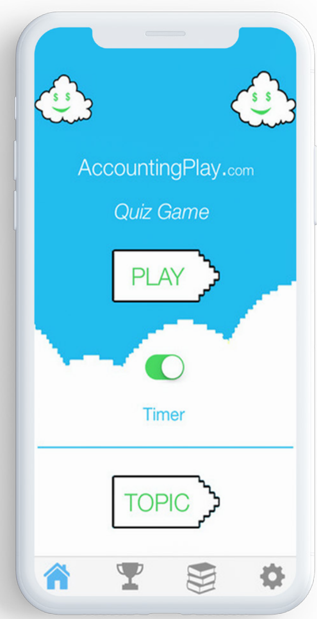
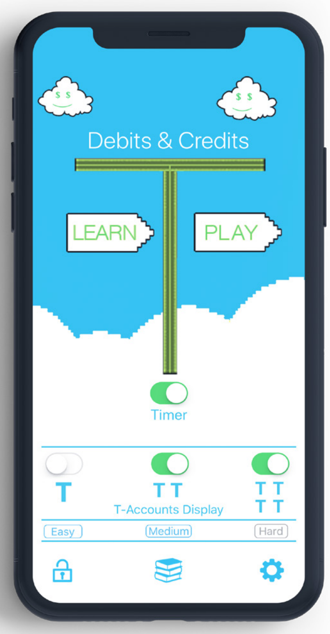
Accounting Play.com

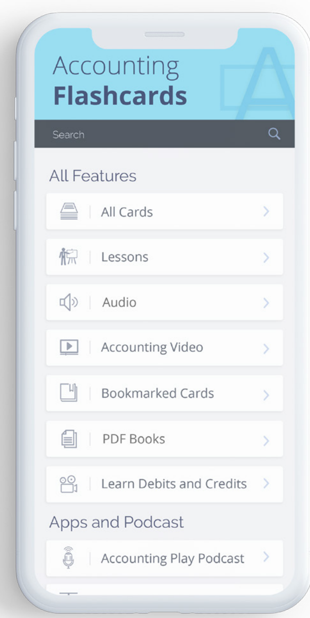
QUIZ GAME & BOOK



DEBITS & CREDITS



FLASHCARDS & LESSONS



PODCAST • CAREER • BLOG • BOOKS • COURSES

MISSION

ACCOUNTING PLAY

8 REASONS TO USE Accounting Play IN THE CLASSROOM

1 **Jumpstart your curriculum in seconds with Accounting Play apps**

• Make debits & credits along with intro to financial statements a breeze!

2 **Take advantage of students' increasing use of their phones**

• Students have their phones with them 24/7.

• Now they can study with Accounting Flashcards, review audio and video lessons, and play accounting games on the go!

3 **Prime the mental pump before hitting the whiteboard**

• Start class with five minutes of Accounting Play. Get everyone thinking acounting before diving deeper.

4 **Leave the basics to us**

• Use Accounting Play resources to cover intro topics and memorization items

• Spend valuable class time where your students need it most

5 **Mixed Media: Free cheat sheet and Debits and Credits workbook encourage use of paper too**

6 **Accounting Play Podcast and Blog included for free**

• The podcast and blog cover deeper subjects and even accounting career advice

7 **Diverse, comprehensive content allows for integration into any curriculum**

8 **Empower all learning styles**

•The apps are great for self-starters, group learning, and one-on-one teaching

WHAT'S IN IT FOR US?

1. Include us on your online syllabus so more students can find us
2. Students can unlock premium paid features only if needed
3. Assign all 3 accounting apps for less than the price of lunch!
4. Your feedback helps us have more student and teacher impact

2018 PRICING

Even the free apps are extremely useful for students – please link us AccountingPlay.com on your online syllabus.

But our greatest achievement is to be assigned materials for your class...

ALL 3 APPS
JUST $9.99

(A $50 value)

Students can also receive two bonus apps when purchasing the iOS Bundle (a one time purchase)

And when students purchase all three apps they receive all the premium courses online at AccountingPlay.com

CODE: **AAATEACHER**
or when they reach out to us directly. (Ordinarily $27)

Accounting Flashcards

Features: Lessons, lashcards, audio, books, illustrations that empower students to learn anywhere with any learning style.

Accounting Quiz Game

Features: Interactive quiz game – coordinated with Accounting Flashcards and Debits & Credits App

Accounting - Debits & Credits

Features: **The FAMOUS Debits & Credits game!**
Have a competition, learn fast, dial in your skill level, and move towards **Mission 100% Pass Rate**

Accounting Play.com

Intro to Accounting Excel, Financial Accounting, All Books, Podcast, Free Quiz, Blog, Ratios, and more!
FREE FOR 2018 Students

Accounting Play
FAMILY OF APPS

The Accounting Play app family offers an excellent way for students to build a strong accounting foundation. All three apps are free and feature premium content that can be unlocked for a small, one-time fee. **Students can stick to free content or unlock them all!**

Accounting Flashcards

5-STARS ON the APP STORE!

1. Learn financial accounting with flashcards, audio, video, and text-based lessons
2. 24 free flashcards, covering debits & credits and introduction to financial statements
3. 5 free lessons with key free flashcards
4. Accounting cheat sheet PDF
5. Fully unlocked, gain access to:
    - 106 total illustrated flashcards & nearly 2 hrs video
    - 20 total written lessons also with audio narration
    - PDF books covering basics, ratios, and analysis

Accounting Quiz

4.5-STARS ON the APP STORE!

1. Test content from Accounting Flashcards with this fast and fun quiz game
2. Free version includes Account Types, Income Statement, and Statement of Shareholders' Equity
3. Fully unlocked:
    - 12 more topics to be quizzed on
    - PDF bank of questions and answers

Debits & Credits

4.3 STARS ON the APP STORE!

1. Memorize the accounting equation and how to record transactions with this light-ning-fast game
2. Fully unlocked, receive unlimited plays to drill debits and credits to your heart's content
    - Set difficulty from introductory to advanced

REVIEWS

Syed Jafri
★ November [illegible]6 — 14

Pretty cool Helpful for both accounting and non - accounting people. The simple approach to describe and define things is the essence of learning.

Stephanie Perez
★★★★★ October 28, 2015 — 1

I started using the app for my Certified Bookkeepers class. Excellent tool for studying befor a test. The Cheat sheet is awesome & shared with my class. It has helped me with my Depreciation & Inventory classes; especially with the formulas I keep forgetting. Excellent tool for studying before ...

Katie Anne Belle
★★★★★ May 14, 2016

SO HELPFUL!!!! Self - Studying to get ahead as I plan on going to college for accounting. Very nice!

nhlangano mahlale
★★★★★ April 25, 2016

I hated accounting but since using this app I love it Awesome app I now understand accounting everything is clear now💞 💖 👌 👌 👍 👍 👍 💖

Ratings and Reviews

4.3 out of 5 — 56 Ratings

Great app and they fixed the ... — Oct 26, 2016
★★★★★
I purchased the $3 for unlimited plays which I thought was a fair deal. The game is fun but once I purchased it, it will not recognize my purchase. Whenever I try to restore my purchase it just loads forever. But if I try to play or study the cards the app works w more

Creative way to drill concepts — Oct 4, 2016
★★★★★
It's great, hints need to stay up longer so I can actually read it. Also if the intent is to help others understand, can't help but feel like the developer should charge 99 cents instead of the current price. Paying more than the suggested price to me, seems like t more

Nice but — May 1, 2016
★★★☆☆
This is a good app for quizzing you knowledge. The only thing I wish was different is the hints that come up if you answer wrong. They are only up for about 2 seconds. Maybe for some people this is okay but for me I like to take away some help more

Great for studying Accounting! — Sep 25, 2015
★★★★★
I am a student major in accounting and using this app to check my understanding of accounting concepts. I learn so much better by playing quiz games on this app! I'll rate it 5 starts, cuz those quiz questions are essential and easy to memorize, and really help me with my exams! Highly recommend for accounting students.

By far my favorite App! — May 7, 2018
★★★★★
I'm so glad I stumbled across John and all of his wonderful, informative products! The apps are cohesive, helpful and work with all levels of accounting. Whether you need a refresher, more information, or are just starting with little to no experience.

Bonus. If you ever need to reach out the developer and customer service are A+. Keep up the great work!

Wifi needed? Apr 1, 2016
★★★★★ CMoneySeeFilm

Finally got the app once I made it to a wifi haven. Working through the video lessons and listening in the car too. Still waiting on the tax app to come, but got some similar info on the site while waiting.

Extremely helpful and easy to... Oct 18, 2017
★★★★★ invalid_handle

I've found this app to be straightforward and very full of material that helped me. Highly recommended whether you're in an accounting class or just want some calculations in your back pocket.

Super helpful!!! Love it! May 5, 2018
★★★★★ Olala0987654321

Love the app! I am a designer and do a lot of contract work so thought it would be really helpful to learn a few things about taxes and how to maybe better plan my expenses. Little did I know how actually helpful it was! I wish I knew about this app earlier - would have more

The Best !!!! Feb 25, 2017
★★★★★ Gerard Angelo

It's been a while since I hit the books. So there came the time I never got to sharpen my Accounting knowledge till these applications came into the eco-system.

Now, with just an iPad mini, I am able to study and practice my Accounting skills in small ways possible.

Thank you so much!

