

Visual Learning Maps

Introductory Financial Accounting



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VIRTUAL TEXT BOOK

BOOKKEEPING – 1 OF 3

As this course is the core of all Accountancy courses, bookkeeping is the core to understanding this course!

Bookkeeping is all about DEBITS and CREDITS and counting what has increased and decreased in Assets, Liabilities, Withdrawals, Capital, Revenue and Expenses; AND making sure the Foundation Equation [A = L + E] is ALWAYS maintained.

Do Not


Search for meaning in the words Debit and Credit; they could just as well be called doors and cupboards

Think of Debits as always being pluses and Credits as always minuses – This is FALSE. It's a trap – stay out of it.


DO

MEMORY TRIGGER – THE ALWAYS RULES!

- Credits **ALWAYS** increase Capital, Liabilities and Revenue and Debits **ALWAYS** decrease Capital, Liabilities and Revenue

Think of it this way CLR  Cr.
Dr.

- Debits **ALWAYS** increase Withdrawals, Assets and Expenses Credits **ALWAYS** decrease Withdrawals, Assets and Expenses

Think of it this way WAx  Dr.
Cr.

Think of clear wax. **CLR WAx** and draw the arrows; this will keep you right on track for all bookkeeping entries. ALWAYS.

BOOKKEEPING – continued 2 of 3

WHAT EXACTLY ARE CLR AND WAX? They are all accounts, and all together they are called the GENERAL LEDGER. All Bookkeeping entries are entered to these accounts. Here is what they mean:

Capital

- When the owner, also called the proprietor, puts cash and / or other assets into the business, this account gets credited. The balance in this single account is normally a credit balance.

Liabilities – You owe Money or Services

- This is a category of accounts. The accounts in this category tell you that **you owe money**. You owe for either goods or services that you have received but have not paid for yet. Accounts in this category include Accounts Payable (money owed to suppliers), Wages Payable (money owed to Employees), Loans, Mortgages; and taxes owed.

OR

- Sometimes customers pay money up front for your services. This is also a liability. You don't owe money, but **you do owe the customer work** to be done in the amount that the customer has paid up front. This is called the **Unearned Revenue** Account.
- Liabilities are normally in Credit balance.

Revenue – You Earned

- There are two ways that the accounts record money earned: 1) money is received from customers directly for services provided; and 2) You issue invoices to customers to tell them you did the work and they owe you money. In both of these cases Revenue is credited.
- Revenues are normally in Credit balance.

BOOKKEEPING – continued 3 of 3

Withdrawals

- When the owner, also called the proprietor, takes cash and / or other assets out of the business, this account gets debited. The balance in this single account is normally a debit balance.

Assets

- This is a category of accounts. The accounts in this category **are things you own that have future value**. Assets are more difficult to understand because there are many kinds of them in different sub-categories. Assets include Cash, Accounts Receivables, Inventory, Prepaid Items (rent, lease, insurance etc.), Buildings, Vehicles, Equipment, Investments, Copyrights, and Patents.
- When Assets are purchased, the Asset account gets debited. The balance in any Asset Account is normally a debit.
- See the Class Notes on **Kinds of Assets**

Expense

- This is a Category of accounts. Expenses are debited and result from **money spent or money owed** for services that do not have future value. There are many kinds of expenses for services such as: Accounting, Depreciation, Marketing, Rent, Legal, Telephone, Internet, Repairs, Gas & Oil, Postage, Supplies used, Cleaning; and so on and so on.
- Expenses are normally in debit balance.

NORMAL BALANCES

- If an Account **is not in its Normal Balance** as a Credit or a Debit – check it out; there is probably something wrong. Check each entry to the account; track it back to the Journal Entry.
- Sometimes the Capital Account can go into Debit balance because the owner has taken more out of the business than has been put in; however, all the other Accounts should be in their Normal state.