



# **Bookkeeping Basics**

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## Accounting and Bookkeeping

Why would you want to learn bookkeeping and keep up to date financial records anyway ? Can't you hire an accountant to come after the end of the year and get your check book and shoe box and do your taxes ? Sure you can ! And yes you will have adequately fulfilled your taxpayer obligations. But in order to run a business and know what, where, and when to take corrective actions requires business information. How do you get and where do you find this information ? You don't if you don't keep accurate and current records about your business financial activities (bookkeeping).

Let's begin with a definition for accounting. **Accounting** is the art of analyzing, recording, summarizing, reporting, reviewing, and interpreting financial information. Let's also define what bookkeeping is and is not. I hate to tell this but I'm going to tell a true story about Dave in high school. He thought he was fairly smart back in his high school days and took all the college prep classes. His high school offered bookkeeping classes but he had no clue as to what that course was about. He thought bookkeeping was a course on how to properly organize and stack the reading books in the proper place and shelves in the library using that Dewey decimal code. That is keeping the books isn't it ? Well kind of, but that's not the bookkeeping you're going to learn here.

Bookkeeping is one of the components of accounting. Think of accounting as the mom and bookkeeping as one of her children. **Bookkeeping** is the process of recording and classifying business financial transactions (activities). In simple language-maintaining the records of a businesses or an individual's financial activities. Bookkeeping's objective is simply to record and summarize financial transactions into a usable form that provides financial information about a business. Accountants normally plan and set up the accounting and bookkeeping system for a business and turn over the day to day record keeping to the owner or one of his or her employees. In this age of computers more and more of the daily bookkeeping is being done using bookkeeping software and computers although some businesses still maintain manual records. Due to the reasonable cost of computers and software, I recommend an automated (computer) bookkeeping system.



### Types of Business Structures

One of the first decisions that a person needs to make is how the company should be structured. The four basic legal forms of ownership for small businesses are a Sole Proprietorship, Partnership, Corporation, and Limited Liability Company. There are advantages and disadvantages as well as income tax ramifications associated with each type of organization. What follows is a brief description of the different types of organizations.

Most small business start out as sole proprietorships. These firms are owned by one person who is normally active in running and managing the business.

A partnership is two or more people who share the ownership of a single business. In order to avoid misunderstandings about how profits and losses are shared , whose responsible for what, and other management, ownership, and operating decisions the partners normally have a formal legal partnership agreement.

A corporation is an organization that is made up of many owners who normally are not active in the decision making and operations of the business. These owners are called shareholders. Their ownership interest is represented by certificates of ownership (stock) issued by the corporation.

The LLC is a relatively new type of business structure that combines the benefits of a partnership and corporation. All the different types of organizations that I told you about have some unique methods and rules for accounting for their transactions associated with their equity (ownership) accounts.



### Accounting Rules

Games such as basketball, soccer, baseball, and football all have rules. Accounting is no different. Accounting also has its own established set of rules and guidelines. Why do we need rules for sporting games and also accounting ? The answer is quite simply in order to know how to play the 'game'. Everyone that plays the 'game' abides by the same rules. Let's take a look at some of the rules used to play the 'Accounting Game'.

The **Accrual Concept** supports the idea that income should be measured at the time major efforts or accomplishments occur rather than when cash is received or paid.

The **Revenue Recognition Principle** requires companies to record revenue when it is realized or realizable and actually earned. In other words, at the time the goods are actually sold or the services are rendered.

The **Matching Principle** goes hand in hand with the Revenue Realization Principle. The matching principle is recording the revenues earned during a period using the revenue realization principle and matching (offsetting) the revenues with the expenses incurred in generating this revenue.

The **Business Entity Assumption** requires every business to be accounted for separately from the owner. Personal and business-related transactions are kept apart from each other. In other words, the separate personal transactions of owners and others are not commingled with the reporting of the economic activity of the business. One of the first recommendations almost all accountants tell a client is to at least establish a business checking account and to use it to only record their business transactions.