Ratings and Reviews

4.7 out of 5 66 Ratings

Super helpful!!! Love it! May 5, 2018
★★★★★ Olala0987654321

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Ratings and Reviews

4.5 out of 5 39 Ratings

By far my favorite App! May 7, 2018
★★★★★ CQuana

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Great for studying Accountin... Sep 25, 2015
★★★★★ Fiona 66dzx

I am a student major in accounting and using this app to check my understanding of accounting concepts. I learn so much better by playing quiz games on this app! I'll rate it 5 starts, cuz those quiz questions are essential and easy to memorize, and really help m more

INTRO TO DEBITS & CREDITS

IN CLASS AND HOMEWORK – 20 MIN

PART I – With Debits & Credits App and Book

1. Instructor lecture or Accounting Play Video
2. Favorite You Tube Video if preferred
3. Go over Debits and Credits book and worksheets
4. Show learning section in the app
5. Have students share app for 7 more free plays if needed
6. Show competing scores via screenshots for in-class game or extra credit

PART II – With Accounting Flashcards App

1. Assign Debits & Credits lesson
2. Review Flashcards for concepts and terms to be memorized & applied

PART III – With Accounting Quiz App

1. Assign Debits & Credits lesson
2. Isolate questions using app features

DEBITS & CREDITS

SAMPLE LESSON PLAN

(TWO DAYS)

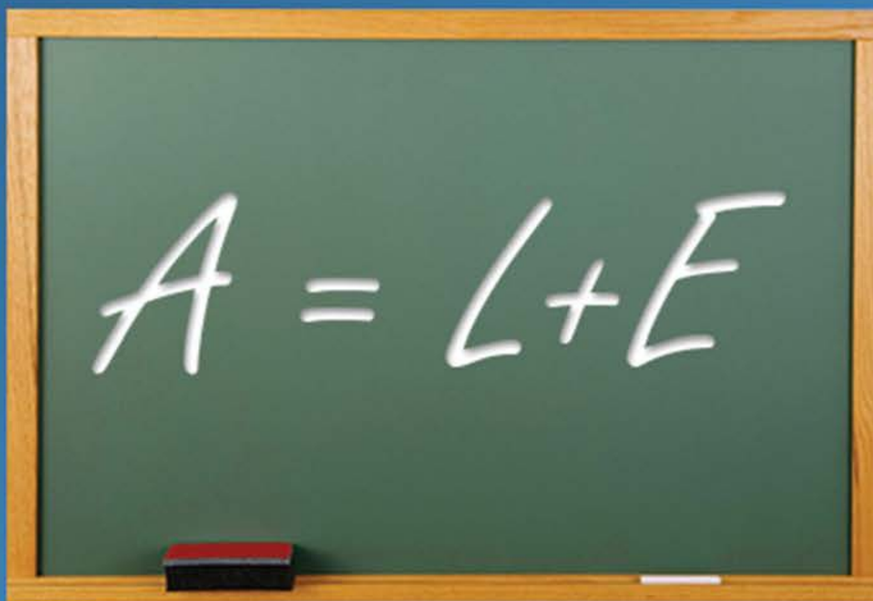
Day One

1. **Before class:** Students assigned to play Debits & Credits Game for 30 minutes to introduce the concept
2. **During class:**
   - 5 minutes warm-up playing Debits & Credits Game
   - Review debits and credits concept in class discussion
   - Work through several easy, medium, and hard transactions as a group
   - Divide into teams of 3-4 students to compete for app high scores
3. **After class/Before Day Two:** Review Debits & Credits lesson on Accounting Flashcards and play Accounting Quiz Game with Debits & Credits

Day Two

1. **During class:**
   - Review Accounting Flashcards lesson and answer any questions students have on the material
   - Emphasize Accounting Quiz Game questions of particular importance to your curriculum

LEARN DEBITS AND CREDITS .COM



ACCOUNTING PLAY .COM

JOHN GILLINGHAM, CPA

LEARN DEBITS AND CREDITS

Written by
John Gillingham, CPA

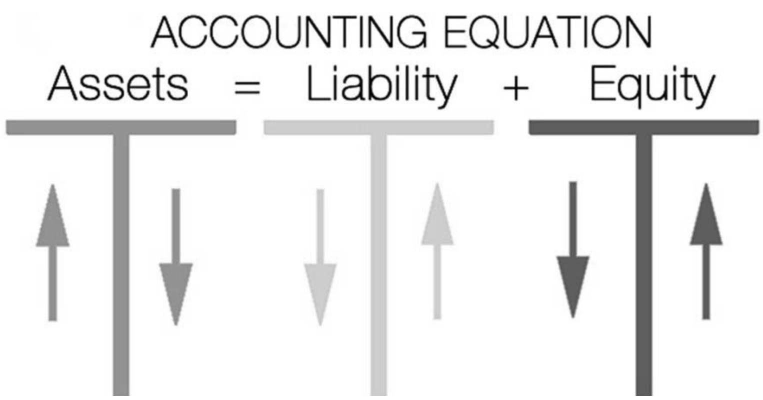
LEARN DEBITS AND CREDITS

TABLE OF CONTENTS

INTRODUCTION

Before you do anything – Download this book in PDF form by becoming a Free Member at AccountingPlay.com

Hi – I am John, CPA. I have an accounting firm and have a huge passion for teaching financial accounting – especially the introductory and intermediate course. It makes me sad that so many students drop the class because they never understand debits and credits. This stuff is not hard, but just takes time. Once you "get it" you can focus on the point of accounting, which to me, is all about business.



Does this look familiar?

MORE RESOURCES

Making apps is super expensive and risky. I have worked really hard to make learning more fast and fun. So please check out the apps and if you can afford it, upgrade so you can get the paid content and show some love at the same time. Please, please, please also provide feedback because I get very little feedback and I want to design my next projects around *YOU* not what I think *YOU* might need. Thanks!

ACCOUNTING PLAY – DEBITS & CREDITS APP

- Free plays and unlimited learning section
- Learn Debits and Credits in a game format
- It's a Game
- Coordinates with the book and worksheets

ACCOUNTING FLASHCARDS & Lessons APP

- Start for free with financial statements
- Over 100 illustrated flashcards
- 19 micro financial accounting lessons
- Audio narration and video lectures

FREE LESSONS ON PODCAST AND DOWNLOADS

- Get all audio lessons in the app, free on
- The Accounting Play Podcast
- Downloads and more at AccountingPlay.com

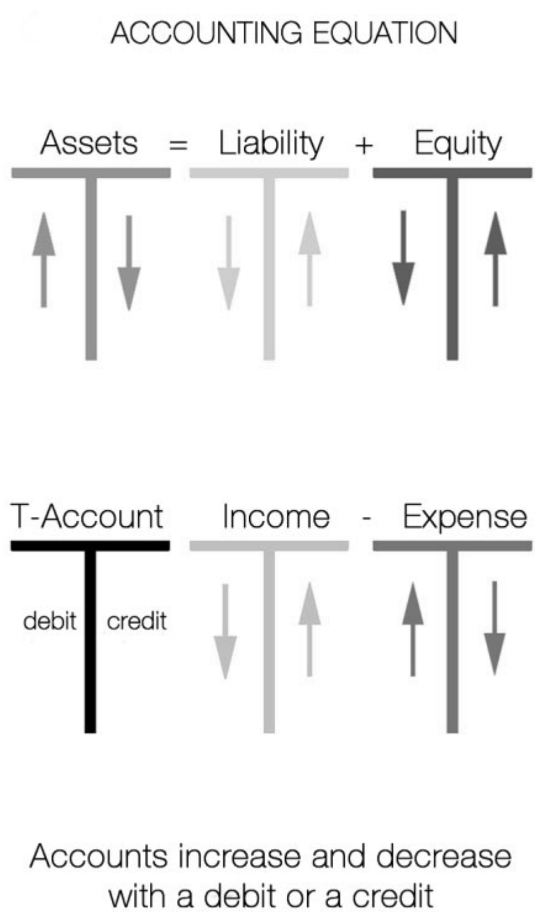
INTRO TO DEBITS AND CREDITS

Download and Print this Book, Video, and Audio

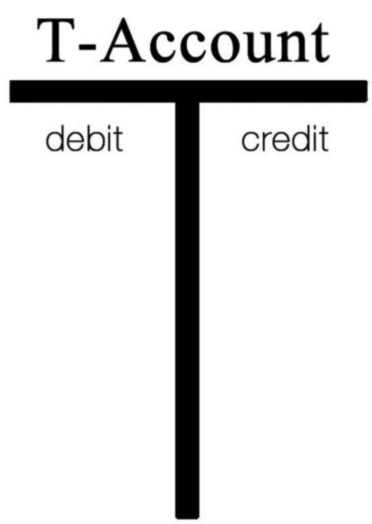
with free AccountingPlay.com Membership

DEBITS AND CREDITS ACCOUNTING SYSTEM

Debits and credits form the foundation of the accounting system. The mechanics of the system must be memorized. Once understood, you will be able to properly classify and enter transactions. These entries make up the data used to prepare financial statements, such as the balance sheet and income statement. While software has simplified entering daily transactions, debit and credit entries are always recorded in the background.



Learning about debits and credits requires a combination of memorization and application of the terms. Memorization of account types, as well as increase and decrease rules, is a good first step. Next, you must understand how transactions are recorded into the system. The goal is to be able to manually record and adjust transactions using debits and credits. Use all resources: lessons, flashcards, rap memory aid, practice sets, video, and Accounting Play – Debits & Credits game for iPhone and iPad. For video and downloads, please go to AccountingPlay.com.



Every accounting transaction involves at least one debit and one credit. The sum of debits and the sum of credits for each transaction and the total of all transactions are always equal. This equaling process is referred to as balancing. A list of all transactions appears in the general ledger and the sum of assets will equal the sum of liability and equity accounts on the balance sheet. Transactions are manually entered into the accounting record using adjusting journal entries (AJEs) which present debits before credits. Accountants may use a trial balance to summarize all accounts in debit and credit format so they can be further adjusted with AJEs.

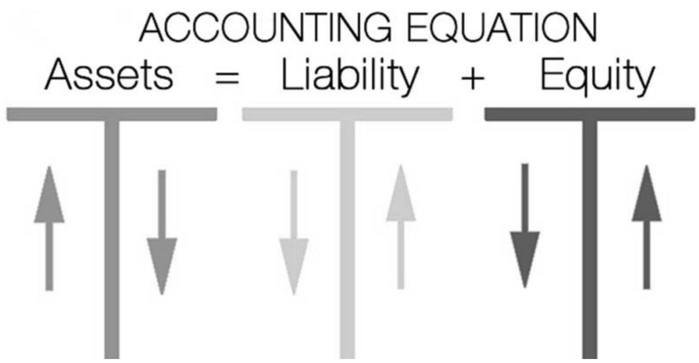
Memorize rule: debits always equal credits
Memorize rule: debits before credits

THE DOUBLE ENTRY SYSTEM

The process of recording transactions with debits and credits is referred to as double entry accounting, because there are always at least two accounts involved. The result of using double entry accounting ensures that every transaction is classified and recorded.

The double entry system requires us to pick at least two accounts to record a transaction. Let's say a business receives $1,000 cash. To record the transaction, the cash account is increased $1,000. As a rule we need at least one other account to record the activity. The other account will help explain the source and purpose of the transaction. Cash can come from a variety of sources, such as: revenue, loans, investments, investors, or cash back from returning an item. In this example, the business was paid cash for services performed. The revenue account therefore also increases $1,000 the same time cash increases $1,000.

