, account debits, and account credits differently than the accounting system. Cash for example, increases with a debit.

The accounting equation diagram visually displays how accounts increase and decrease. The debits and credits diagram condenses this information.

Balance sheet accounts:
Assets: increase with a debit and decrease with a credit
Liabilities: decrease with a debit and increase with a credit
Equity: decrease with a debit and increase with a credit

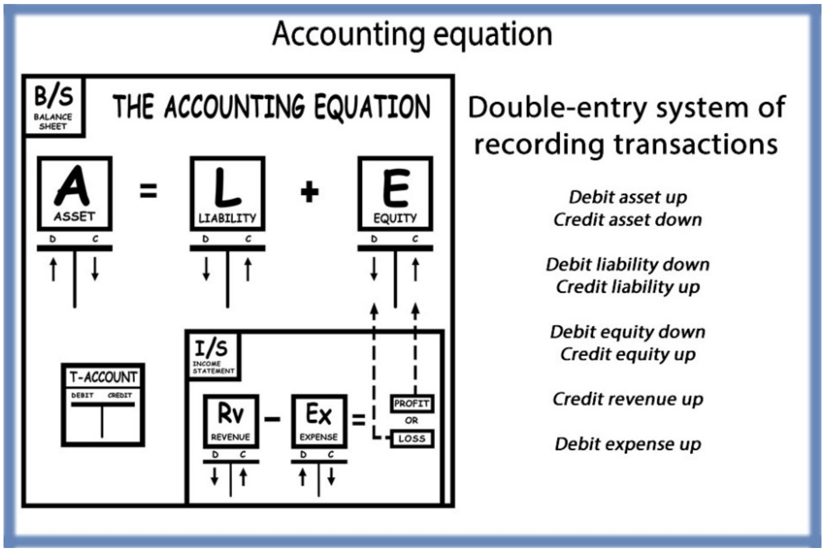
Income statement accounts:
Revenue: decrease with a debit and increase with a credit
Expenses: increase with a debit and decrease with a credit



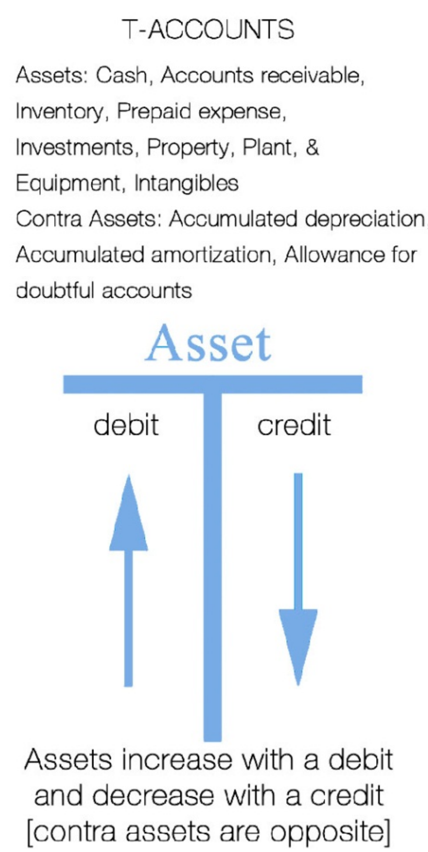
Accounts increase and decrease with a debit or a credit

DEBITS AND CREDITS BY ACCOUNT

Bellow, assets and expense accounts are presented first to aid beginners with memorization. Both these accounts increase with a debit and decrease with a credit.



ASSETS



Asset increases are recorded with a debit. First step to memorize: "Debit asset up, credit asset down." Asset accounts, especially cash, are constantly moving up and down with debits and credits. The ending balance for an asset account will be a debit.

Increases and decreases of the same account are common with assets. Transfers from one cash account to another is recorded as a reduction of one cash account and increase to another cash account. An example of this is the transfer of cash from savings to checking. In the accounting record, the checking account is increased with a debit and the savings account is decreased with a credit. Note that these terms are exactly opposite of how the bank will refer to them!

Increases and decreases of the same account type are common with assets. An example is a cash equipment purchase. The equipment account will increase and the cash account will decrease. Equipment is increased with a debit and cash is decreased with a credit.

Let’s say a candy business makes a $9,000 cash purchase of candy to sell in the store. Cash in the bank is going to go down and candy will arrive at the store. Candy inventory is going to increase $9,000 with a debit and the cash account will decrease $9,000 with a credit.

Memorize rule: debit asset up, credit asset down

EXPENSES

Expense increases are recorded with a debit and decreases are recorded with a credit. Transactions to expense accounts will be mostly debits, as expense totals are constantly increasing. The ending balance for an expense account will be a debit.

Under cash basis accounting, expenses are recorded when cash is paid. Take the example of a cash purchase for a client lunch. Cash is going to go down and an expense goes up. Meals and entertainment expense account is increased with a debit and the cash account is decreased with a credit.

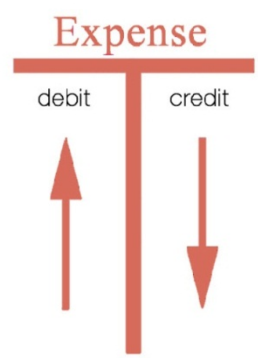
Under accrual basis accounting required by Generally Accepted Accounting Principles in the United States (US-GAAP), expense is recorded before cash is paid. Typically bills for items such as internet expense will be first recorded into accounts payable, a liability account. Accounts payable (AP) tracks all of the bills before they are paid for in cash. Say a $500 internet bill arrives for May service, but is not due until next month. The $500 internet expense is recorded in May with a debit and a $500 AP is recorded with a credit. When the bill is paid for in cash the next month, AP will decrease with a $500 debit and cash will decrease with a $500 credit.

Expenses are almost always going to be a debit transaction, but expenses can also be decreased with a credit as needed. Let's say a business pays a gardener $1,000 cash for maintenance. Maintenance expense increases $1,000 with a debit and cash decreases $1,000 with a credit. Now assume the honest gardener returns, apologizing that there was a mistake and the services should have been $800. The gardener then returns $200 of cash to the business as a refund. To record this transaction, cash is increased $200 with a debit and expense is decreased $200 with a credit. The effect of this transaction is to reverse $200 of expense.

Expenses such as depreciation and amortization are typically recorded with journal entries, due to accounting software limitations. These expenses are recorded to show the decline in value of certain assets over time and do not affect cash. Depreciation expense is recorded with a debit and the other side of the transaction is recorded to accumulated depreciation with a credit. Amortization expense is also recorded with a debit and the other side of the transaction is recorded to accumulated amortization as a credit. Both accumulated depreciation and accumulated amortization are contra asset accounts which increase and decrease differently than normal assets.