The **Going Concern Concept** assumes that a business will continue operating and will not close or be sold. It assumes that a business will be in operation for a long time. Based on this assumption, actual costs instead of liquidation values are used for presenting financial information. This assumption is abandoned in the event that a business is actually going out of business.

The **Cost Concept** requires that most assets are recorded at their original acquisition cost and no adjustment is made for increases in market value.

The **Materiality Concept** states that the significance and importance of an item should be considered in order to determine what is reported.

Insignificant events need not be measured and recorded.

The **Accounting Period Concept** assumes that business operations can be recorded and separated into different time periods such as months, quarters, and years. This is required in order to provide timely information that is used to compare present and past performance.

The **Cost-Benefit Convention** states that the benefit of providing the financial information should also be weighed against the cost of providing it.

The **Industry Practices Convention** states that when customary industry practices exist they should be followed and used for financial reporting.



## Types Of Accounting Systems

A business needs to determine the type of bookkeeping system that will be used for recording their business transactions. Many small businesses start out using the single entry system.

### **Single Entry System**

The single entry system is an "informal" accounting bookkeeping system where a user of this system makes only one entry to enter a business financial transaction.

A checkbook, for example, is a single entry bookkeeping system where one entry is made for each deposit or check written.

Receipts are entered as a deposit and a source of revenue. Checks and withdrawals are entered as expenses. If a manual system is used, in order to determine your revenues and expenses you have to prepare worksheets to summarize your income and categorize and summarize your different types of expenses. Bookkeeping software and spreadsheets are also available to do this for you.

The emphasis of this system is placed on determining the profit or loss of a business.

It got its name because you record each transaction only once as either revenue (deposit) or as an expense (check). Since each entry is recorded only once, debits and credits, the recording method required for the double entry system are not used to record a financial event.

### **Double Entry System**

The double entry system is the standard system used by businesses and other organizations to record financial transactions. Since all business transactions consist of an exchange of one thing for another, double entry bookkeeping using debits and credits is used to show this two-fold effect. Debits and credits are the device that provide the ability to record the entries twice.

The double entry system also has built-in checks and balances. Due to the use of debits and credits, the double-entry system is self-balancing. The total of the debit values recorded must equal the total of the credit values recorded.

This system, when used along with the accrual method of accounting, is a complete accounting system and focuses on the income statement and balance sheet.

It got its name because each transaction is recorded in at least two places (accounts) using debits and credits



### Accounting Methods

An important decision faced by a new business is what accounting or bookkeeping method are they going to use to track their revenue and expenses. If inventories are a major part of the business, the decision is made for the business owner by the Internal Revenue Service (IRS) and the business is normally required to use the accrual method of accounting.

The **Cash Basis** recognizes revenues (earnings) in the period the cash is received and expenses in the period when the cash payments are made.

The **Accrual Basis** records income in the period earned and all expenses in the period incurred. An easy example to help clarify the difference between the two methods is provided by how most of us prepare and calculate our individual tax returns. We record our income as earned when we get our payroll check (cash basis) and not each day we work and are actually earning our income (accrual basis). An easy example related to expenses would be how you account for donations on your tax return. You deduct the donations when actually paid (cash basis) and not at the time you make your pledge (accrual basis).

Most accountants when asked will recommend that a business use the double entry bookkeeping system and the accrual basis which is based on the revenue realization principle and a principle called the matching concept. The revenue realization principle states that revenue should be recorded when actually earned. The matching principle is recording the revenues earned during a period using the revenue realization principle and matching (offsetting) the revenues with the expenses incurred in generating this revenue. Why is this so important ? All businesses small and large need information to determine how well or badly they are performing; however, if this information is misleading it could lead to false conclusions and unnecessary actions.



## Types Of Accounts

First, let's start with the Major Categories. These are the Types Of Accounts that are used to organize our financial information. The **Major Types of Accounts** are **Assets, Liabilities, Owner's Equity, Revenue, Expense, and Draws**. I'll present a formal and an informal definition for each term.