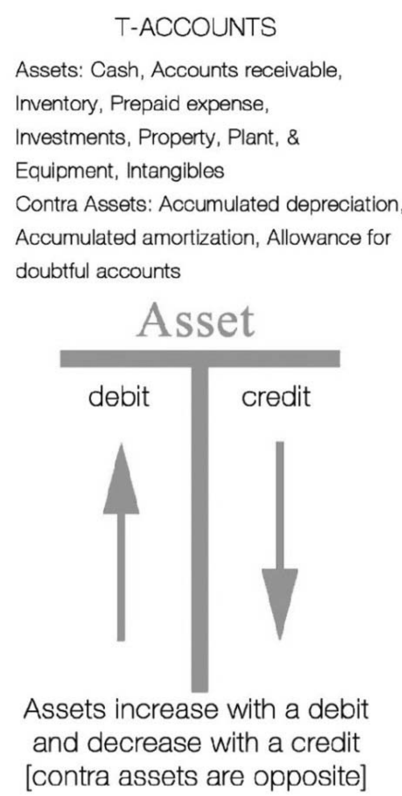
The double entry system is used to categorize all transactions in the accounting record. Let's say $200 cash is paid from the bank. Cash is decreased $200, which explains where the money came from. Another account is required to explain the destination and purpose of the transaction. Cash is used for a variety of things: equipment, investments, loan payments, expenses, and stock repurchases. In this example, the business paid a $200 phone bill in cash. The telephone expense account therefore increases $200. The combined entry will be to increase telephone expense and reduce cash for the same amount. The increase and decrease will be expressed on the accounting record as one debit and one credit.



The double entry system categorizes transactions using five account types: assets, liabilities, equity, income, and expense. The same account may be used if there is an increase and a decrease of the same category, such as a cash transfer. Assets, liabilities, and equity make up the balance sheet and form the accounting equation: Assets (A) = Liabilities (L) + Equity (E). Revenue and expenses make up the income statement and can generally be expressed as Revenue – Expenses = Income or Loss.

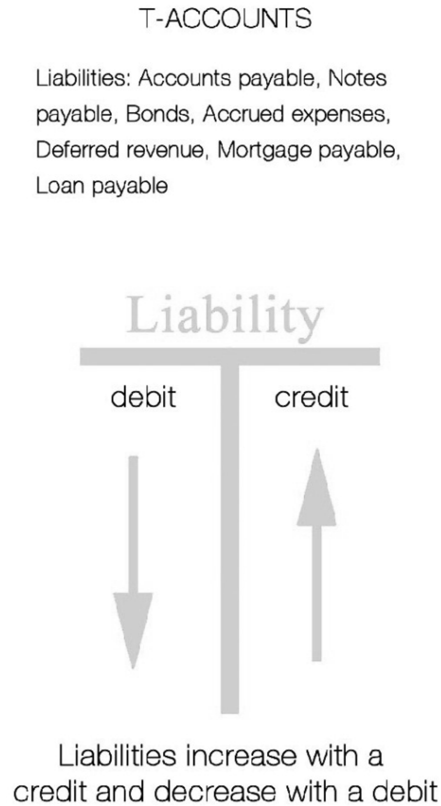
DIFFERENT ACCOUNT TYPES

Every account is classified in one of five different classifications: assets, liabilities, equity, revenue, and expense. Each account is increased or decreased with a debit or credit, depending on the classification.

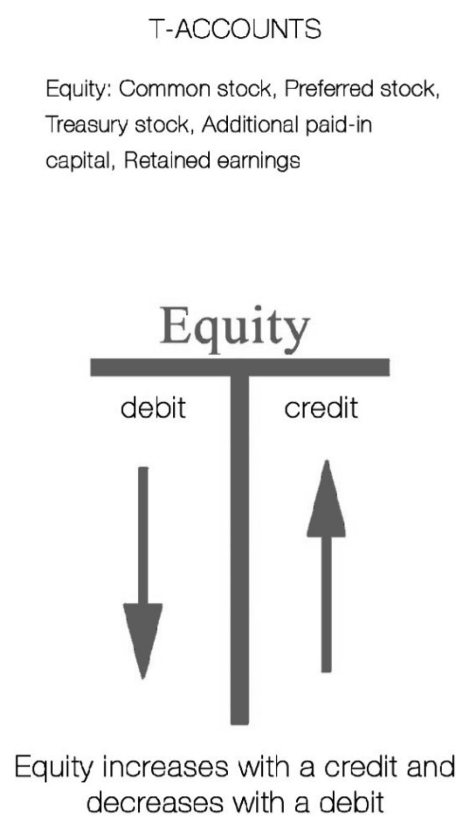


Assets: cash and cash equivalents, accounts receivable, inventory, prepaid expense, investments, property, plant, and equipment, intangible assets,

Contra assets: allowance for doubtful accounts, accumulated depreciation, accumulated amortization



Liabilities: accounts payable, notes payable, accrued expenses, deferred revenue, long-term bonds payable
Contra liability: bond discount

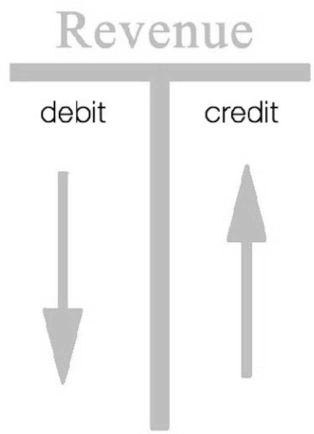


Equity: common stock, additional paid-in capital, retained earnings
Contra equity: treasury stock

T-ACCOUNTS

Revenue: Sales revenue, Realized gain, Unrealized gain, Interest income, Miscellaneous income, Extraordinary income

Revenue: sales revenue, interest income, investment income

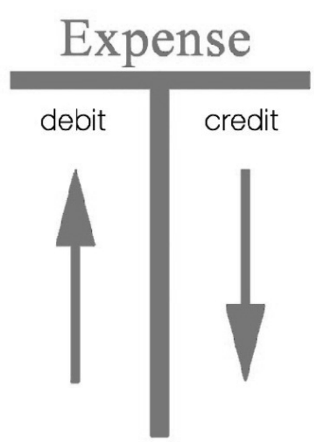


Revenue increases with a credit and decreases with a debit

T-ACCOUNTS

Expense: Selling, General, Administrative, Interest, Repairs, Depreciation, Amortization, Meals & Entertainment, Office supplies, Postage

Expense: selling, general, and administrative, interest, repairs, depreciation



Expense increases with a debit and decreases with a credit

DEBITS AND CREDITS INCREASES AND DECREASES

INCREASES AND DECREASES

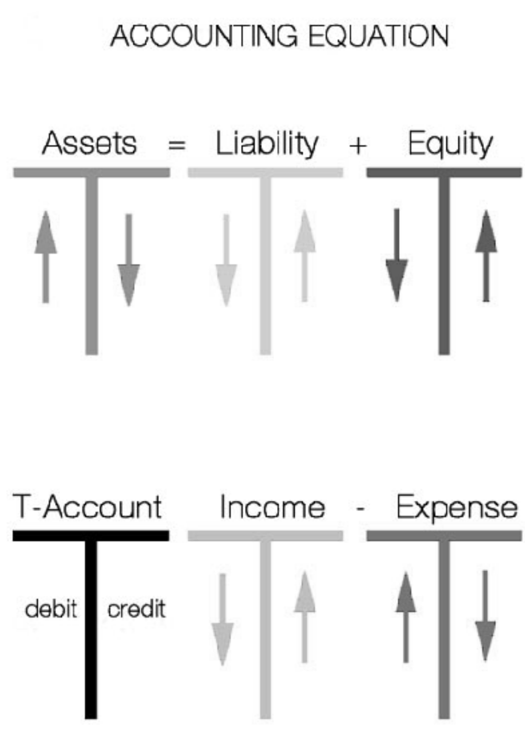
Free Video and Audio
with AccountingPlay.com
Membership

The debit and credit rules used to increase and decrease accounts were established hundreds of years ago and do not correspond with banking terminology. Careful, as banks refer to debit cards, credit cards, account debits, and account credits differently than the accounting system. Cash for example, increases with a debit.

The accounting equation diagram visually displays how accounts increase and decrease. The debits and credits diagram condenses this information.

Balance sheet accounts:
Assets: increase with a debit and decrease with a credit
Liabilities: decrease with a debit and increase with a credit
Equity: decrease with a debit and increase with a credit

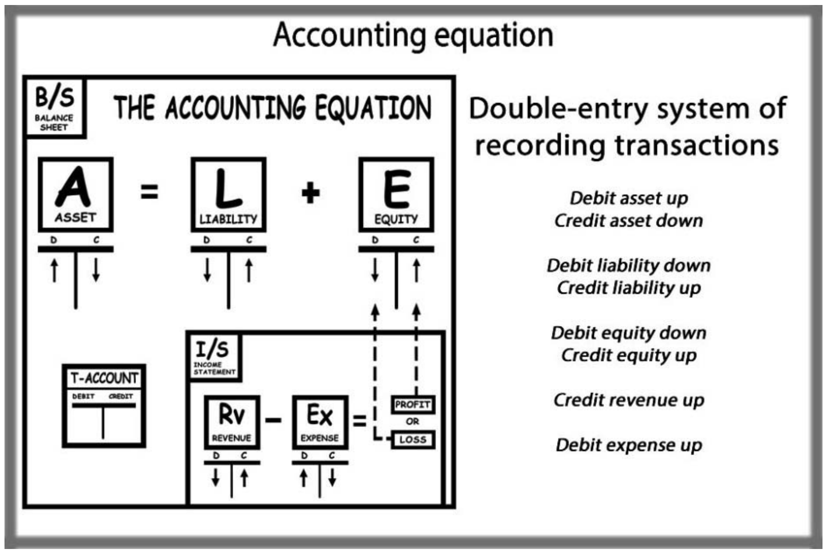
Income statement accounts:
Revenue: decrease with a debit and increase with a credit
Expenses: increase with a debit and decrease with a credit



Accounts increase and decrease
with a debit or a credit

DEBITS AND CREDITS BY ACCOUNT

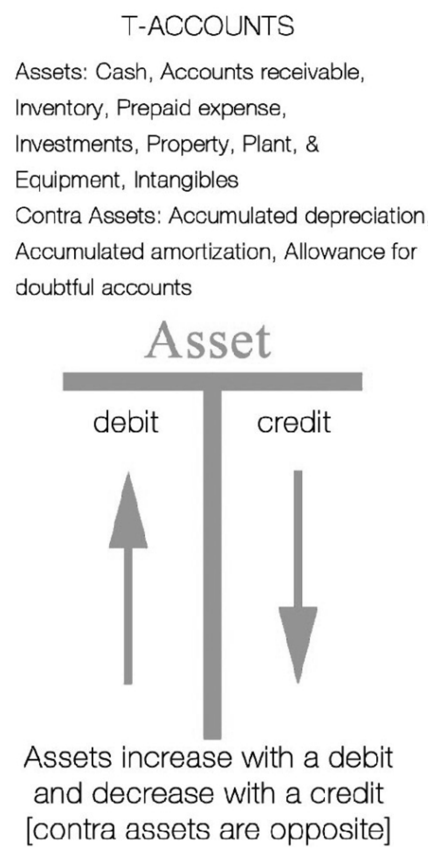
Bellow, assets and expense accounts are presented first to aid beginners with memorization. Both these accounts increase with a debit and decrease with a credit.



