3.2 Debits and Credits

- Objectives
  - Introduce debits and credits
  - Introduce the "T" account
  - Illustrate the accounting equation in a "T" account format

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Slide 2

Debits and Credits

- Debits
  - Indicates left
  - Commonly abbreviated Dr.
- Credits
  - Indicates right
  - Commonly abbreviated Cr.
- Used in the recording process to indicate where entries are posted in accounts

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Slide 3

Debits and Credits

<table>
<thead>
<tr>
<th>Account Title</th>
<th>LEFT OR DEBIT SIDE</th>
<th>RIGHT OR CREDIT SIDE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DEBIT BAL.</td>
<td>CREDIT BAL.</td>
</tr>
</tbody>
</table>
Slide 4

Debits and Credits and the Accounting Equation

\[
\text{ASSETS} = \text{LIABILITIES} + \text{OWNERS'EQUITY}
\]

\[
\begin{align*}
\text{DR} & \quad + & \quad \text{CR} \\
\text{LIABILITIES} & \quad - & \quad \text{CR} \\
\text{OWNERS'EQUITY} & \quad + & \quad \text{DR}
\end{align*}
\]

Revenues
\[
\text{DR} \quad \text{CR}
\]

Expenses
\[
\text{DR} \quad \text{CR}
\]

Slide 5

Normal account balances

For each of the following accounts indicate whether the normal account balances is a debit or a credit:

a) Accounts payable
b) Advertising expense
c) Service revenue
d) Accounts receivable
e) Retained earnings
f) Dividends

Slide 6

Normal account balances solution

a. Credit balance
b. Debit balance
c. Credit balance
d. Debit balance
e. Credit balance
f. Debit balance