

ACCOUNTING RULES:

- Think of debit type of accounts as being a plus and belonging in the left hand side of the ledger
- Credit type of accounts as being a negative and belonging on the right hand side of the ledger

DEBIT ACCOUNTS – think of these type of accounts having a positive or plus balance. This is what they normally are:

- Assets (non-current assets-things that we own and have a useful life of at least 1 year; value is generally over a threshold in value of \$1,000; current assets that have a shorter life eg. cash at bank, debtors/accounts receivable)
- Expenses (relates to costs that we incur to say run the business e.g. salaries, utility costs, travel etc. anything we need to spend to run the business. They also include non-cash items like depreciation, i.e. it's still a cost but it's a book entry only and there is no payment involved)
- For DEBIT accounts, if the balance needs to go up i.e. we increase the asset balance because we buy another car for example (asset) or if we pay an electricity bill or get an invoice for purchases made for stock/inventory.
 - o In this case we DR to increase the balance, as it's already a positive balance it is plus to the DR side. When we post to the ledger it will go on the left hand side of the ledger
- If we want to decrease the balance, i.e. we sell an asset or return stock, we then CR to reduce the balance. As it's already a positive balance, it is a minus to this a/c to make the balance go down. When we post to the ledger it will go on the right hand side of the ledger

CREDIT ACCOUNTS – think of these types of accounts as having a negative or minus balance. This is what they normally are:

- Revenue or income accounts (this relates to income that the business generated e.g. sales, interest received, dividends received)
- Liability accounts (this relates to amounts that we owe e.g. non-current liabilities long term loans, mortgages, current liabilities:-short term loans, creditors/accounts payable)
- Equity accounts e.g. capital (contributed by the sole trader/partners or put in funds to start the business, or from shares sold if it's a company)
- For CREDIT accounts, if the balance needs to go up i.e. we increase the loan balance because we take out another loan or if we buy some inventory/stock on credit).
 - o In this case we CR to increase the balance, as it's already a negative balance it is minus to the CR side. When we post to the ledger it will go on the right hand side of the ledger
- If we want to decrease the balance, i.e. we pay off the loan or return stock to our supplier, we then DR to reduce the balance. As it's already a negative balance, it is a plus to this a/c to make the balance go down. When we post to the ledger it will go on the left hand side of the ledger

BALANCE SHEET HOW TO: ACCOUNTING FORMAT

Eg.

GEORGE KARATSIS IT SERVICES Balance Sheet as at 31 May 2016			
ASSETS		LIABILITIES	
Cash at bank	\$61 000	Accounts payable	\$64 000
Accounts receivable	70 000	Mortgage payable	710 000
Office supplies	34 000		774 000
Office equipment	180 000		
Land	250 000	EQUITY	
Building	520 000	George Karatsis, Capital	341 000
	\$1 115 000		\$1 115 000