ASSETS

Asset increases are recorded with a debit. First step to memorize: “Debit asset up, credit asset down.” Asset accounts, especially cash, are constantly moving up and down with debits and credits. The ending balance for an asset account will be a debit.

Increases and decreases of the same account are common with assets. Transfers from one cash account to another is recorded as a reduction of one cash account and increase to another cash account. An example of this is the transfer of cash from savings to checking. In the accounting record, the checking account is



increased with a debit and the savings account is decreased with a credit. Note that these terms are exactly opposite of how the bank will refer to them!

Increases and decreases of the same account type are common with assets. An example is a cash equipment purchase. The equipment account will increase and the cash account will decrease. Equipment is increased with a debit and cash is decreased with a credit.

Let’s say a candy business makes a $9,000 cash purchase of candy to sell in the store. Cash in the bank is going to go down and candy will arrive at the store. Candy inventory is going to increase $9,000 with a debit and the cash account will decrease $9,000 with a credit.

Memorize rule: debit asset up, credit asset down

EXPENSES

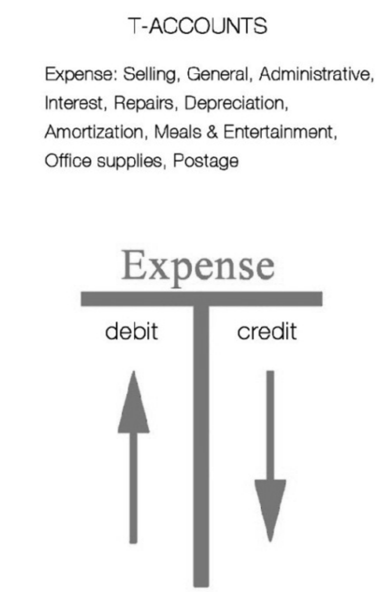
Expense increases are recorded with a debit and decreases are recorded with a credit. Transactions to expense accounts will be mostly debits, as expense totals are constantly increasing. The ending balance for an expense account will be a debit.

Under cash basis accounting, expenses are recorded when cash is paid. Take the example of a cash purchase for a client lunch. Cash is going to go down and an expense goes up. Meals and entertainment expense account is increased with a debit and the cash account is decreased with a credit.

Under accrual basis accounting required by Generally Accepted Accounting Principles in the United States (US-GAAP), expense is recorded before cash is paid. Typically bills for items such as internet expense will be first recorded into accounts payable, a liability account. Accounts payable (AP) tracks all of the bills before they are paid for in cash. Say a $500 internet bill arrives for May service, but is not due until next month. The $500 internet expense is recorded in May with a debit and a $500 AP is recorded with a credit. When the bill is paid for in cash the next month, AP will decrease with a $500 debit and cash will decrease with a $500 credit.

Expenses are almost always going to be a debit transaction, but expenses can also be decreased with a credit as needed. Let's say a business pays a gardener $1,000 cash for maintenance. Maintenance expense increases $1,000 with a debit and cash decreases $1,000 with a credit. Now assume the honest gardener returns, apologizing that there was a mistake and the services should have been $800. The gardener then returns $200 of cash to the business as a refund. To record this transaction, cash is increased $200 with a debit and expense is decreased $200 with a credit. The effect of this transaction is to reverse $200 of expense.

Expenses such as depreciation and amortization are typically recorded with journal entries, due to accounting software limitations. These expenses are recorded to show the decline in value of certain assets over time and do not affect cash. Depreciation expense is recorded with a debit and the other side of the transaction is recorded to accumulated depreciation with a credit. Amortization expense is also recorded with a debit and the other side of the transaction is recorded to accumulated amortization as a credit. Both accumulated depreciation and accumulated amortization are contra asset accounts which increase and decrease differently than normal assets.

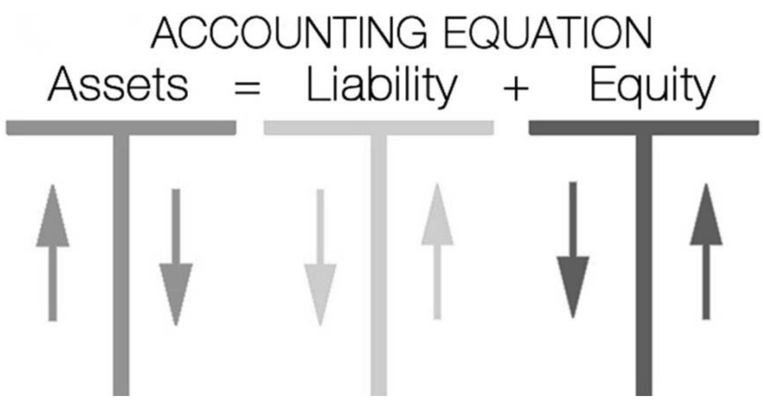


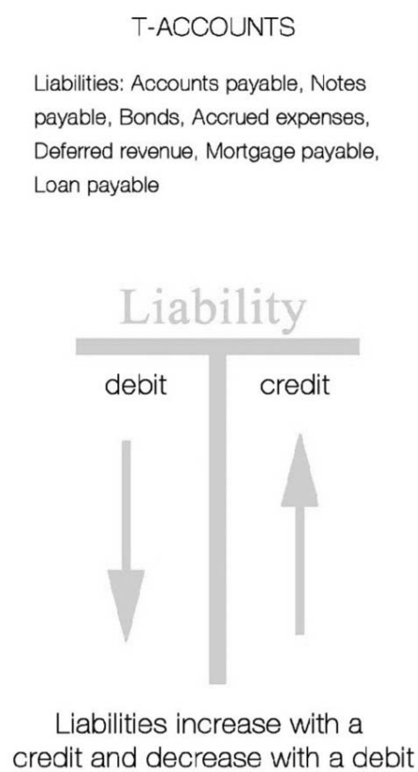
Expense increases with a debit and decreases with a credit

Memorize rule: debit expense up, credit expense down

LIABILITIES

Liability increases are recorded with a credit and decreases with a debit. This is the opposite debit and credit rule order used for assets. By definition, the rules of debits and credits mirror the accounting equation: Assets = Liabilities + Equity. In debit and credit terms, Asset debits = Liability credits + Equity credits. The ending balance in liability accounts will therefore be credits so that the equation will balance.





The most common liability to a business is accounts payable (AP), which comprises of money owed to providers of goods and services to the business, known as vendors. US GAAP requires accrual basis accounting that records expenses and revenue before cash is actually paid or received. Companies on the accrual basis accounting will record expenses as they are incurred. Bills for items such as internet expense will be first recorded into accounts payable, a liability account. Say the internet bill for $500 arrives for May, but is not due until the next month. The $500 expense is recorded in May with a debit and a $500 payable is recorded with a credit. When the bill is paid in cash next month, AP will decrease with a $500 debit and cash will decrease with a $500 credit.

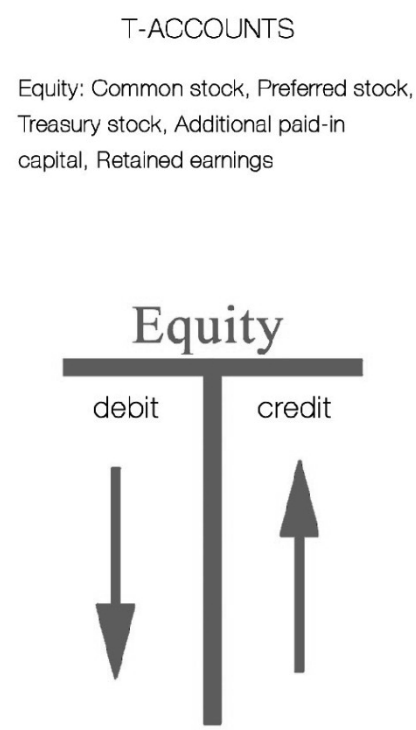
Liabilities are constantly increasing and decreasing, but the ending balance will be a credit. Take the loan payable account as an example. Assume a business receives cash after taking a loan of $100,000. The cash account will increase $100,000 with a debit and the loan account will increase with a $100,000 credit. Principal payments will reduce the loan with a debit and increase with a credit.

Memorize rule: debit liability down, credit liability up

EQUITY

Equity increases are recorded with a credit and decreases with a debit. This is the opposite debit and credit rule order used for assets. By definition, the rules of debits and credits mirror the accounting equation: Assets = Liabilities + Equity. In debit and credit terms, Asset debits = Liability credits + Equity credits. The ending balances in equity accounts will therefore be credits so that the equation will balance.

The first accounting transaction a business has is typically an increase to cash and an increase to an equity account. Let's say a business starts by issuing stock in exchange for $1,000,000 cash received from an investor. Cash increases with a $1,000,000 debit and equity increases with a $1,000,000 credit.



Equity increases with a credit and decreases with a debit

Profits and losses are recorded in the retained earnings equity account, typically on a quarterly and yearly basis. Just like common stock, the account increases with a credit and decreases with a debit. Retained earnings is not the same as cash, because it is based on net income or loss, not cash received. Assume a business has $950,000 net income, reported on the income statement. Retained earnings at the end of the accounting period will be increased with a credit of $950,000. The corresponding $950,000 debit is made to the income summary account, which closes the income statement for the period. The closing records income statement activity for the period on the balance sheet, using retained earnings. Note that the closing of the income summary is a process largely automated by accounting software.

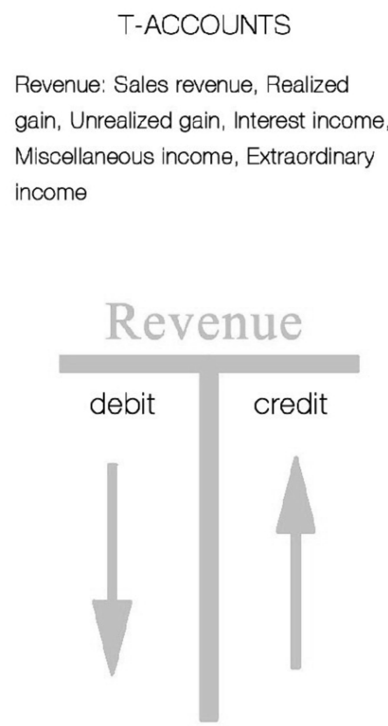
Retained earnings decreases when there is a loss for the accounting period or when dividends are declared. Assume a business has an $80,000 loss for the year. Retained earnings will be reduced with an $80,000 debit and the income summary closed with an $80,000 credit.

The declaration of dividends reduces retained earnings. The entry reduces retained earnings with a debit and increases dividends payable liability with a credit. Later when the declared dividends are paid to shareholders, the dividends payable liability will decrease with a debit and cash will decrease with a credit.