T-ACCOUNTS

Expense: Selling, General, Administrative, Interest, Repairs, Depreciation, Amortization, Meals & Entertainment, Office supplies, Postage

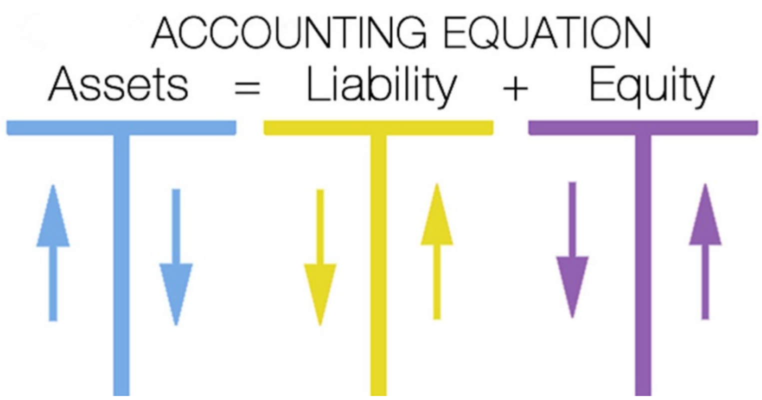


Expense increases with a debit and decreases with a credit

Memorize rule: debit expense up, credit expense down

LIABILITIES

Liability increases are recorded with a credit and decreases with a debit. This is the opposite debit and credit rule order used for assets. By definition, the rules of debits and credits mirror the accounting equation: Assets = Liabilities + Equity. In debit and credit terms, Asset debits = Liability credits + Equity credits. The ending balance in liability accounts will therefore be credits so that the equation will balance.



The most common liability to a business is accounts payable (AP), which comprises of money owed to providers of goods and services to the business, known as vendors. US GAAP requires accrual basis accounting that records expenses and revenue before cash is actually paid or received. Companies on the accrual basis accounting will record expenses as they are incurred. Bills for items such as internet expense will be first recorded into accounts payable, a liability account. Say the internet bill for $500 arrives for May, but is not due until the next month. The $500 expense is recorded in May with a debit and a $500 payable is

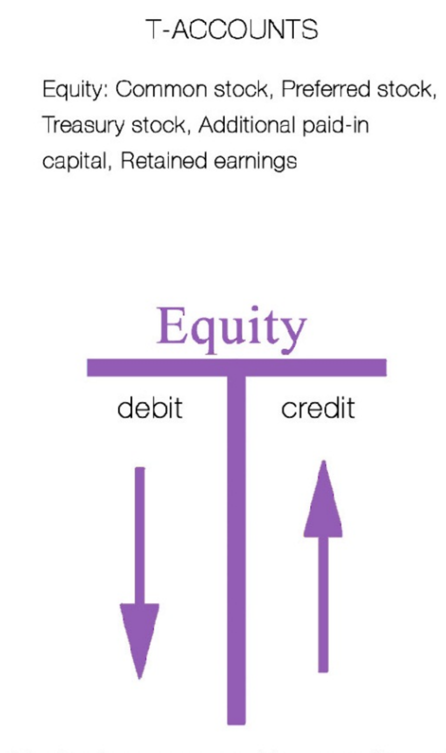
recorded with a credit. When the bill is paid in cash next month, AP will decrease with a $500 debit and cash will decrease with a $500 credit.

Liabilities are constantly increasing and decreasing, but the ending balance will be a credit. Take the loan payable account as an example. Assume a business receives cash after taking a loan of $100,000. The cash account will increase $100,000 with a debit and the loan account will increase with a $100,000 credit. Principal payments will reduce the loan with a debit and increase with a credit.

Memorize rule: debit liability down, credit liability up

EQUITY

Equity increases are recorded with a credit and decreases with a debit. This is the opposite debit and credit rule order used for assets. By definition, the rules of debits and credits mirror the accounting equation: Assets = Liabilities + Equity. In debit and credit terms, Asset debits = Liability credits + Equity credits. The ending balances in equity accounts will therefore be credits so that the equation will balance.



Equity increases with a credit and decreases with a debit

The first accounting transaction a business has is typically an increase to cash and an increase to an equity account. Let's say a business starts by issuing stock in exchange for $1,000,000 cash received from an investor. Cash increases with a $1,000,000 debit and equity increases with a $1,000,000 credit.

Profits and losses are recorded in the retained earnings equity account, typically on a quarterly and yearly basis. Just like common stock, the account increases with a credit and decreases with a debit. Retained earnings is not the same as cash, because it is based on net income or loss, not cash received. Assume a business has $950,000 net income, reported on the income statement. Retained earnings at the end of the accounting period will be increased with a credit of $950,000. The corresponding $950,000 debit is made to the income summary account, which closes the income statement for the period. The closing records income statement activity for the period on the balance sheet, using retained earnings. Note that the closing of the income summary is a process largely automated by accounting software.

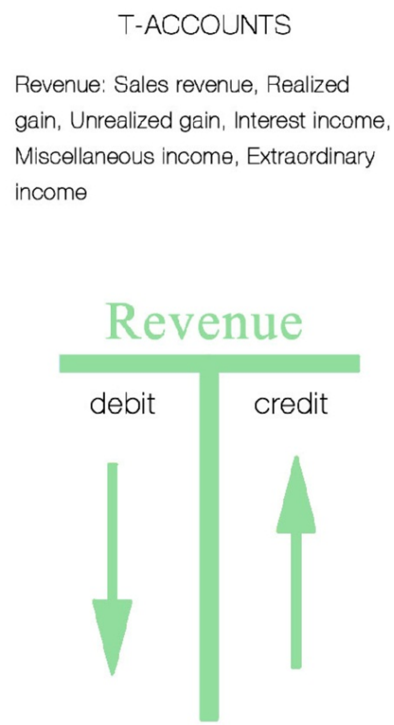
Retained earnings decreases when there is a loss for the accounting period or when dividends are declared. Assume a business has an $80,000 loss for the year. Retained earnings will be reduced with an $80,000 debit and the income summary closed with an $80,000 credit.

The declaration of dividends reduces retained earnings. The entry reduces retained earnings with a debit and increases dividends payable liability with a credit. Later when the declared dividends are paid to shareholders, the dividends payable liability will decrease with a debit and cash will decrease with a credit.