### **Assets**

Formal Definition-The properties used in the operation or investment activities of a business.

Informal Definition-All the good stuff a business has (anything with value).  
The goodies.

Additional Explanation-The good stuff includes tangible and intangible stuff.  
Tangible stuff you can physically see and touch such as vehicles, equipment and buildings.

Intangible stuff is like pieces of paper (sales invoices) representing loans to your customers where they promise to pay you later for your services or product. Examples of assets that many individuals have are cars, houses, boats, furniture, TV's, and appliances.

Some examples of business type assets are cash, accounts receivable, notes receivable, inventory, land, and equipment.

### **Liabilities**

Formal Definition-Claims by creditors to the property (assets) of a business until they are paid.

Informal Definition- Other's claims to the business's stuff. Amounts the business owes to others.

Additional Explanation-Usually one of a business's biggest liabilities (hopefully they are not past due) is to suppliers where they have bought goods and services and charged them. This is similar to us going out and buying a TV and charging it on our credit card. Our credit card bill is a liability. Another good personal example is a home mortgage. Very few people actually own their own home. The bank has a claim against the home which is called a mortgage. This mortgage is another example of a personal liability. Some examples of business liabilities are accounts payable, notes payable, and mortgages payable.

### **Owner's Equity (Capital)**

Formal Definition- The owner's rights to the property (assets) of the business; also called proprietorship and net worth.

Informal Definition- What the business owes the owner. The good stuff left for the owner assuming all liabilities (amounts owed) have been paid.

Additional Explanation-Owner's Equity represents the owner's claim to the good stuff (assets). Most people are familiar with the term equity because it is so often used with lenders wanting to loan individuals money based on their home equity. Home equity can be thought of as the amount of money an owner would receive if he or she sold their house and paid off any mortgage (loan) on the property.

**Revenue (Income), Expenses, and Draws** - Revenues, expenses, and draws are sub categories of owner's equity.

### **Revenue (Also Called Income)**

Formal Definition-The gross increase in owner's equity resulting from the operations and other activities of the business.

Informal Definition- Amounts a business earns by selling services and products. Amounts billed to customers for services and or products.

Additional Explanation-Individuals can best relate by thinking of revenue as their earnings or wages they receive from their job. Most business revenue results from selling their products and or services.

### **Expense (Also Called Cost)**

Formal Definition- Decrease in owner's equity resulting from the cost of goods, fixed assets, and services and supplies consumed in the operations of a business.

Informal Definition- The costs of doing business. The stuff we used and had to pay for or charge to run our business.

Additional Explanation- Some examples of personal expenses that most individuals are familiar with are utilities, phone, clothing, food, gasoline, and repairs.

Some examples of business expenses are office supplies, salaries & wages, advertising, building rental, and utilities.

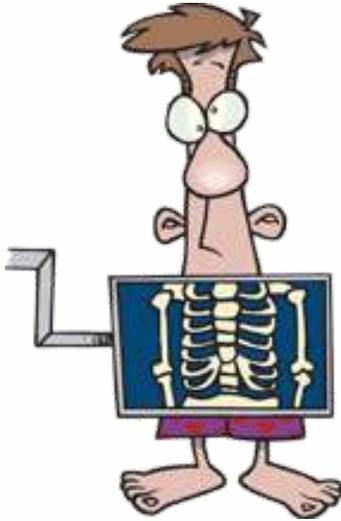
### **Owner's Drawing**

Formal Definition- Decrease in owner's equity resulting from withdrawals made by the owner.

Informal definition- Amounts the owner withdraws from his business for living and personal expenses.

Additional Explanation- The owner of a sole proprietorship does not normally receive a 'formal' pay check from the business, but just like most of the rest of us needs money to pay for his house, car, utilities, and groceries. An owner's draw is used in order for the owner to receive money or other 'goodies' from his business to take care of his personal bills.