Memorize rule: debit equity down, credit equity up

REVENUE

Revenue increases are recorded with a credit and decreases are recorded with a debit. Transactions to the revenue account will be mostly credits, as revenue totals are constantly increasing. The ending balance for a revenue account will be a credit.



Revenue increases with a credit and decreases with a debit

Under cash basis accounting, revenue is recorded when cash is received. Take a small coffee shop that sells a $5 latte for example. When the customer pays in cash, cash increases and so does revenue. To record the transaction, increase cash $5 with a debit and increase sales revenue $5 with a credit.

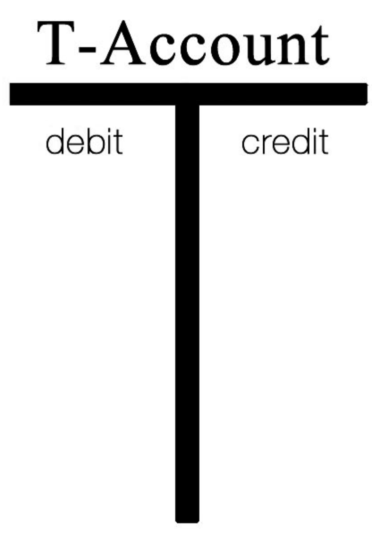
Accrual basis accounting necessary under US-GAAP requires revenue to be recorded before cash is received. Typically revenue is earned when an item ships and the sale is recorded in accounts receivable. Accounts receivable (AR) is an asset account that tracks the amounts owed to customers until cash is paid. Let’s assume that a customer pays for a $7 coffee, this time using a credit card. Cash is not instantly received from the credit card company, so the sale is a $7 increase to AR and a $7 increase to sales revenue. When the cash is collected from the credit card company, cash will increase $7 with a debit and AR will decrease $7 with a debit.

Revenue is almost always going to be a credit transaction, but revenue can also be decreased with a debit as needed. A business might need to reduce the revenue account if a sale is returned. Let’s say someone thought a $7 coffee paid for in cash was a complete waste of money and demands a refund. To process a cash basis refund the café would decrease sales revenue with a debit and decrease cash with a credit when they refund the customer.

Memorize rule: debit revenue down, credit revenue up

T-ACCOUNTS

T-accounts may be used to visually represent debit and credit entries. This is visually represented as a big green T in Accounting Game - Debits and Credits, available for iPhone and iPad. The left side of the T-account is a debit and the right side is a credit. Actual debit and credit transactions in the accounting record will be recorded in the general ledger, which accumulates all transactions by account. T-accounts help both students and professionals understand accounting adjustments, which are then made with journal entries.



Memorize rule: debits on the left and credits on the right

Debits and credits follow the logic of the accounting equation: Assets =

Liabilities + Equity. At all times, Asset debits = Liability credits + Equity credits.

Memorize rule: Assets = Liabilities + Equity
Memorize rule: the sum of all assets will equal the sum of liabilities + equity

Each account generally will have an ending debit balance or credit balance, depending on the account type. These ending balances by account type can be referred to as the natural balance. Assets and expenses both increase with a debit and therefore have debit ending balances. Liabilities, equity, and revenue increase with a credit and therefore have credit ending balances. Retained earnings may have a debit balance due to income statement losses.
Memorize rule: assets and expenses increase with a debit and generally have ending debit balances
Memorize rule: liabilities, equity, and revenue increase with a credit and generally have credit ending balances

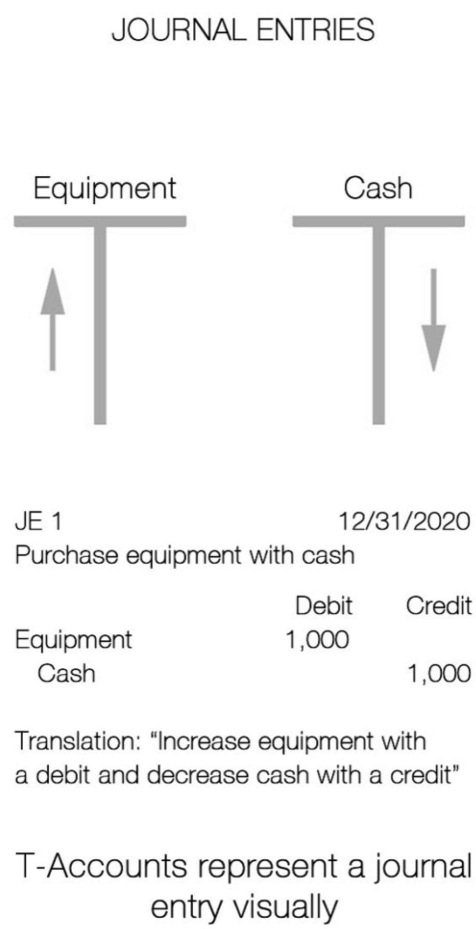
DEBITS AND CREDITS ENTRIES

Free Video and Audio with

AccountingPlay.com Membership

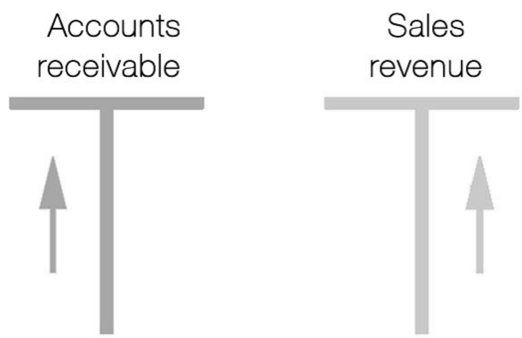
JOURNAL ENTRIES

Each transaction in accounting has a debit and credit side. Yet, the user of accounting software can be unaware of this because the entries are mostly automatic. Journal entries are the mechanism of how accounting transactions are manually entered using debits and credits. Every journal entry first displays debits and then credits for the purpose of consistent presentation. But as long as the total debits and credits are equal, the entry will still work regardless of order. Journal entries will have a date that the transaction takes place, description, and amounts.



Journal entries are often referred to as adjusting journal entries, or AJEs, as they adjust the accounting record. Adjusting journal entries are commonplace to make corrections. Entries are also made for non-cash transactions, such as depreciation and amortization.

JOURNAL ENTRIES



JE 2 12/31/2020
Record a credit sale

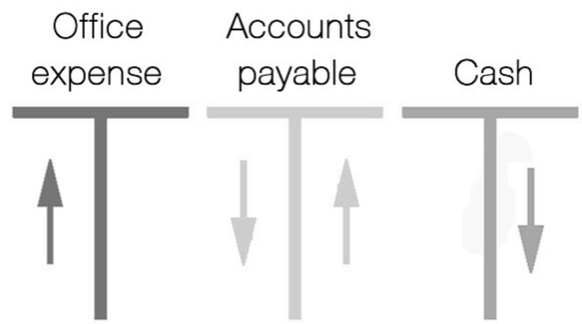
	Debit	Credit
Accounts receivable	10,000	
Sales revenue		10,000

Translation: “Increase accounts receivable with a debit and increase sales revenue with a credit”

Debits always = Credits

Journal entries can incorporate more than one account, as long as the sum of debits equals the sum of credits. For example: Recording a cash asset sale of depreciated machinery for a gain would require increasing cash with a debit, removing the accumulated depreciation with a debit, removing the asset with a credit, and increasing gain on sale of asset with a credit. Entries can quickly become complicated, but make performing adjustments possible.

JOURNAL ENTRIES



JE 3 12/31/2020

Receive invoice for expense, then pay

	Debit	Credit
Office expense	500	
Accounts payable		500
Accounts payable	500	
Cash		500

Translation: "Increase expense and accounts payable to record invoice, then reduce accounts payable and cash when invoice is paid."

Memorize rule: journal entries first record debits, then credits

Memorize rule: journal entry debits = credits

Example Accounting Entries

Transfer $15,000 from savings to checking

Entries:

Increase cash in checking: debit cash in checking $15,000

Reduce cash in savings: credit cash in savings $15,000

Receive $1,000,000 from issuing common stock

Entries:

Increase cash: debit cash $1,000,000

Increase common stock: credit common stock $1,000,000

Make $300 credit sale

Entries:

Increase accounts receivable (AR): debit AR $300

Increase revenue: credit revenue $300

Collect cash for $300 credit sale

Entries:

Increase cash: debit cash $300

Decrease accounts receivable (AR): credit AR $300

Receive $250 internet bill for May, the last day of May, but not due until June

Entries:

Increase internet expense: debit internet expense $250

Increase accounts payable (AP): credit AP $250

Pay $250 internet bill for May in cash at the end of June

Entries:

Decrease accounts payable (AP): debit AP $250

Decrease cash: credit cash $250

Record $7,000 of depreciation expense

Entries:

Increase depreciation expense: debit depreciation $7,000

Increase accumulated depreciation: credit accumulated depreciation $7,000

Receive $1,000 of cash revenue and pay $200 cash for meals and entertainment

(assume no beginning balances in the accounts)

Entries:

Increase cash: debit cash $1,000

Increase revenue: credit revenue $1,000

Increase expense: debit meals and entertainment $200

Decrease cash: credit cash $200

Result:

Ending cash: $800 debit

Ending revenue: $1,000 credit

Ending expense: $200 debit

Ending debits: $800

Ending credits: $800

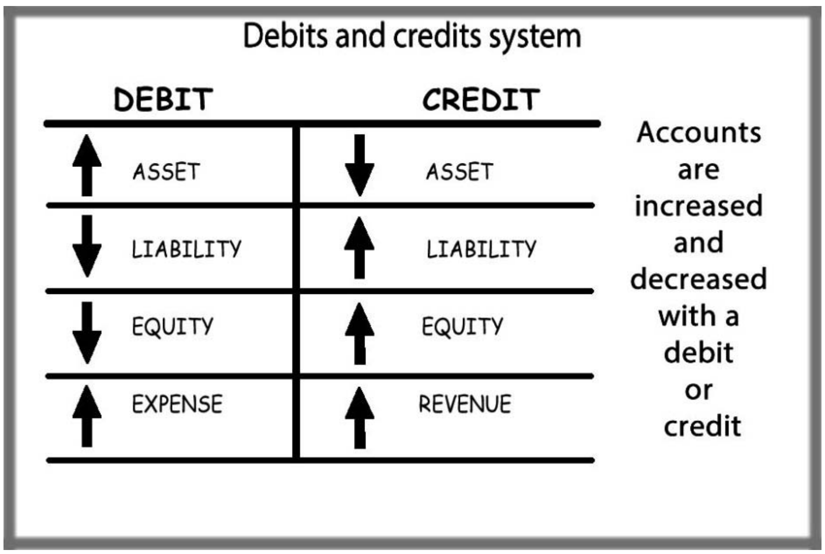
MEMORIZATION

Typical debits & credits explanation diagrams start with assets. Assets increase with a debit. Expenses also increase with a debit. Therefore, assets and expenses both increase with a debit and decrease with a credit. Liability, equity, and revenue decrease with a debit and increase with a credit.