Memorize rule: debit equity down, credit equity up

REVENUE

Revenue increases are recorded with a credit and decreases are recorded with a debit. Transactions to the revenue account will be mostly credits, as revenue totals are constantly increasing. The ending balance for a revenue account will be a credit.



Revenue increases with a credit and decreases with a debit

Under cash basis accounting, revenue is recorded when cash is received. Take a small coffee shop that sells a $5 latte for example. When the customer pays in cash, cash increases and so does revenue. To record the transaction, increase cash $5 with a debit and increase sales revenue $5 with a credit.

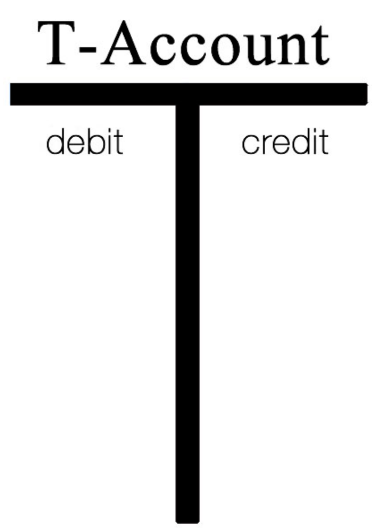
Accrual basis accounting necessary under US-GAAP requires revenue to be recorded before cash is received. Typically revenue is earned when an item ships and the sale is recorded in accounts receivable. Accounts receivable (AR) is an asset account that tracks the amounts owed to customers until cash is paid. Let's assume that a customer pays for a $7 coffee, this time using a credit card. Cash is not instantly received from the credit card company, so the sale is a $7 increase to AR and a $7 increase to sales revenue. When the cash is collected from the credit card company, cash will increase $7 with a debit and AR will decrease $7 with a debit.

Revenue is almost always going to be a credit transaction, but revenue can also be decreased with a debit as needed. A business might need to reduce the revenue account if a sale is returned. Let's say someone thought a $7 coffee paid for in cash was a complete waste of money and demands a refund. To process a cash basis refund the café would decrease sales revenue with a debit and decrease cash with a credit when they refund the customer.

Memorize rule: debit revenue down, credit revenue up

T-Accounts

T-accounts may be used to visually represent debit and credit entries. This is visually represented as a big green T in Accounting Game - Debits and Credits, available for iPhone and iPad. The left side of the T-account is a debit and the right side is a credit. Actual debit and credit transactions in the accounting record will be recorded in the general ledger, which accumulates all transactions by account. T-accounts help both students and professionals understand accounting adjustments, which are then made with journal entries.



Memorize rule: debits on the left and credits on the right

Debits and credits follow the logic of the accounting equation: Assets =

Liabilities + Equity. At all times, Asset debits = Liability credits + Equity credits.

Memorize rule: Assets = Liabilities + Equity
Memorize rule: the sum of all assets will equal the sum of liabilities + equity

Each account generally will have an ending debit balance or credit balance, depending on the account type. These ending balances by account type can be referred to as the natural balance. Assets and expenses both increase with a debit and therefore have debit ending balances. Liabilities, equity, and revenue increase with a credit and therefore have credit ending balances. Retained earnings may have a debit balance due to income statement losses.
Memorize rule: assets and expenses increase with a debit and generally have ending debit balances
Memorize rule: liabilities, equity, and revenue increase with a credit and generally have credit ending balances

DEBITS AND CREDITS ENTRIES

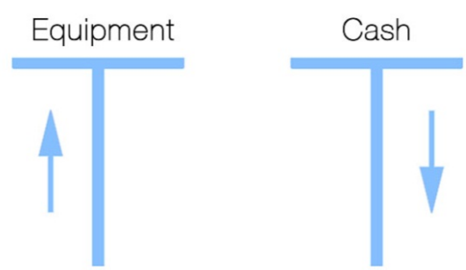
Audio

Video

JOURNAL ENTRIES

Each transaction in accounting has a debit and credit side. Yet, the user of accounting software can be unaware of this because the entries are mostly automatic. Journal entries are the mechanism of how accounting transactions are manually entered using debits and credits. Every journal entry first displays debits and then credits for the purpose of consistent presentation. But as long as the total debits and credits are equal, the entry will still work regardless of order. Journal entries will have a date that the transaction takes place, description, and amounts.

JOURNAL ENTRIES



JE 1 12/31/2020

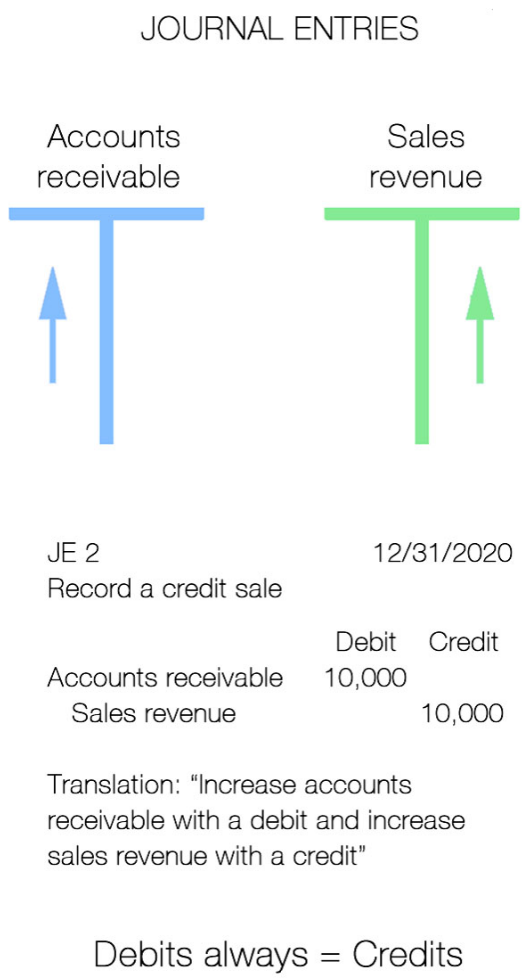
Purchase equipment with cash

	Debit	Credit
Equipment	1,000	
Cash		1,000

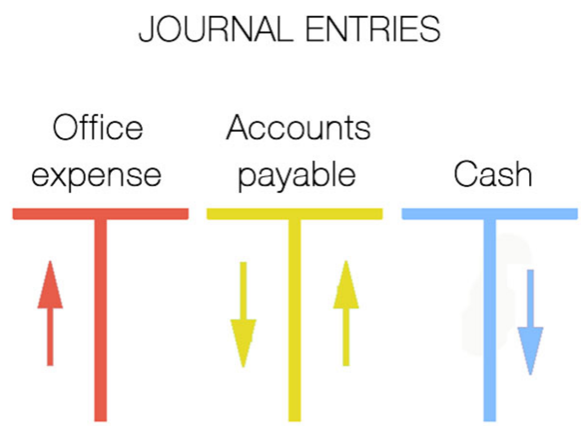
Translation: "Increase equipment with a debit and decrease cash with a credit"

T-Accounts represent a journal entry visually

Journal entries are often referred to as adjusting journal entries, or AJEs, as they adjust the accounting record. Adjusting journal entries are commonplace to make corrections. Entries are also made for non-cash transactions, such as depreciation and amortization.



