

# Understanding Credits and Debits

## Double-entry Bookkeeping

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ACS is a Double-entry Bookkeeping system.

- Double-entry bookkeeping keeps your books in balance and requires that each transaction affect two accounts in a self-balancing system.
- Think of an equation with two sides separated by an equal sign. In accounting, an entry in the left side of a transaction is called a debit, and an entry on the right side is called a credit. For each transaction, the sum of all debits must equal the sum of all credits. If the sums are not equal, the entry is out of balance, and you cannot exit the transaction window if all entries do not balance.
- Each account in your general ledger also has a left and a right side. Because of this arrangement, these accounts are called T-accounts.

## Debits Left - Credits Right

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Debits and credits are the backbone of accounting.

You can split debits and credits between accounts, but the totals self-balance in the double entry bookkeeping system. To split debits and credits between checking accounts, the checking accounts must be associated with the same bank account in the chart of accounts.

- The left side of the account is the debit side. The abbreviation for this is DR.
- The right side of the account is the credit side. The abbreviation for this is CR.
- In accounting, the language of debits and credits is very specific. The meaning of words used in non-profit accounting is different from the words used by the general public. For example, a debit card decreases cash in your bank account, which is an asset account, but in double-entry accounting the same transaction is called a credit. The offset decreases in your liability account, that is, the amount you owe to the vendor you pay with your debit card.



### Tip

Debits and credits DO NOT NECESSARILY EQUATE TO INCREASES AND DECREASES. The effect of a debit or a credit on an account depends upon the classification or type of the account.

## Examples of Debits and Credits

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### Example 1

You receive \$200.00 in cash for the general offering. You deposit the cash in the bank to the general checking account. Your entries in ACS are:

**Debit** — General checking account (Asset account type — increases balance)

**Credit** — General offering account (Revenue account type — increases balance)

## Example 2

You receive the electric bill for the month which is \$200.00. You issue a check for \$200.00 to pay the bill. Your entries in ACS are:

**Debit** — Utilities account (Expense account type — increases balance)

**Credit** — General checking account (Asset account type — decreases balance)

## Example 3

You realize that the \$200.00 that you credited in Example 1 to the general offering account was designated for the youth camping trip. You need to move the funds to the correct account. Your entries in ACS are:

**Debit** — General offering account (Revenue account type — decreases balance)

**Credit** — Youth activities account (Revenue account type — increases balance)

## Example 4

You write a check to the IRS to pay your payroll taxes for the month. Your entries in ACS are:

**Debit** — Payroll taxes withheld account (Liability account type — decreases balance)

**Credit** — General checking account (Asset account type — decreases balance)

## The Summary Chart

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Debits increase asset and expense accounts, while they decrease revenue, liability, restricted, and fund principal accounts. Credits increase revenue, liability, restricted, and fund principal accounts, while they decrease asset and expense accounts.

Below are a couple of tables to help you understand and remember how debits and credits affect your accounting balances:

Type of Account	What Does a Debit Do?	What Does a Credit Do?
<b>Assets</b>	Increases	Decreases
<b>Liabilities</b>	Decreases	Increases
<b>Fund Principal</b>	Decreases	Increases
<b>Revenues</b>	Decreases	Increases
<b>Expenses</b>	Increases	Decreases
<b>Restricted</b>	Decreases	Increases

<b>Type of Account</b>	<b>Where are the Increases Recorded?</b>	<b>Where are the Decreases Recorded?</b>
<b>Assets</b>	Debit Column	Credit Column
<b>Liabilities</b>	Credit Column	Debit Column
<b>Fund Principal</b>	Credit Column	Debit Column
<b>Revenues</b>	Credit Column	Debit Column
<b>Expenses</b>	Debit Column	Credit Column
<b>Restricted</b>	Credit Column	Debit Column