We use **detail accounts** to actually collect a business's financial information. The Detail Accounts are normally grouped by the Major Category that they belong to. The number of detail accounts depends on the needs of the business.



## Chart Of Accounts

Dave refers to the Chart Of Accounts as the Red Headed Step Child. I guess you wonder why ? He told me that many of the textbooks and courses that he has looked at 'gloss' over the chart of accounts and don't give the topic the attention and respect it deserves.

What Is The Chart Of Accounts ? The Chart Of Accounts is a listing of all the individual accounts in the general ledger that contains the account's name, a brief description of the account, and optional other identifiers (codes) or a coded account number assigned to aid in recording, classifying, summarizing, and reporting transactions.

Your accounting system is built around this skeleton list of account names called the chart of accounts and is organized by the types of major accounts. The accounts you set up are tailored for your particular type of business.

**What's an Account ?** An Account is a separate record for each type of asset, liability, equity, revenue, and expense used to show the beginning balance and to record the increases and decreases using debits and credits for a period of time and the resulting ending balance at the end of the period. All the Individual Accounts make up or become a part of the Chart Of Accounts.

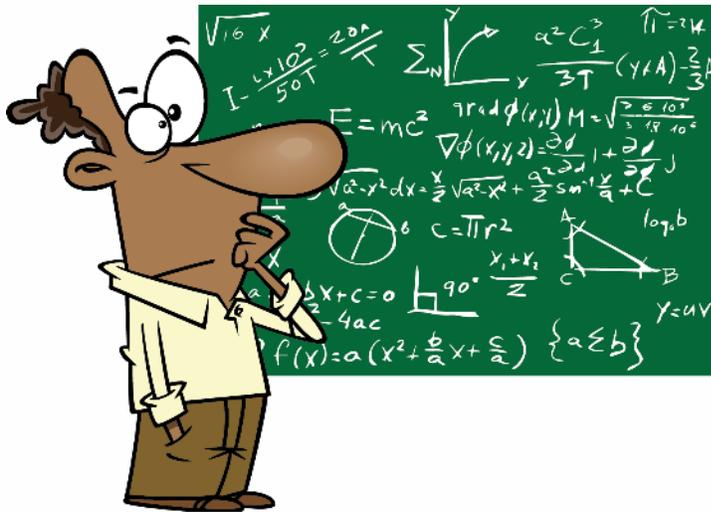
**How Are They Organized ?** The chart of accounts is typically organized and listed in a special order. Balance Sheet Accounts are listed first followed by the Income Statement Accounts. Note-This USA Order may vary depending on your country. Normally, the order of the listing of the asset and liability accounts is based on liquidity. The most liquid accounts are listed first. Thus, when listing assets, cash is listed before accounts receivable which comes before inventory. Likewise for liabilities, accounts payable comes before notes payable because accounts payable are normally paid before notes payable.

Revenue and expense accounts tend to follow the standard of first listing the items most closely or directly related to the operations of the business. The revenues or sales resulting from normal operations are listed before revenue or income resulting from non-operating sources. Likewise, the operating costs and expenses that are most closely related to the operations of the business are listed before the non-operating expenses. Cost of Sales is listed first followed by operating expenses and then the non-operating expenses. The operating expenses are often grouped into additional categories such as Selling Expenses and General and Administrative Expenses. There are no rigid rules as to the order that the operating expenses are listed within a category.

**Why Is The Chart Of Accounts Important ?** Setting up a chart of accounts is one of the first, if not the first, task you perform when setting up an accounting system whether a manual or computerized system. A business needs and should want to know where the money is coming from and where it is going !!! Your chart of accounts is a tool for gathering and organizing this type of information.

A business must have useful information in order to be able to survive in today's competitive business world. You notice that I said information - raw data is not very useful until it has been 'massaged' and summarized into meaningful information. Your accounting system should be designed and used to provide much of this detailed, summarized, and needed information.

