

Debits and credits

Business



In accounting, debits refer to account entries appearing in the left column of a financial statement while credits involve entries in the right column.

Accordingly, accounts in each section of the balance sheet and income statements can be classified into debits or credits (normal balances). For instance, assets, contra liabilities, and dividends accounts are classified as debits in a balance sheet while contra assets, liabilities, owner's equity, and stockholders' equity refer to credits in a balance sheet. On the other hand, revenues or income and other business gains are classified as credits in an income statement while expenses and losses are considered debits in the same financial statement. Further, the relationship between debits and credits can be drawn from the accounting equation. Here, the accounting equation states that: In this equation, the left side (assets) must always balance with the right side (liabilities and owner's equity).

Moreover, accountin principles dictate that debits must balance with credits. Therefore, assets appear on the left side of the equation, and hence, increases to assets will appear as debits. Conversely, liabilities and owner's equity are recorded on the right side of the equation, meaning that increases to liabilities and owner's equity will be considered as credits. Furthermore, debits and credits are opposites by all means, and therefore, decreases to assets will be recorded on the right side of the equation, meaning that they will be called credits. On the other hand, decreases to liabilities and owner's equity will appear on the left side of the accounting equation, and thus, they are called debits. Generally, it can be stated that revenues and gains are always credited while expenses and losses must always be debited.

I learned about the behavior of debits and credits from the internet and books, which offer a wide range of resources on this topic. Moreover, I learned a lot from my peers during the learning team reflection discussions in week two.. However, I came to realize that there are many inconsistencies in the way the two terms are used in everyday language and in the accounting language. In fact, this has been the source of confusion in my quest to learn more about debits and credits. For example, it is common to refer to debits as decreases in the account value and credits as increases in the account value.

However, as my peers elaborated, debits and credits can increase or decrease depending on the type of account one is referring to. More specifically, asset and expense accounts are always increased on the left column, and they are called debits. On the other hand, increases to liability, revenue, and equity accounts appear on the right column or the credit side. Therefore, debits and credits are generally affected by the type of account, which will ultimately determine the side of the accounting equation in which the account will be recorded. Moreover, increases or decreases to an account balance will change the side of the accounting equation in which the value is recorded.