Journal entries can incorporate more than one account, as long as the sum of debits equals the sum of credits. For example: Recording a cash asset sale of depreciated machinery for a gain would require increasing cash with a debit, removing the accumulated depreciation with a debit, removing the asset with a credit, and increasing gain on sale of asset with a credit. Entries can quickly become complicated, but make performing adjustments possible.



JE 3 12/31/2020

Receive invoice for expense, then pay

	Debit	Credit
Office expense	500	
Accounts payable		500
Accounts payable	500	
Cash		500

Translation: "Increase expense and accounts payable to record invoice, then reduce accounts payable and cash when invoice is paid."

Memorize rule: journal entries first record debits, then credits

Memorize rule: journal entry debits = credits

Example Accounting Entries

Transfer $15,000 from savings to checking

Entries:

Increase cash in checking: debit cash in checking $15,000

Reduce cash in savings: credit cash in savings $15,000

Receive $1,000,000 from issuing common stock

Entries:

Increase cash: debit cash $1,000,000

Increase common stock: credit common stock $1,000,000

Make $300 credit sale

Entries:

Increase accounts receivable (AR): debit AR $300

Increase revenue: credit revenue $300

Collect cash for $300 credit sale

Entries:

Increase cash: debit cash $300

Decrease accounts receivable (AR): credit AR $300

Receive $250 internet bill for May, the last day of May, but not due until June

Entries:

Increase internet expense: debit internet expense $250

Increase accounts payable (AP): credit AP $250

Pay $250 internet bill for May in cash at the end of June

Entries:

Decrease accounts payable (AP): debit AP $250

Decrease cash: credit cash $250

Record $7,000 of depreciation expense
Entries:
Increase depreciation expense: debit depreciation $7,000
Increase accumulated depreciation: credit accumulated depreciation $7,000

Receive $1,000 of cash revenue and pay $200 cash for meals and entertainment
(assume no beginning balances in the accounts)
Entries:
Increase cash: debit cash $1,000
Increase revenue: credit revenue $1,000
Increase expense: debit meals and entertainment $200
Decrease cash: credit cash $200

Result:
Ending cash: $800 debit
Ending revenue: $1,000 credit
Ending expense: $200 debit

Ending debits: $800
Ending credits: $800

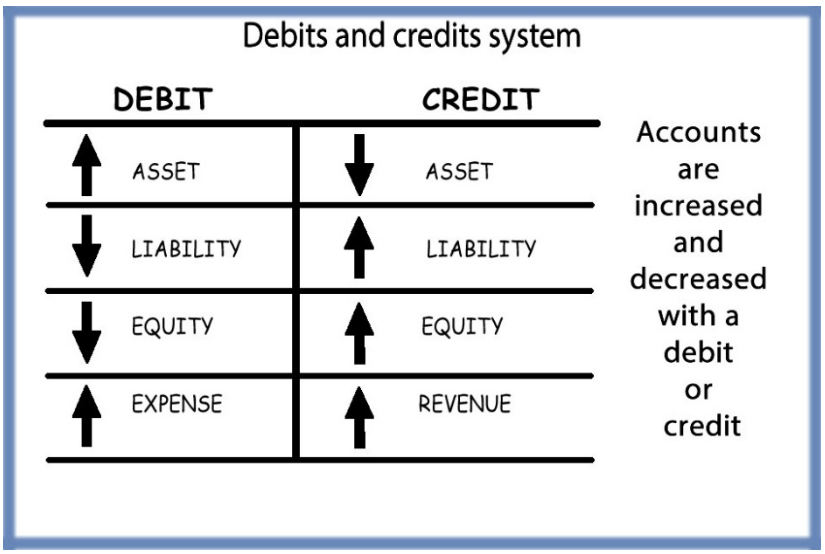
MEMORIZATION

Typical debits & credits explanation diagrams start with assets. Assets increase with a debit. Expenses also increase with a debit. Therefore, assets and expenses both increase with a debit and decrease with a credit. Liability, equity, and revenue decrease with a debit and increase with a credit.

Debits & Credits Mnemonic (memory aid)

You may use this Debits & Credits Mnemonic to memorize how to increase and decrease accounts using debits and credits.

Debit cash up, credit down
Other side now, flip around
I got revenue credits, expenses as debits
Debit left, credit right - balance sheet so tight



Debits & Credits Mnemonic Explained

Debit cash up, credit down

Assets increase with a debit and decrease with a credit

Other side now, flip around

The other side of the balance sheet is liability and equity, which increase with a credit and decrease with a debit, the opposite or “flip” of assets

I got revenue credits, expenses as debits

Revenue increases with credits and decreases with debits
Expense increases with debits and decreases with credits

Debit left, credit right - balance sheet so tight
Debits are on the left side of the T-account and credits are on the right side of the T-account
Total debits always equal total credits on the balance sheet

CONTRA ACCOUNTS

Contra accounts are exceptions to the rule and will increase and decrease in the opposite manor as regular accounts. Asset contra accounts include: allowance for doubtful accounts and accumulated depreciation. Asset contra accounts increase with a *credit* and *decrease* with a debit.