The information available for your financial reports (summary and or detailed) often depends on how well you designed your chart of accounts. One of the main keys to a properly designed accounting system is your chart of accounts. The chart of accounts is the Foundation that your financial record keeping system is built upon. In a nutshell, the Chart Of Accounts is simply an organized and coded listing of all the individual accounts used to record your business transactions and that also makeup the General Ledger. It is a major key to a business having the information needed for managing and reporting its activities.



## Accounting Equation

The Accounting Equation is the foundation on which the double entry bookkeeping system is built. Like ice cream is represented by many flavors, the accounting equation is expressed in different forms ranging from a summary to a detailed equation. We'll start our discussion with the summary equation or abbreviated version and then proceed to the fully expanded or detailed version of the accounting equation. The top most version of the equation is

### Property = Property Rights.

This **abbreviated equation** states that the property of the business must equal the rights to the property or stated another way the claims against the property. In other words, we want to track not only the goodies (property) we get, but also how we acquired or got them and from whom (source).

Now, we'll move on to the **expanded version** of the accounting equation. The expanded version of the accounting equation is

### **Assets = Liabilities + Owner's Equity.**

All we actually did is replace the term Property with the term Assets and the term Property Rights with the terms Liabilities and Owner's Equity. Property and assets are both terms that define the same thing and property rights is an abbreviated term for liabilities and equity. In other words, since (1) Property = Assets and (2) Property Rights (Claims to the Property) = Liabilities + Equity, the abbreviated accounting equation Property = Property Rights expanded or restated now becomes

### **Assets = Liabilities + Owner's Equity.**

Finally, let's develop our fully expanded accounting equation. All we're going to do in this step is to substitute the term Owner's Equity with all the components that actually make up Owner's Equity. Owner's Equity is the claim that the owners have to the property or assets of a business. The owner's claim is made up of (1) what they invested or put into the business, (2) what they took out, and (3) the operation of the business which is called a profit or loss. Preferably a profit.

The profit or loss is the difference between the Revenues and Expenses ( Profit or Loss = Revenues - Expenses ). Profits increase the owner's claim to the assets while losses decrease the owner's claim to the business assets. The Owner's Equity Equation is

Current Owner's Equity (Capital) = Beginning Owner's Equity (Capital) + Owner's Investments + Revenues - Expenses - Draws.

This equation illustrates the relationships and effects investments, revenue, expense, and drawing have on Owner's Equity. These effects are - (1) Owner Investments increase Owner's Equity (2) Revenues increase Owner's Equity (3) Expenses decrease Owner's Equity, and (4) Owner's Draws decrease Owner's Equity. After including all the detailed components that make up Owner's Equity, the **fully expanded accounting equation** is

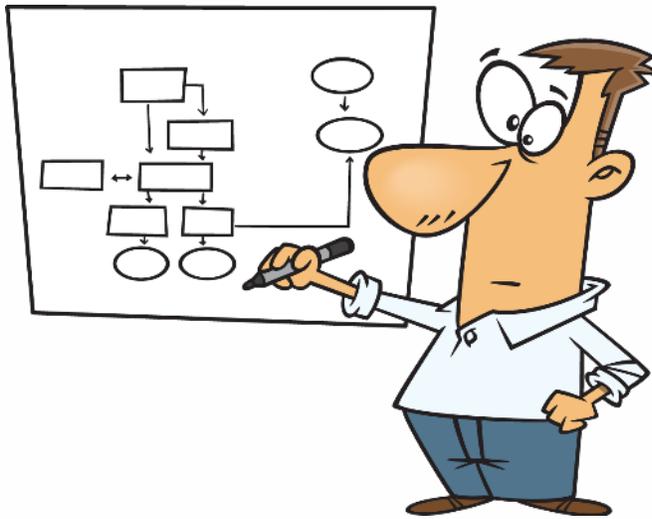
**Assets = Liabilities + ( Beginning Owner's Equity + Owner's Investments + Revenues - Expenses - Draws ).**

Our Last Thoughts About This Accounting Equation. In using the accounting equation, if two of the three components are known, the third can be easily calculated by rearranging the equation.