Debits & Credits Mnemonic (memory aid)

You may use this Debits & Credits Mnemonic to memorize how to increase and decrease accounts using debits and credits.

Debit cash up, credit down
Other side now, flip around
I got revenue credits, expenses as debits
Debit left, credit right - balance sheet so tight



Debits & Credits Mnemonic Explained

Debit cash up, credit down
Assets increase with a debit and decrease with a credit

Other side now, flip around
The other side of the balance sheet is liability and equity, which increase with a credit and decrease with a debit, the opposite or “flip” of assets

I got revenue credits, expenses as debits
Revenue increases with credits and decreases with debits
Expense increases with debits and decreases with credits

Debit left, credit right - balance sheet so tight
Debits are on the left side of the T-account and credits are on the right side of the T-account
Total debits always equal total credits on the balance sheet

CONTRA ACCOUNTS

Contra accounts are exceptions to the rule and will increase and decrease in the opposite manor as regular accounts. Asset contra accounts include: allowance for doubtful accounts and accumulated depreciation. Asset contra accounts increase with a *credit* and *decrease* with a debit.

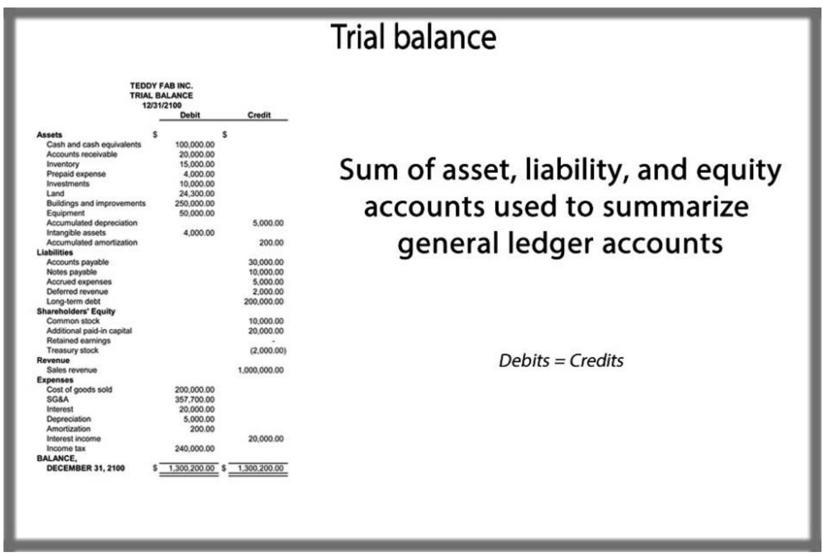
There are also infrequently used contra equity and contra liability accounts which increase and decrease in the opposite manor as regular equity and liability accounts. Treasury stock is a contra equity account that increases with a debit and decreases with a credit. Bond discount is a contra liability account that increases with a debit and decreases with a credit. These are generally advanced accounting topics and are only relevant for large publically traded companies.

Contra accounts serve to indirectly reduce regular accounts. The accumulated depreciation contra account increases over time as depreciation expense is recorded. Let's say a business purchases a truck for $50,000 cash. Truck asset increases $50,000 with a debit and cash decreases with a $50,000 credit. In order to show the decrease in value over time, depreciation expense is recorded. Take for example, depreciation expense recorded at $10,000 a year. Instead of directly reducing the truck asset value, depreciation expense will be increased with a debit and accumulated depreciation increased with a credit. The asset is presented as a positive debit and the accumulated depreciation as a credit that appears as negative. After recording the depreciation expense, the truck asset account is $50,000 and the depreciation contra asset account is

$(10,000). When combined, the net asset value of the truck will be $40,000 (asset - accumulated depreciation). The original $50,000 is therefore maintained in the accounting record until the business no longer has the truck.

TRIAL BALANCE PRESENTATION

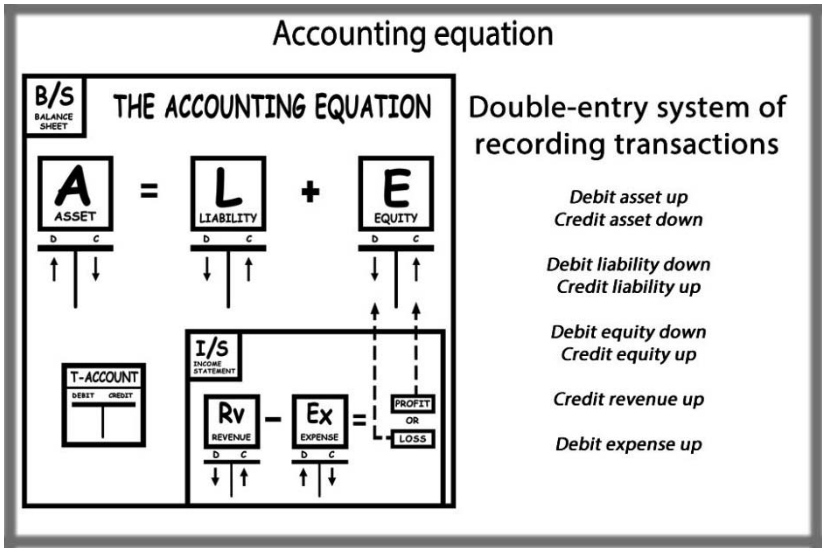
The equation: Asset debits = Liability credits + Equity credits forms the balance sheet. When the balance sheet is prepared for financial statement purposes, regular accounts will be positive. The same account totals may also be presented on an accounting trial balance, in the form of debits as positive numbers and credits as negative numbers. Under this accounting presentation the sum of all debits and credits will equal $0.



TEDDY FAB INC.
TRIAL BALANCE
12/31/2100

	Debit	Credit
Assets	$	$
Cash and cash equivalents	100,000.00	
Accounts receivable	20,000.00	
Inventory	15,000.00	
Prepaid expense	4,000.00	
Investments	10,000.00	
Land	24,300.00	
Buildings and improvements	250,000.00	
Equipment	50,000.00	
Accumulated depreciation		5,000.00
Intangible assets	4,000.00	
Accumulated amortization		200.00
Liabilities		
Accounts payable		30,000.00
Notes payable		10,000.00
Accrued expenses		5,000.00
Deferred revenue		2,000.00
Long-term debt		200,000.00
Shareholders' Equity		
Common stock		10,000.00
Additional paid-in capital		20,000.00
Retained earnings		-
Treasury stock		(2,000.00)
Revenue		
Sales revenue		1,000,000.00
Expenses		
Cost of goods sold	200,000.00	
SG&A	357,700.00	
Interest	20,000.00	
Depreciation	5,000.00	
Amortization	200.00	
Interest income		20,000.00
Income tax	240,000.00	
BALANCE, DECEMBER 31, 2100	$ 1,300,200.00	$ 1,300,200.00

In a trial balance, revenue credits will appear as negative numbers in brackets, such as $(1,000,000) of revenue and expenses will appear as positive numbers, such as $200,000 of expense. To figure a profit or loss, the revenue credits of $(1,000,000) are added to the $200,000 of expense debits, resulting in $(800,000). Under the system of debits and credits, the resulting $(800,000) represents net income and will be recorded to retained earnings. The $800,000 will be debited, resulting in closing the income statement, and the other side of the transaction will be a $800,000 credit to retained earnings. The income statement shows net income positively, the opposite of the trial balance presentation.



PRACTICE SET AND WORKSHEETS

Understanding debits and credits is fundamental for accounting professionals. Other users of financial information, such as business owners and lenders may never need to apply the concept. To learn more and practice, find more resources at AccountingPlay.com. To quiz yourself and learn differently, download the Accounting Game - Debits and Credits, the free app for iPhone and iPad designed to teach in a game format.

Before you do anything – Download your printable book in PDF form:

- Free with your AccountingPlay.com Membership
- Also access the supporting video coures

Practice set 1: Yo Company

- Blank AJEs
- Blank T-accounts with Account Titles
- Blank Balance Sheet and Income Statement
- AJE Answers
- T-account Answers
- Balance Sheet and Income Statement Answers
- Blank T-accounts with No Titles

Blank Templates

- 1 T-account (Mr. T)
- 2 T-accounts (T-Couple)
- 3 T-accounts (Represents The Accounting Equation)
- 2 T-accounts (The Income Statement)
- 9 T-accounts

Example Financial Statements

- Balance Sheet Example
- Income Statement Example
- Statement of Shareholders' Equity Example
- Statement of Cash Flows
- Adjusting Journal Entries
- Trial Balance

LEARN DEBITS AND CREDITS - PRACTICE # 1

Hi, it is John CPA here. Check it out:

*Problem work through and video explanation Fully Free:
AccountingPlay.com Membership

*This is about T-accounts, journal entries, making financial statements

*Learn transactions 1-14 in the form of T-accounts

*Then go on to see how the T-accounts become financial statements

*Practice at least TEN times. Master this one problem as a base for other problems

*Print all and layout on a big table is highly recommended

*Completely blank T-accounts at bottom for other problems, or greater challenge

*Answers at bottom - note reference letters

*You will need some background in this before attempting - see recourses

*Please support by downloading my apps and hooking me up with epic review

Resources:

App: Accounting Flashcards

*See lesson - Introduction to Debits and Credits

iOS App: Accounting Play - Debits and Credits

*A game to learn about debits and credits - makes it easier

Downloads: Excel versions, academic papers, examples, and more

*Please, please, please, Email me direct questions / confusions / any errors (gasp) John@AccountingPlay.com

What to do:

Perform journal entries, T-accounts, and financial statements for transactions 1-14

Yo Company

December 31, 2100

Year 1 Transactions

AJE Ref

1. a Receive $100,000 investment for common stock
2. b Purchase $20,000 equipment using a note payable
3. c Make $8,000 credit sale
4. d Collect $8,000 from credit sale
5. e Record utilities expense $500 after receiving bill
6. f Record utilities expense $800 after receiving bill
7. g Pay utility company $500 in cash for prior bills
8. h Make $25,000 credit sale
9. i Make $2,000 payment on note payable with cash: $200 interest $1,800 principal
10. j Accrue $10,000 in wage expense
11. k Record $1,000 of depreciation expense
12. l Repurchase $30,000 of company stock
13. m Close out income statement accounts to income summary
14. n Close income summary to retained earnings

Adjusting Journal Entries
Yo Company
December 31, 2100

	Debit	Credit	Notes for your study reference
AJE 1			
Memo			
AJE 2			
Memo			
AJE 3			
Memo			
AJE 4			
Memo			
AJE 5			
Memo			
AJE 6			
Memo			
AJE 7			
Memo			
AJE 8			
Memo			