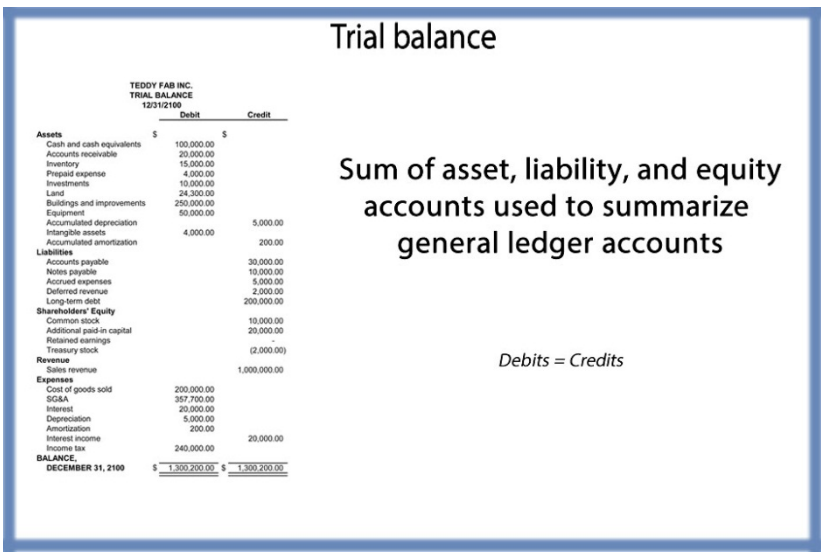
There are also infrequently used contra equity and contra liability accounts which increase and decrease in the opposite manor as regular equity and liability accounts. Treasury stock is a contra equity account that increases with a debit and decreases with a credit. Bond discount is a contra liability account that increases with a debit and decreases with a credit. These are generally advanced accounting topics and are only relevant for large publically traded companies.

Contra accounts serve to indirectly reduce regular accounts. The accumulated depreciation contra account increases over time as depreciation expense is recorded. Let's say a business purchases a truck for $50,000 cash. Truck asset increases $50,000 with a debit and cash decreases with a $50,000 credit. In order to show the decrease in value over time, depreciation expense is recorded. Take for example, depreciation expense recorded at $10,000 a year. Instead of directly reducing the truck asset value, depreciation expense will be increased with a debit and accumulated depreciation increased with a credit. The asset is presented as a positive debit and the accumulated depreciation as a credit that appears as negative. After recording the depreciation expense, the truck asset account is $50,000 and the depreciation contra asset account is

$(10,000). When combined, the net asset value of the truck will be $40,000 (asset - accumulated depreciation). The original $50,000 is therefore maintained in the accounting record until the business no longer has the truck.

TRIAL BALANCE PRESENTATION

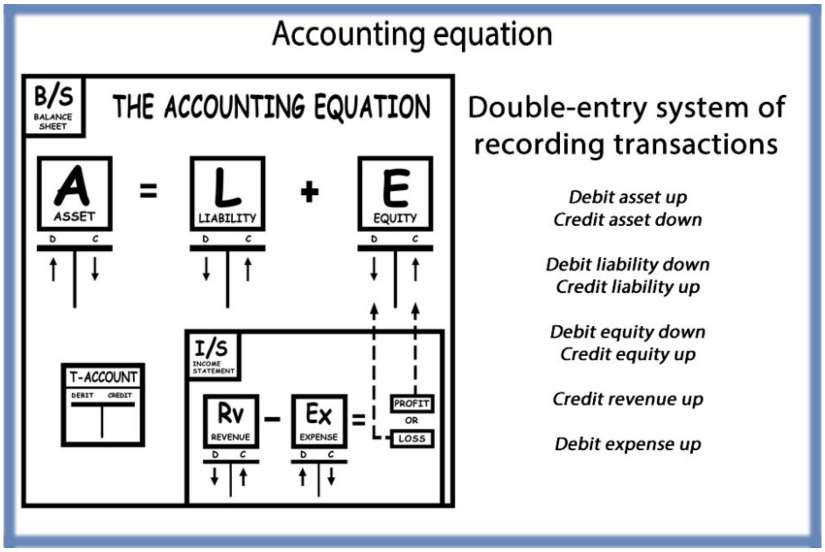
The equation: Asset debits = Liability credits + Equity credits forms the balance sheet. When the balance sheet is prepared for financial statement purposes, regular accounts will be positive. The same account totals may also be presented on an accounting trial balance, in the form of debits as positive numbers and credits as negative numbers. Under this accounting presentation the sum of all debits and credits will equal $0.



TEDDY FAB INC.
TRIAL BALANCE
12/31/2100

	Debit	Credit
Assets	$	$
Cash and cash equivalents	100,000.00	
Accounts receivable	20,000.00	
Inventory	15,000.00	
Prepaid expense	4,000.00	
Investments	10,000.00	
Land	24,300.00	
Buildings and improvements	250,000.00	
Equipment	50,000.00	
Accumulated depreciation		5,000.00
Intangible assets	4,000.00	
Accumulated amortization		200.00
Liabilities		
Accounts payable		30,000.00
Notes payable		10,000.00
Accrued expenses		5,000.00
Deferred revenue		2,000.00
Long-term debt		200,000.00
Shareholders' Equity		
Common stock		10,000.00
Additional paid-in capital		20,000.00
Retained earnings		-
Treasury stock		(2,000.00)
Revenue		
Sales revenue		1,000,000.00
Expenses		
Cost of goods sold	200,000.00	
SG&A	357,700.00	
Interest	20,000.00	
Depreciation	5,000.00	
Amortization	200.00	
Interest income		20,000.00
Income tax	240,000.00	
BALANCE, DECEMBER 31, 2100	$ 1,300,200.00	$ 1,300,200.00

In a trial balance, revenue credits will appear as negative numbers in brackets, such as $(1,000,000) of revenue and expenses will appear as positive numbers, such as $200,000 of expense. To figure a profit or loss, the revenue credits of $(1,000,000) are added to the $200,000 of expense debits, resulting in $(800,000). Under the system of debits and credits, the resulting $(800,000) represents net income and will be recorded to retained earnings. The $800,000 will be debited, resulting in closing the income statement, and the other side of the transaction will be a $800,000 credit to retained earnings. The income statement shows net income positively, the opposite of the trial balance presentation.



SUMMARY

Understanding debits and credits is fundamental for accounting professionals. Other users of financial information, such as business owners and lenders may never need to apply the concept. To learn more and practice, find more resources at AccountingPlay.com. To quiz yourself and learn differently, download the Accounting Game - Debits and Credits, the free app for iPhone and iPad designed to teach in a game format.