(1) You can Calculate Assets if Liabilities and Owner's Equity are known as follows-Assets = Liabilities + Owner's Equity.

(2) You can Calculate Owner's Equity if Assets and Liabilities are known as follows-Owner's Equity = Assets - Liabilities.

(3) You can Calculate Liabilities if Assets and Owner's Equity are known as follows-Liabilities = Assets - Owner's Equity.



## Debits and Credits

What actually makes double entry accounting work is a simple concept called debits and credits.

**A Debit** is an entry (amount) entered on the left side (column) of a journal or general ledger account that increases an asset, draw, or an expense or an entry that decreases a liability, owner's equity (capital), or revenue.

**A Credit** is an entry (amount) entered on the right side (column) of a journal or general ledger account that increases a liability, owner's equity (capital) or revenue, or an entry that decreases an asset, draw, or an expense.

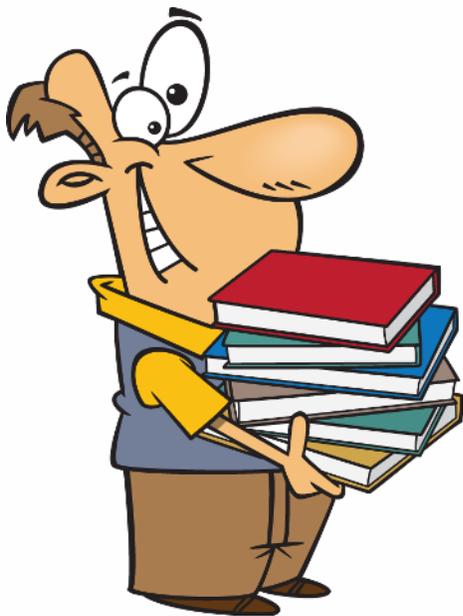
Debits and Credits are used to identify increases and decreases to account balances. Whether the debit or credit represents an increase or decrease depends on the type of account.

How do Debits and Credits relate to the Accounting Equation  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$  ? The Balance of the Left Hand Side of the Equation (Asset Accounts) will normally have a Debit Balance and the Balance of the Right Hand Side (Liability and Equity Accounts) will normally have a Credit Balance. Generally, anything that increases the left side of the equation or decreases the right side of the equation is considered a debit and anything that increases the right side of the equation or decreases the leftside of the equation is considered a credit.

All the accounts have a normal balance that is either a debit balance or a credit balance. Asset accounts normally have a debit balance. Liability accounts normally have a credit balance. Owner's Equity normally has a credit balance. The detailed accounts of equity namely revenue, expense, and draws have the following normal balances. Revenue accounts normally have a credit balance. Expense and draw accounts normally have a debit balance.

Dave said to provide you with a **Simple Guide to Debits and Credits**. Well, here it is. All Accounts that Normally Have a Debit Balance are Increased with a Debit and Decreased with a Credit. These accounts are Assets, Expenses, and Draws. All Accounts that Normally have a Credit Balance are Increased with a Credit and Decreased with a Debit. These accounts are Liabilities, Owner's Equity ( Capital ), and Revenue. Many accountant jokes refer to debits on the left and credits on the right.

If we properly use debits and credits to record and summarize our bookkeeping records, our Debits will always equal our Credits and provide some assurance that our records are accurate.



### General Ledger and Journals

Each account that we want to track and keep up with has a separate page or pages maintained in a record book called the **General Ledger**. The book is organized into major sections just like the Accounting Equation. Do you have any idea what these sections might be ? Come on this question is not that hard. The general ledger's major sections are Assets, Liabilities, Owner's Equity, Revenues, Expenses, and Draws.

For each item (account) in our General Ledger, we record the increases and decreases for a period (usually a month) and calculate its ending balance.