Adjusting Journal Entries
Yo Company
December 31, 2100

	Debit	Credit	Notes for your study reference
AJE 9			
Memo			
AJE 10			
Memo			
AJE 11			
Memo			
AJE 12			
Memo			
AJE 13			
Memo			
AJE 14			
Memo			

Balance Sheet

ASSETS = LIABILITIES + EQUITY

Cash

Accounts payable

Common stock

Treasury stock

Accounts receivable

Notes payable

Retained earnings

Equipment

Income Statement

REVENUE - EXPENSE = Profit or Loss

depreciation Accumulated

Sales

Utilities

Interest

T-Accounts	
DEBIT	CREDIT

Income Summary

Depreciation

Wages

SUM ASSETS

SUM LIABILITIES

SUM EQUITY

Completely blank sheets found in Blank T-accounts (see index)

Yo Company
Balance Sheet
December 31, 2100

ASSETS		LIABILITIES	
Cash	$	Accounts payable	$
Accounts receivable		Notes payable	______
Equipment		Total Liabilities	______
Accumulated depreciation			
		EQUITY Common	
		stock Treasury	
		stock Retained	
		earnings Total	______
		Equity	______
Total Assets	$ ______	Total Liabilities and Equity	$ ______

Yo Company
Income Statement
Year Ended December 31, 2100

REVENUE	______
Sales	$ ______
EXPENSES	
Depreciation	
Interest	
Utilities	
Wages	______
Total Expense	______
Net income or (loss)	$ ______

Adjusting Journal Entries
Yo Company
December 31, 2100

		Debit	Credit	
AJE 1	Cash	100,000		Company receives cash: debit cash up
	Common stock		100,000	Cash received by issuing stock: credit stock up
Memo	*Receive $100,000 investment for common stock*			*Company has investors*
AJE 2	Equipment	20,000		Equipment received: debit equipment up
	Note payable		20,000	Purchase with debt: credit note payable up
Memo	*Purchase $20,000 equipment using a note payable*			*Company borrowed to purchase equipment*
AJE 3	Accounts Receivable	8,000		Sold something before cash received: increase AR
	Sales revenue		8,000	Sale appears on income statement: credit sales
Memo	*Make $8,000 credit sale*			*Company shows sale before collecting cash*
AJE 4	Cash	8,000		Receive cash from prior credit sale: debit cash up
	AR		8,000	Reduce AR tracking credit sales: credit AR down
Memo	*Collect $8,000 from credit sale*			*Cash comes in from prior sale*
AJE 5	Utilities expense	500		Show expense for utilities used: debit expense up
	Accounts payable		500	Track liability for bill: credit AP up
Memo	*Record utilities expense $500 after receiving bill*			*Utilities already used, likely received bill in the mail*
AJE 6	Utilities expense	800		Show expense for utilities used: debit expense up
	Accounts payable		800	Track liability for bill: credit AP up
Memo	*Record utilities expense $800 after receiving bill*			*Utilities already used, likely received additional bill*
AJE 7	Accounts payable	500		Reduce AP for cash pmt: debit AP down
	Cash		500	Reduce cash for pmt on AP: credit cash down
Memo	*Pay utility company $500 in cash for prior bills*			*AP reduced due to a pmt on prior bills*
AJE 8	Accounts Receivable	25,000		Sold something before cash received: increase AR
	Sales		25,000	Sale appears on income statement: credit sales
Memo	*Make $25,000 credit sale*			*Company shows sale before collecting cash*
		162,800	162,800	

Adjusting Journal Entries
Yo Company
December 31, 2100

		Debit	Credit	
AJE 9	Interest expense	200		Only part of the entire payment is expense: increase
	Note payable	1,800		Most payment reduces the loan: debit note payable
	Cash		2,000	Cash is used: credit cash down
				Installment loan payments consist of a principal portion that reduces the loan and an interest portion that is an expense
Memo	*Make $2,000 payment on note payable with cash: $200 interest $1,800 principal*			
AJE 10	Wage expense	10,000		Wages are owed to employees: debit expense
	Accrued wages		10,000	Show a liability, cash not paid: credit accrued wages
Memo	*Accrue $10,000 in wage expense*			*Employees are entitled to pay, but it is not time to pay*
AJE 11	Depreciation	1,000		Record depreciation from aging / using assets: debit
	Accumulated depreciation		1,000	Accumulated depreciation is a famous contra asset
Memo	*Record $1,000 of depreciation expense*			*This is how to record depreciation on an asset*
AJE 12	Treasury stock	30,000		Increase contra equity account: debit
	Cash		30,000	Cash goes down: credit
Memo	*Repurchase $30,000 of company stock*			*This happens when a large company purchases stock for itself on the open market. It is an advanced transaction. But since you know cash decreases with a credit and it is a stock transaction, you can reason that the treasury stock must be a debit*
AJE 13	Sales revenue	33,000		Reverse all sales revenue totals
	Income summary	12,500		Summarize income statement activity
	Income summary		33,000	Reverse all of the expense totals
	Utilities		1,300	Process moves the income activity to a temporary
	Interest		200	account, called the income summary
	Depreciation		1,000	Income summary will go to zero once recorded to
	Wages		10,000	retained earnings
Memo	*Close out income statement accounts to income summary*			
AJE 14	Income summary	12,500		Income summary is reversed / "Zeroed out"
	Retained earnings		12,500	Retained earnings is the opposite entry
Memo	*Close income summary to retained earnings*			Retained earnings is a credit to record the profit
		101,000	101,000	

Balance Sheet

ASSETS = LIABILITIES + EQUITY

Cash

a	100,000	500	g
d	8,000	2,000	i
		30,000	l
	100,000	32,500	
	75,500		

Accounts payable

		500	f
		800	f
g		10,000	j
	500	11,300	
		10,800	

Common stock

		100,000	a
		100,000	
		100,000	

Treasury stock

i	30,000		
	30,000	-	
	30,000		

Accounts receivable

c	8,000		
		8,000	d
h	25,000		
	33,000	8,000	
	25,000		

Notes payable

		20,000	b
i	1,800		
	1,800	20,000	
		18,200	

Retained earnings

		20,500	n
	-	20,500	
		20,500	

Equipment

b	20,000		
	20,000	-	
	20,000		

REVENUE - EXPENSE = Profit or Loss

depreciation Accumulated

		1,000	k
	-	1,000	
		1,000	

Sales

		8,000	c
		25,000	h
	-	33,000	
m	~~33,000~~	~~33,000~~	

Utilities

e	500		
f	800		
	1,300	-	
	~~1,300~~	~~1,300~~	m

Interest

i	200		
	200	-	
	~~200~~	~~200~~	l

T-Accounts

DEBIT	CREDIT

Income Summary

m	12,500	33,000	m
m	12,500	33,000	
n	~~20,500~~	~~20,500~~	

Depreciation

k	1,000		
	1,000	-	
	1,000		m

Wages

j	10,000		
	10,000	-	
	10,000		m

SUM ASSETS

120,500	1,000
119,500	

SUM LIABILITIES

	29,000
	29,000

SUM EQUITY

30,000	120,500
	90,500

Check Out the Free App - Accounting Flashcards for Lessons & Audio

Yo Company
Balance Sheet
December 31, 2100

ASSETS			LIABILITIES		
Cash	$	75,500	Accounts payable	$	10,800
Accounts receivable		25,000	Notes payable		18,200
Equipment		20,000	Total Liabilities		29,000
Accumulated depreciation		(1,000)			
			EQUITY		
			Common stock		100,000
			Treasury stock		(30,000)
			Retained earnings		20,500
			Total Equity		90,500
Total Assets	$	119,500	Total Liabilities and Equity	$	119,500

Yo Company
Income Statement
Year Ended December 31, 2100

REVENUE		
Sales	$	33,000
EXPENSES		
Depreciation		1,000
Interest		200
Utilities		1,300
Wages		10,000
Total Expense		12,500
Net income or (loss)	$	20,500