Before you do anything – Download your exclusive copy of this book in PDF form so that you may print the worksheets HERE (http://accountingplay.com/bonus/)

Practice set 1: Yo Company

- Blank AJEs
- Blank T-accounts with Account Titles
- Blank Balance Sheet and Income Statement
- AJE Answers
- T-account Answers
- Balance Sheet and Income Statement Answers
- Blank T-accounts with No Titles

Blank Templates

- 1 T-account (Mr. T)
- 2 T-accounts (T-Couple)
- 3 T-accounts (The Famous Accounting Equation)
- 2 T-accounts (The Income Statement)
- 9 T-accounts

Example Financial Statements

- Balance Sheet Example
- Income Statement Example
- Statement of Shareholders' Equity Example
- Statement of Cash Flows
- Adjusting Journal Entries
- Trial Balance

LEARN DEBITS AND CREDITS - PRACTICE # 1

Hi, it is John CPA here. Check it out:

*Problem work through and explanation is here on You Tube;
https://www.youtube.com/watch?v=dR1CBLXjB_c
*This is about T-accounts, journal entries, making financial statements
*Learn transactions 1-14 in the form of T-accounts
*Then go on to see how the T-accounts become financial statements
*Practice at least TEN times. Master this one problem as a base for other problems
*Print all and layout on a big table is highly recommended
*Completely blank T-accounts at bottom for other problems, or greater challenge
*Answers at bottom - note reference letters
*You will need some background in this before attempting - see recourses
*Please support by downloading my apps and hooking me up with epic review

Resources:

iOS App: Accounting Flashcards

*See lesson - Introduction to Debits and Credits

iOS App: Accounting Play - Debits and Credits

*A game to learn about debits and credits - soooo fun!

Downloads: Excel versions, academic papers, examples, and more

*Please, please, please, Email me direct questions / confusions / any errors (gasp) John@AccountingPlay.com

Thanks !!!! : D

What to do:

Perform journal entries, T-accounts, and financial statements for transactions 1-14

Yo Company

December 31, 2100

Year 1 Transactions

AJE Ref

1. a Receive $100,000 investment for common stock
2. b Purchase $20,000 equipment using a note payable
3. c Make $8,000 credit sale
4. d Collect $8,000 from credit sale
5. e Record utilities expense $500 after receiving bill
6. f Record utilities expense $800 after receiving bill
7. g Pay utility company $500 in cash for prior bills
8. h Make $25,000 credit sale
9. i Make $2,000 payment on note payable with cash: $200 interest $1,800 principal
10. j Accrue $10,000 in wage expense
11. k Record $1,000 of depreciation expense
12. l Repurchase $30,000 of company stock
13. m Close out income statement accounts to income summary
14. n Close income summary to retained earnings

Adjusting Journa l Entries
Yo Company
December 31, 2100

	Debit	Credit	Notes for your study reference
AJE 1			
Memo			
AJE 2			
Memo			
AJE 3			
Memo			
AJE 4			
Memo			
AJE 5			
Memo			
AJE 6			
Memo			
AJE 7			
Memo			
AJE 8			
Memo			

Adjusting Journal Entries
Yo Company
December 31, 2100

	Debit	Credit	Notes for your study reference
AJE 9			
Memo			
AJE 10			
Memo			
AJE 11			
Memo			
AJE 12			
Memo			
AJE 13			
Memo			
AJE 14			
Memo			

Balance Sheet

ASSETS = LIABILITIES + EQUITY

Cash

Accounts payable

Common stock

Treasury stock

Accounts receivable

Notes payable

Retained earnings

Equipment

Income Statement

REVENUE - EXPENSE = Profit or Loss

depreciation Accumulated

Sales

Utilities

Interest

T-Accounts	
DEBIT	CREDIT

Income Summary

Depreciation

Wages

SUM ASSETS

SUM LIABILITIES

SUM EQUITY

Completely blank sheets found in Blank T-accounts (see index)

Click for the You Tube Tutorial and Walkthrough

Yo Company
Balance Sheet
December 31, 2100

ASSETS		LIABILITIES	
Cash	$	Accounts payable	$
Accounts receivable		Notes payable	
Equipment		Total Liabilities	
Accumulated depreciation			
		EQUITY Common	
		stock Treasury	
		stock Retained	
		earnings Total	
		Equity	
Total Assets	$	Total Liabilities and Equity	$

Yo Company
Income Statement
Year Ended December 31, 2100

REVENUE	
Sales	$
EXPENSES	
Depreciation	
Interest	
Utilities	
Wages	
Total Expense	
Net income or (loss)	$

Adjusting Journal Entries
Yo Company
December 31, 2100

		Debit	Credit	
AJE 1	Cash	100,000		Company receives cash: debit cash up
	Common stock		100,000	Cash received by issuing stock: credit stock up
Memo	*Receive $100,000 investment for common stock*			*Company has investors*
AJE 2	Equipment	20,000		Equipment received: debit equipment up
	Note payable		20,000	Purchase with debt: credit note payable up
Memo	*Purchase $20,000 equipment using a note payable*			*Company borrowed to purchase equipment*
AJE 3	Accounts Receivable	8,000		Sold something before cash received: increase AR
	Sales revenue		8,000	Sale appears on income statement: credit sales
Memo	*Make $8,000 credit sale*			*Company shows sale before collecting cash*
AJE 4	Cash	8,000		Receive cash from prior credit sale: debit cash up
	AR		8,000	Reduce AR tracking credit sales: credit AR down
Memo	*Collect $8,000 from credit sale*			*Cash comes in from prior sale*
AJE 5	Utilities expense	500		Show expense for utilities used: debit expense up
	Accounts payable		500	Track liability for bill: credit AP up
Memo	*Record utilities expense $500 after receiving bill*			*Utilities already used, likely received bill in the mail*
AJE 6	Utilities expense	800		Show expense for utilities used: debit expense up
	Accounts payable		800	Track liability for bill: credit AP up
Memo	*Record utilities expense $800 after receiving bill*			*Utilities already used, likely received additional bill*
AJE 7	Accounts payable	500		Reduce AP for cash pmt: debit AP down
	Cash		500	Reduce cash for pmt on AP: credit cash down
Memo	*Pay utility company $500 in cash for prior bills*			*AP reduced due to a pmt on prior bills*
AJE 8	Accounts Receivable	25,000		Sold something before cash received: increase AR
	Sales		25,000	Sale appears on income statement: credit sales
Memo	*Make $25,000 credit sale*			*Company shows sale before collecting cash*
		162,800	162,800	

