Debits and Credits

The Bookkeeper uses the double-entry method of accounting. Double-entry simply means that each transaction has equal and offsetting entries—a "debit" and a "credit." In standard accounting practice, debits are always positive and credits are always negative. The sum of debits and credits should always be zero—the books of any company should always be in balance.

The Bookkeeper accounting system is designed to avoid out-of-balance situations by always requiring equality between debits and credits. Three of the four journals (Checks Written, Cash Received, and Invoices Written) are balanced automatically. Offsetting entries are made according to the account numbers you enter under Control Information (command 32 from the Maintenance Menu).

Only in the General Journal and General Ledger will you encounter debits and credits. But since debit and credit terminology may seem contrary to intuition, it's important to grasp the basics of these two terms and how they work within the accounting structure.

Figure 1 illustrates debits and credits as they apply to the types of accounts in the General Ledger and General Journal.

<table>
<thead>
<tr>
<th>Debit (+)</th>
<th>Account</th>
<th>Credit (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>increase</td>
<td>Assets</td>
<td>decrease</td>
</tr>
<tr>
<td>decrease</td>
<td>Liabilities</td>
<td>increase</td>
</tr>
<tr>
<td>decrease</td>
<td>Capital</td>
<td>increase</td>
</tr>
<tr>
<td>decrease</td>
<td>Income</td>
<td>increase</td>
</tr>
<tr>
<td>increase</td>
<td>Expense</td>
<td>decrease</td>
</tr>
</tbody>
</table>

Figure 2 amplifies these concepts and relates them directly to the standard accounting configuration built into The Bookkeeper.

Figures 1 and 2 illustrate the paradoxical nature of debits and credits. Increasing income is recorded as a credit (-). Increasing expense is recorded as a debit (+).

These two figures provide the basic information that's needed to understand debit and credit entries to the General Journal. But for more insight, let's follow the basic accounting equations through to see how these paradoxes arise.

The simplest of the accounting equations is this:

\[
\text{ASSETS} - \text{LIABILITIES} = \text{CAPITAL}
\]

Capital is also known as "owner's equity". Put into words, this equation says, "What you own is equal to the assets you control minus the money you owe."

In the General Ledger, debits and credits must sum to zero—the books must balance. Using basic algebra to manipulate the above equation, we derive the General Ledger equation:

\[
\text{ASSETS} - \text{LIABILITIES} - \text{CAPITAL} = 0
\]

Removing the parenthesis we see that:

\[
\text{ASSETS} - \text{LIABILITIES} - \text{CAPITAL} - \text{INCOME} + \text{EXPENSE} = 0
\]

An increase in income appears as a credit (negative value) in the General Journal offset by a debit (positive value) to assets. An increase in expense appears as a debit (positive value), offset by a credit (negative value) to assets.

To sum up, here are the four seeming paradoxes of the double-entry system of accounting:

- Increasing CAPITAL is a credit (-)
- Increasing PROFIT is a credit (-)
- Increasing INCOME is a credit (-)
- Increasing EXPENSE is a debit (+)

Figure 3 graphically depicts the way these elements fit into the General Ledger equation.
**BACKGROUND**

**Journal Recording To General Ledger Accounts**

You need to use the double-entry method of debits and credits only when entering transactions to the General Journal. The other three journals (Checks Written, Cash Received, and Invoices Written) use a simplified entry method which has these features:

- Only one side of the transaction needs to be entered. The other side is entered automatically to the accounts specified in the CONTROL INFORMATION MENU (command 32 from the MAINTENANCE MENU).
- Minus signs are not used for credit entries—the system recognizes the debit and credit side of transactions entered to these journals.

Figure 4 illustrates how data entry works with the CONTROL INFORMATION contained on the Sample Data Base Diskette. The explanations in this figure describe variations that you may wish to use when maintaining your own books with The Bookkeeper.

---

**2010—Accounts Payable**

Debits to the Accounts Payable account are automatically prompted for if you enter a Vendor Number (e.g., V5). To use this feature, you should regularly credit Accounts Payable as soon as an invoice is received from the vendor; this crediting is done through the General Journal before you enter the Checks Written transaction.

You may override the Accounts Payable prompt by pressing the RETURN key and entering any other account number (such as an expense account number if you don't care to keep track of Accounts Payable).

Instead of entering a vendor number at CHECK TO, you may enter any name. You may also enter the word VOID to indicate a void check.

---

**1020—Cash on Deposit**

Entered automatically by the system to the account specified in Control Information (command 32, Maintenance Menu).

---

**1110—Accounts Receivable**

Do not use a negative sign for Cash Received credit (income) entries. The entries will be interpreted as negative values.

Credits to Accounts Receivable are automatically prompted for if you enter a Customer Number (e.g., C4).

Debits to Accounts Receivable are automatically entered whenever an invoice to that customer is recorded in the Invoices Written journal.

You may override the Accounts Receivable prompt by pressing the RETURN key and entering any other credit account number (such as an income account number if you don't care to keep track of Accounts Receivable). Instead of a customer number, you may enter any name.

---

**1110—Accounts Receivable**

Entered automatically by the system to the account specified in Control Information (command 32, Maintenance Menu) unless CASH is entered at CUSTOMER NO.

---

**4011—Sales**

**2030—Sales Tax Payable**

Entries into these accounts are automatically prompted for if you specify the account numbers in Invoice Prompts (command 35, Maintenance Menu). The invoice may be a customer number, any name, or the word CASH (to indicate a cash sale).