The ending balance of the account is easily determined by adding the increases and subtracting the decreases from the account's beginning period balance.

Ending Account Balance = Beginning Balance plus Increases minus Decreases.

Simply stated a **General Ledger** is just a book containing the summarized financial transactions and balances of the accounts for all of a business's assets, liabilities, equity, revenue, and expense accounts.

Methods and symbols you might run across that indicate an account's balance is a debit or credit amount are - (1) Parentheses indicate a credit balance and no parentheses indicate a debit balance. (2) Brackets indicate a credit balance and no brackets indicate a debit balance. (3) Dr indicates a debit balance and Cr indicates a credit balance. (4) Plus Sign indicates a debit balance and Minus Sign indicates a credit balance. Note- The plus and minus are often used by accounting and bookkeeping software programs to indicate debits and credits. Don't get confused and think that the plus sign means an increase or that the minus sign means a decrease. They do not. In this case, they are simply symbols that mean either a debit or a credit.

It logically follows that since we only want summary amounts in our Ledger we need to record the detail entries some place else first. What record(s) do you use to do this ? Your right ! **Journals** are the preliminary records. All transactions are first entered in a preliminary record called a **journal or book of original entry**. This process is called journalizing. After your business transactions have been entered in your journals, they are then periodically (usually monthly) summarized and totaled and then transferred (posted) to the General Ledger as summary entries.

**Specialized Journals** are journals used to initially record and group special types of transactions such as sales, cash disbursements, and cash receipts in their own journal. Some Special Journals a business will normally have are-Cash Receipts Journal, Cash Disbursements Journal (Check Register), Payroll Journal, Sales Journal, Purchase Journal, and the General Journal. All these journals are designed to record special types of business transactions and post the summarized debit and credit totals accumulated in these journals to the General Ledger periodically (usually once a month).



## Financial Statements

**Financial Statements** are summary accounting reports prepared periodically to inform the owner, creditors, and other interested parties as to the financial condition and operating results of the business. The Balance Sheet, Income Statement, and Capital Statement are three of the common formal financial reports prepared by a business. You can think of the financial statements as a business's report cards.

A **Balance Sheet** is simply a picture of a business at a specific point in time, usually the end of the month or year. It shows the amount and nature of a business's assets, liabilities, and owner's equity. It is also known as a Statement Of Financial Position or a Statement Of Financial Condition.

By analyzing and reviewing this financial statement the current financial 'health' of a business can be determined.

The balance sheet is derived from our accounting equation and is a formal representation of our equation,  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ . The categories and format of the Balance Sheet are based on what are called Generally Accepted Accounting Principles (GAAP). These principles are the rules established so that every business prepares their financial statements the same way.

All Balance Sheets contain the same categories of Assets, Liabilities, and Owner's Equity. Assets are listed based on how quickly they can be converted into cash which is called liquidity. In other words, they're ranked. The asset most easily converted into cash is listed first followed by the next easiest and so on. Of course since cash is already cash it's the first asset listed. Liabilities are listed in the order of how soon they have to be paid. In other words, the liabilities that need to be paid first are also listed first.

The Owner's Equity Section has different categories based on the type of business organizations, such as a sole proprietorship, partnership, or corporation.

The Balance Sheet has two formats or types of presentation. The Account Form and the Report Form. In the account form the major categories are presented side by side. In the report form the major categories are stacked on top of each other.

The **Income Statement** is a formal financial statement that summarizes a company's operations (revenues and expenses) for a specific period of time usually a month or year. This statement is also called a Profit and Loss Statement or an Operating Statement. The categories and formats of the Income Statement also follow the rules known as Generally Accepted Accounting Principles (GAAP) and contains specific revenue and expense categories.

The twelve month period that a yearly income statement covers is called a fiscal year. A large number of businesses use the calendar year January thru December as their fiscal year but a business can elect a different fiscal year such as June thru May.