Adjusting Journal Entries
Yo Company
December 31, 2100

		Debit	Credit	
AJE 9	Interest expense	200		Only part of the entire payment is expense: increase
	Note payable	1,800		Most payment reduces the loan: debit note payable
	Cash		2,000	Cash is used: credit cash down
				Installment loan payments consist of a principal portion that reduces the loan and an interest portion that is an expense
Memo	*Make $2,000 payment on note payable with cash: $200 interest $1,800 principal*			
AJE 10	Wage expense	10,000		Wages are owed to employees: debit expense
	Accrued wages		10,000	Show a liability, cash not paid: credit accrued wages
Memo	*Accrue $10,000 in wage expense*			*Employees are entitled to pay, but it is not time to pay*
AJE 11	Depreciation	1,000		Record depreciation from aging / using assets: debit
	Accumulated depreciation		1,000	Accumulated depreciation is a famous contra asset
Memo	*Record $1,000 of depreciation expense*			*This is how to record depreciation on an asset*
AJE 12	Treasury stock	30,000		Increase contra equity account: debit
	Cash		30,000	Cash goes down: credit
Memo	*Repurchase $30,000 of company stock*			*This happens when a large company purchases stock for itself on the open market. It is an advanced transaction. But since you know cash decreases with a credit and it is a stock transaction, you can reason that the treasury stock must be a debit*
AJE 13	Sales revenue	33,000		Reverse all sales revenue totals
	Income summary	12,500		Summarize income statement activity
	Income summary		33,000	Reverse all of the expense totals
	Utilities		1,300	Process moves the income activity to a temporary
	Interest		200	account, called the income summary
	Depreciation		1,000	Income summary will go to zero once recorded to
	Wages		10,000	retained earnings
Memo	*Close out income statement accounts to income summary*			
AJE 14	Income summary	12,500		Income summary is reversed / "Zeroed out"
	Retained earnings		12,500	Retained earnings is the opposite entry
Memo	*Close income summary to retained earnings*			Retained earnings is a credit to record the profit
		101,000	101,000	

Balance Sheet

ASSETS = LIABILITIES + EQUITY

Cash

a	100,000	500	g
d	8,000	2,000	i
		30,000	l
	100,000	32,500	
	75,500		

Accounts payable

		500	f
		800	f
g		10,000	j
	500	11,300	
		10,800	

Common stock

		100,000	a
		100,000	
		100,000	

Treasury stock

i	30,000		
	30,000	-	
	30,000		

Accounts receivable

c	8,000		
		8,000	d
h	25,000		
	33,000	8,000	
	25,000		

Notes payable

		20,000	b
i	1,800		
	1,800	20,000	
		18,200	

Retained earnings

		20,500	n
	-	20,500	
		20,500	

Equipment

b	20,000		
	20,000	-	
	20,000		

REVENUE - EXPENSE = Profit or Loss

depreciation Accumulated

		1,000	k
	-	1,000	
		1,000	

Sales

		8,000	c
		25,000	h
	-	33,000	
m	~~33,000~~	~~33,000~~	

Utilities

e	500		
f	800		
	1,300	-	
	~~1,300~~	~~1,300~~	m

Interest

i	200		
	200	-	
	~~200~~	~~200~~	l

T-Accounts

DEBIT	CREDIT

Income Summary

m	12,500	33,000	m
m	12,500	33,000	
n	~~20,500~~	~~20,500~~	

Depreciation

k	1,000		
	1,000	-	
	1,000		m

Wages

j	10,000		
	10,000	-	
	10,000		m

SUM ASSETS

120,500	1,000
119,500	

SUM LIABILITIES

	29,000
	29,000

SUM EQUITY

30,000	120,500
	90,500

[Check Out the Free App - Accounting Flashcards for Lessons & Audio]

Yo Company

Balance Sheet

December 31, 2100

ASSETS		LIABILITIES	
Cash	$ 75,500	Accounts payable	$ 10,800
Accounts receivable	25,000	Notes payable	18,200
Equipment	20,000	Total Liabilities	29,000
Accumulated depreciation	(1,000)		
		EQUITY	
		Common stock	100,000
		Treasury stock	(30,000)
		Retained earnings	20,500
		Total Equity	90,500
Total Assets	$ 119,500	Total Liabilities and Equity	$ 119,500

Yo Company

Income Statement

Year Ended December 31, 2100

REVENUE	
Sales	$ 33,000
EXPENSES	
Depreciation	1,000
Interest	200
Utilities	1,300
Wages	10,000
Total Expense	12,500
Net income or (loss)	$ 20,500

Click for the You Tube Tutorial and Walkthrough

Mr. T

T-Couple

The Famous Accounting Equation

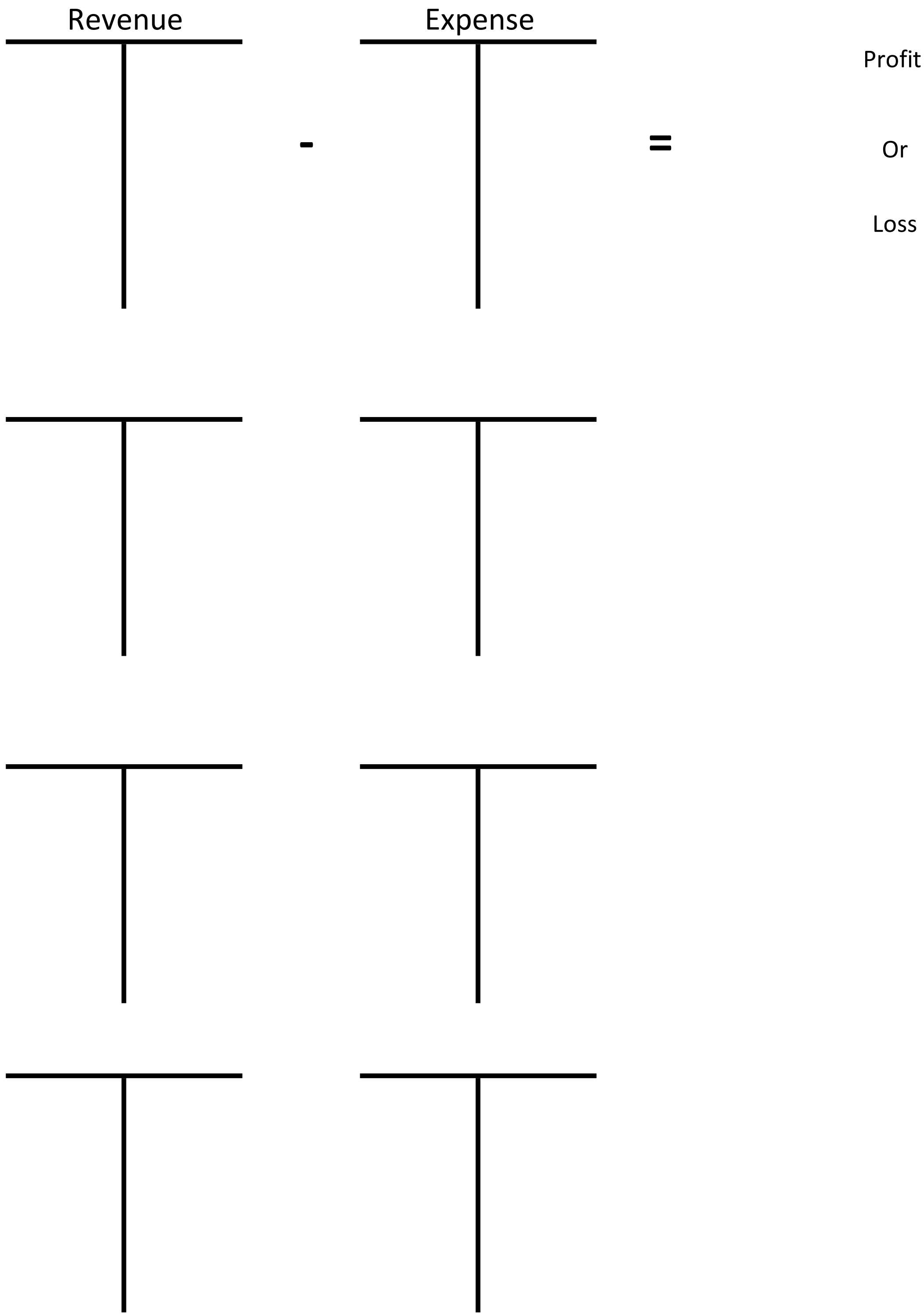
Est. Yr 1299

Appears on the Balance Sheet

Assets = Liabilities + Equity

No iPhone or iPad? Check Out The Kindle Book: The Accounting Illustrated Dictionary

The Income Statement



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Notes or AJEs

TEDDY FAB INC.
BALANCE SHEET
December 31, 2100

ASSETS Current assets		
Cash and cash equivalents	$	100,000
Accounts receivable		20,000
Inventory		15,000
Prepaid expense		4,000
Investments		10,000
Total current assets		149,000
Property and equipment		
Land		24,300
Buildings and improvements		250,000
Equipment		50,000
Less accumulated depreciation		(5,000)
Other assets		
Intangible assets		4,000
Less accumulated amortization		(200)
Total assets	$	**472,100**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$	30,000
Notes payable		10,000
Accrued expenses		5,000
Deferred revenue		2,000
Total current liabilities		47,000
Long-term debt		200,000
Total liabilities		247,000
Shareholders' Equity		
Common stock		10,000
Additional paid-in capital		20,000
Retained earnings		197,100
Treasury stock		(2,000)
Total liabilities and shareholders' equity	$	**472,100**

TEDDY FAB INC.
STATEMENT OF INCOME
Year Ended December 31, 2100

Revenues	$ 1,000,000
Cost of goods sold	200,000
Gross profit	800,000
Operating expenses	
Selling, general, and administrative expense	357,700
Interest expense	20,000
Depreciation and amortization expense	5,200
Operating income	417,100
Interest income	20,000
Net earnings before taxes	437,100
Income tax expense	240,000
Net income	$ **197,100**

TEDDY FAB INC.
STATEMENT OF SHAREHOLDERS' EQUITY
December 31, 2100

	Common Stock	Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, DECEMBER 31, 2099	$ -	$ -	$ -	$ 0	$ -	$ -
Net Income (Loss) for 2100			197,100			197,100
Common Stock Issued	10,000					10,000
Additional Paid-In-Capital		20,000				20,000
Treasury Stock					(2,000)	(2,000)
BALANCE, DECEMBER 31, 2100	$ 10,000	$ 20,000	$ 197,100	$ -	$ (2,000)	$ 225,100

TEDDY FAB INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2100

Cash flows from operating activities:		
Net income	$	197,100
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization		5,200
Changes in operating assets and liabilities:		
Accounts receivable		(20,000)
Inventories		(15,000)
Prepaid expenses		(4,000)
Accounts payable		30,000
Accrued expenses		5,000
Deferred revenue		2,000
Total adjustments		3,200
Net cash used in operating activities		200,300
Cash flows from investing activities:		
Purchase of property and equipment		(324,300)
Intangible asset purchase		(4,000)
Investment purchase		(10,000)
Net cash used in investing activities		(338,300)
Cash flows from financing activities:		
Proceeds from notes payable		10,000
Proceeds from additional paid-in capital		20,000
Proceeds from issuance of common stock		10,000
Proceeds from bond issuance		200,000
Purchase of treasury stock		(2,000)
Net cash provided by financing activities		238,000
Net increase (decrease) in cash and cash		100,000
Cash and cash equivalents, beginning		-
Cash and cash equivalents, ending	$	**100,000**

TEDDY FAB INC.
ADJUSTING JOURNAL ENTRIES
'December 31, 2100

		Debit	Credit
AJE-1	Depreciation expense	5,000.00	
	Accumulated depreciation		5,000.00
	Record depreciation expense		
AJE-2	Amortization		
	Accumulated amortization	200.00	
	Record amortization expense		200.00
AJE-3	Property, plant, & equipment	1,200.00	
	Operating expense		1,200.00
	Reclassify fixed asset purchase		
AJE-4	Prepaid expense	2,000.00	
	Rent expense		2,000.00
	Reclassify January rent paid in		
AJE-5	Intangible assets	4,000.00	
	Startup expenses		4,000.00
	Reclassify startup expenses		
		$ 12,400.00	$ 12,400.00

TEDDY FAB INC.
TRIAL BALANCE
12/31/2100

	Debit	Credit
Assets	$	$
Cash and cash equivalents	100,000.00	
Accounts receivable	20,000.00	
Inventory	15,000.00	
Prepaid expense	4,000.00	
Investments	10,000.00	
Land	24,300.00	
Buildings and improvements	250,000.00	
Equipment	50,000.00	
Accumulated depreciation		5,000.00
Intangible assets	4,000.00	
Accumulated amortization		200.00
Liabilities		
Accounts payable		30,000.00
Notes payable		10,000.00
Accrued expenses		5,000.00
Deferred revenue		2,000.00
Long-term debt		200,000.00
Shareholders' Equity		
Common stock		10,000.00
Additional paid-in capital		20,000.00
Retained earnings		-
Treasury stock		(2,000.00)
Revenue		
Sales revenue		1,000,000.00
Expenses		
Cost of goods sold	200,000.00	
SG&A	357,700.00	
Interest	20,000.00	
Depreciation	5,000.00	
Amortization	200.00	
Interest income		20,000.00
Income tax	240,000.00	
BALANCE, DECEMBER 31, 2100	$ 1,300,200.00	$ 1,300,200.00