Hopefully a business earns a profit called net income which occurs when revenues are larger than expenses. If however, expenses are larger than revenues a net loss results.

The major sections of an income statement are the heading, the revenue section, the expense section, and the final calculation of a profit or loss. The heading should contain the name of the company, the title of the statement, and the period covered by the statement. Businesses that are retailers, wholesalers, or manufacturers have a special section included in their income statement called Cost Of Goods Sold. This section computes the Cost Of The Goods Sold that were either purchased and sold or manufactured and sold. In retailing and wholesaling, computing the cost of goods sold during the accounting period involves beginning and ending inventories. In manufacturing it involves finished-goods inventories, raw materials inventories, and goods-in-process inventories.

The **Capital Statement** is the financial report that summarizes all the changes in owner's equity that occurred during a specific period.



## Common Types Of Business Transactions

A **Transaction** is any event or condition that must be recorded in the books of a business because of its effect on the financial condition of the business, such as buying and selling. A business deal or agreement. Transactions may require additions to both sides of the accounting equation, subtractions from both sides of the accounting equation, or an addition and subtraction on the same side of the accounting equation.

In other words, (1) A transaction can increase the asset side of the equation and also increase the liability and equity side of the equation, (2) A transaction can decrease the asset side of the equation and also decrease the liability and equity side of the equation, (3) A transaction can increase the asset side and also decrease the asset side of the accounting equation, (4) A transaction can increase the liability and equity side and also decrease the liability and equity side of the accounting equation.

In a typical business transaction we get something and we give up something. Let's look at some examples of **Typical Types Of Business Transactions** and the Accounts and Entries Used To Record Them.

### **(1) Sale-Sell goods and or services**

**(a)** Cash Sale-customer pays at the time of sale. The business gets cash or a check from their customer and gives up a product or service to their customer.

Accounts Used-Debit- Cash and Credit- Sales

**(b)** On Account Sale-business allows the customer time to pay. The business gets a promise to pay from their customer and gives up a product or service to their customer.

Accounts Used-Debit- Accounts Receivable and Credit- Sales

### **(2) Purchase goods and or services.**

**(a)** Cash Purchase-business pays the supplier at the time of purchase. The business gets a product or service from their supplier and gives up cash or a check to their supplier.

Accounts Used-Debit-Expense or Inventory Account and Credit- Cash

**(b) On Account Purchase**-supplier allows the business time to pay The business gets a product or service from a supplier and gives up a promise to pay to their supplier.

Accounts Used- Debit-Expense or Inventory Account and Credit- Accounts Payable

**(3) Pay Supplier for Charge Purchases**-pay suppliers for products and or services that we promised to pay for later (charge). The business gets the amount of their promise to pay the supplier reduced and gives up cash or a check.

Accounts Used- Debit-Accounts Payable and Credit- Cash

**(4) Receive Customer Charge Payments**-receive payments from a customer that promised to pay us later (charge sale). The business gets cash or a check from their customer and gives up (reduces the amount of) their customer's promise to pay.

Accounts Used- Debit- Cash and Credit- Accounts Receivable

**(5) Borrow Money (Loans)** The business gets cash or equipment and gives up a promise to pay. Accounts Used-Debit-Cash or Equipment and Credit- Note Payable

**(6) Repay a Loan** The business gets the amount of their promise to pay reduced and gives up cash or a check. Accounts Used-Debit-Note Payable and Credit-Cash

**(7) Draw** The business gets the owner's claim to the business assets reduced and gives up cash or a check. Accounts Used-Debit-Owner's Draw and Credit-Cash

**(8) Payroll** The business gets services from their employees and gives up a check. Accounts Used-Debit-Salary & Wages Expense and Credit-Cash

As you can see from the prior examples, transactions use debits and credits and accounts to initially record them in a business's books (journals).

For a more detailed look at Beginning Bookkeeping check out my online Bookkeeping Tutorials.

<http://www.dwmbeancounter.com>.