Check Out the Accounting Play Podcast: Lessons, Career, CPA

Mr. T

T-Couple

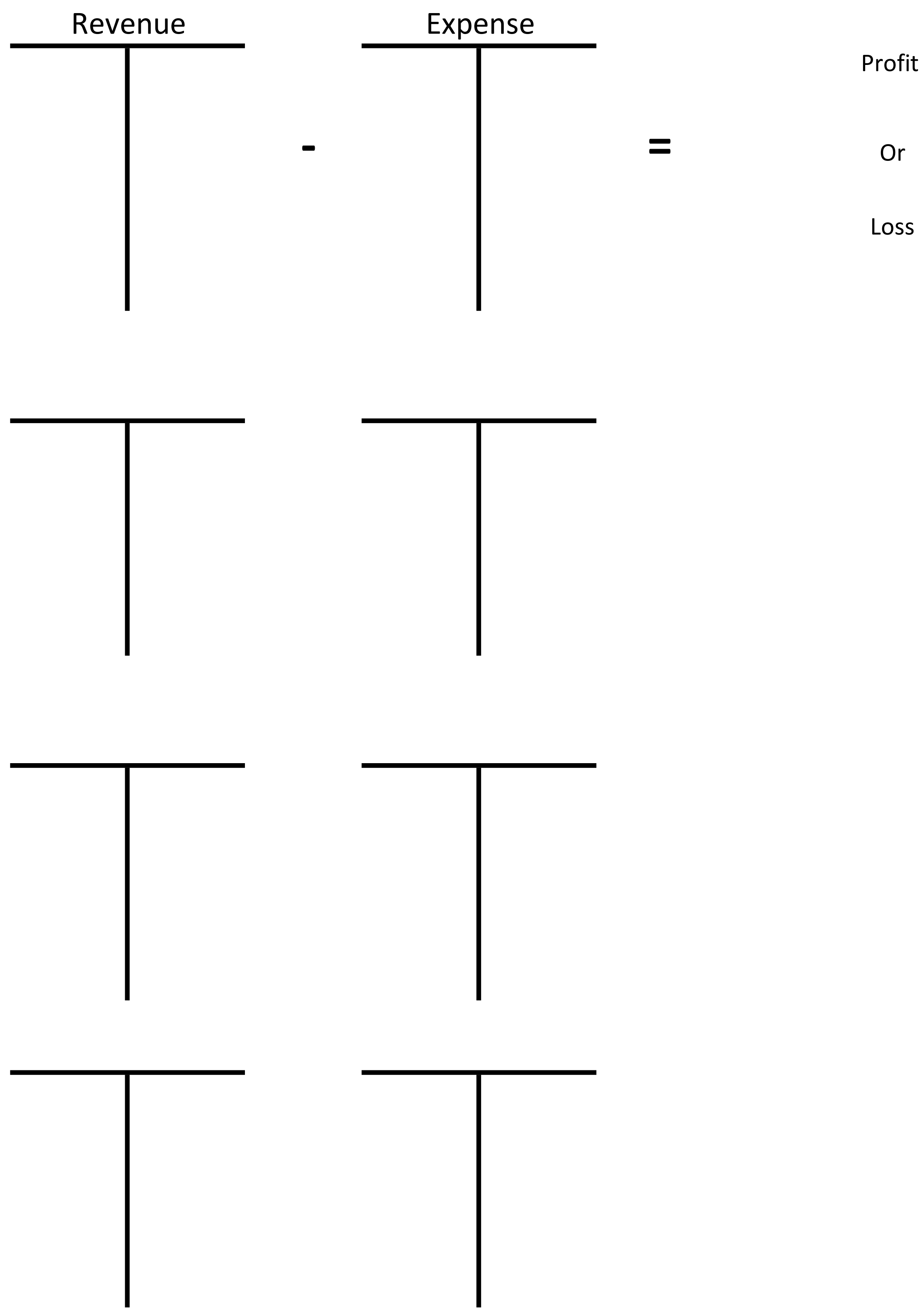
The Famous Accounting Equation

Est. Yr 1299

Appears on the Balance Sheet

Assets = Liabilities + Equity

The Income Statement



Notes or AJEs

TEDDY FAB INC.
BALANCE SHEET
December 31, 2100

ASSETS Current assets		
Cash and cash equivalents	$	100,000
Accounts receivable		20,000
Inventory		15,000
Prepaid expense		4,000
Investments		10,000
Total current assets		149,000
Property and equipment		
Land		24,300
Buildings and improvements		250,000
Equipment		50,000
Less accumulated depreciation		(5,000)
Other assets		
Intangible assets		4,000
Less accumulated amortization		(200)
Total assets	$	**472,100**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$	30,000
Notes payable		10,000
Accrued expenses		5,000
Deferred revenue		2,000
Total current liabilities		47,000
Long-term debt		200,000
Total liabilities		247,000
Shareholders' Equity		
Common stock		10,000
Additional paid-in capital		20,000
Retained earnings		197,100
Treasury stock		(2,000)
Total liabilities and shareholders' equity	$	**472,100**

TEDDY FAB INC.
STATEMENT OF INCOME
Year Ended December 31, 2100

Revenues	$ 1,000,000
Cost of goods sold	200,000
Gross profit	800,000
Operating expenses	
Selling, general, and administrative expense	357,700
Interest expense	20,000
Depreciation and amortization expense	5,200
Operating income	417,100
Interest income	20,000
Net earnings before taxes	437,100
Income tax expense	240,000
Net income	$ **197,100**

TEDDY FAB INC.
STATEMENT OF SHAREHOLDERS' EQUITY
December 31, 2100

	Common Stock	Additional Paid-In-Capital	Retained Earnings	Accumulated Other Compre-hensive Income	Treasury Stock	Total
BALANCE, DECEMBER 31, 2099	$ -	$ -	$ -	$ 0	$ -	$ -
Net Income (Loss) for 2100			197,100			197,100
Common Stock Issued	10,000					10,000
Additional Paid-In-Capital		20,000				20,000
Treasury Stock					(2,000)	(2,000)
BALANCE, DECEMBER 31, 2100	$ 10,000	$ 20,000	$ 197,100	$ -	$ (2,000)	$ 225,100

TEDDY FAB INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2100

Cash flows from operating activities:		
Net income	$	197,100
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization		5,200
Changes in operating assets and liabilities:		
Accounts receivable		(20,000)
Inventories		(15,000)
Prepaid expenses		(4,000)
Accounts payable		30,000
Accrued expenses		5,000
Deferred revenue		2,000
Total adjustments		3,200
Net cash used in operating activities		200,300
Cash flows from investing activities:		
Purchase of property and equipment		(324,300)
Intangible asset purchase		(4,000)
Investment purchase		(10,000)
Net cash used in investing activities		(338,300)
Cash flows from financing activities:		
Proceeds from notes payable		10,000
Proceeds from additional paid-in capital		20,000
Proceeds from issuance of common stock		10,000
Proceeds from bond issuance		200,000
Purchase of treasury stock		(2,000)
Net cash provided by financing activities		238,000
Net increase (decrease) in cash and cash		100,000
Cash and cash equivalents, beginning		-
Cash and cash equivalents, ending	$	**100,000**

TEDDY FAB INC.
ADJUSTING JOURNAL ENTRIES
'December 31, 2100

		Debit	Credit
AJE-1	Depreciation expense	5,000.00	
	Accumulated depreciation		5,000.00
	Record depreciation expense		
AJE-2	Amortization		
	Accumulated amortization	200.00	
	Record amortization expense		200.00
AJE-3	Property, plant, & equipment	1,200.00	
	Operating expense		1,200.00
	Reclassify fixed asset purchase		
AJE-4	Prepaid expense	2,000.00	
	Rent expense		2,000.00
	Reclassify January rent paid in		
AJE-5	Intangible assets	4,000.00	
	Startup expenses		4,000.00
	Reclassify startup expenses		
		$ 12,400.00	$ 12,400.00

TEDDY FAB INC.
TRIAL BALANCE
12/31/2100

	Debit	Credit
Assets	$	$
Cash and cash equivalents	100,000.00	
Accounts receivable	20,000.00	
Inventory	15,000.00	
Prepaid expense	4,000.00	
Investments	10,000.00	
Land	24,300.00	
Buildings and improvements	250,000.00	
Equipment	50,000.00	
Accumulated depreciation		5,000.00
Intangible assets	4,000.00	
Accumulated amortization		200.00
Liabilities		
Accounts payable		30,000.00
Notes payable		10,000.00
Accrued expenses		5,000.00
Deferred revenue		2,000.00
Long-term debt		200,000.00
Shareholders' Equity		
Common stock		10,000.00
Additional paid-in capital		20,000.00
Retained earnings		-
Treasury stock		(2,000.00)
Revenue		
Sales revenue		1,000,000.00
Expenses		
Cost of goods sold	200,000.00	
SG&A	357,700.00	
Interest	20,000.00	
Depreciation	5,000.00	
Amortization	200.00	
Interest income		20,000.00
Income tax	240,000.00	
BALANCE, DECEMBER 31, 2100	$ 1,300,200.00	$ 1,300,200.00

INTRODUCTION TO FINANCIAL STATEMENTS

SAMPLE LESSON PLAN

(TWO DAYS)

Day One

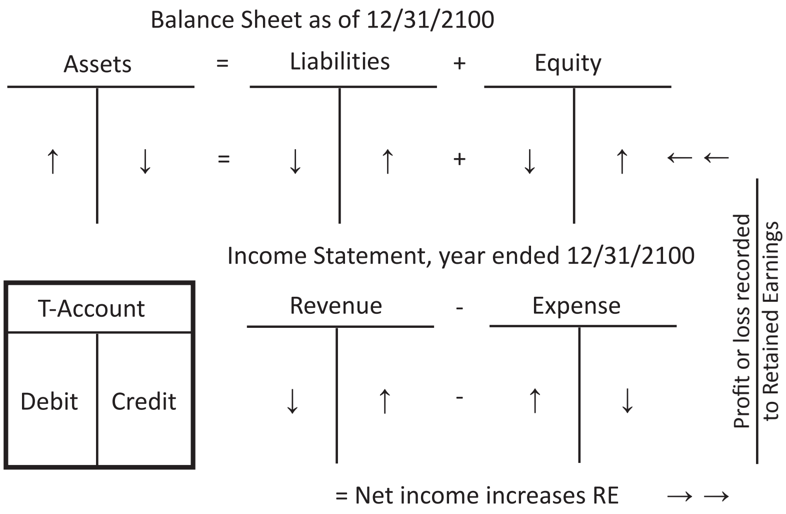
1. **Before class:** Work through Intro to Financial Statements lesson on Accounting Flashcards
2. **During class:**
   - 5 minute warm-up playing Accounting Quiz Game isolating Financial Statement questions
   - Review information covered in the lesson and answer any questions students have on the material
   - Build sample financial statements together as a class using Accounting Cheat Sheet PDF as a guide
3. **After class/Before Day Two:** Play Accounting Quiz Game covering Financial Statements and Debits and Credits for 30 minutes, play for 15 minutes

Day Two

1. In groups of 3-4, provide students with prior period financial statements, a list of transactions for the period, and let them work together on current financials

Accounting Cheat Sheet

DIAGRAM OF T-ACCOUNTS



METHODS & ORGS

Accrual basis Follows the matching principle and recognizes transactions as they occur (GAAP Method)

Cash basis Recognizes transactions when cash or equivalents have been exchanged (Not GAAP)

US-GAAP Generally Accepted Accounting Principles system established by FASB that governs financial reporting

IFRS International Financial Reporting Standards Financial reporting standard adopted widely outside of US
(No LIFO permitted, different FMV valuation permitted)

ACCOUNTING EQUATION

Equation
Assets = Liabilities + Equity
Equity = Assets - Liabilities

Journal Entry	debit	credit
Cash	100	
Common stock		100
Receive cash for common stock		

Cost of Goods Sold (COGS)
Beginning inventory
+ Purchases
− Ending inventory
Cost of Goods Sold (COGS)

Gross Profit
Revenue
- COGS
Gross Profit

Revenue x (1 - Gross profit rate)
COGS

DEBITS & CREDITS

Increases & Decreases **Bolded**: Natural balance	Increase	Decrease
Balance Sheet		
Asset	**debit**	credit
Contra asset	**credit**	debit
Contra assets: Accumulated depreciation,		
Allowance for doubtful accounts		
Liability	**credit**	debit
Equity	**credit**	debit
Contra equity	**debit**	credit
Contra equity: Treasury stock		
Income Statement		
Revenue	**credit**	debit
Most transactions: Typically credits		
Expense	**debit**	credit
Most transactions: Typically debits		

INVENTORY

Valuation at lower of cost or market
Higher ending inventory = Lower Cost of Goods Sold
Lower Cost of Goods Sold = Higher Net Income

FIFO First In First Out
Early purchases come out of inventory first

LIFO Last In First Out
Early purchases tend to stay in inventory

Average cost Total cost / Quantity = Cost per unit

Perpetual inventory tracked in real time
Periodic inventory tracked by counting at end of period

Net Income Comparison

Price	FIFO	LIFO	Average
Rising	Higher	Lower	Middle
Falling	Lower	Higher	Middle

Rule: In a period of **increasing** inventory costs, FIFO method results in higher net income compared to LIFO

Cost of Goods Sold Comparison

Price	FIFO	LIFO	Average
Rising	Lower	Higher	Middle
Falling	Higher	Lower	Middle

Accounting Cheat Sheet

PRINCIPLES, GUIDELINES, ASSUMPTIONS

Comparability	Financial statements must be comparable period to period
Conservatism	Considers all risks | strict rules
Consistency	Same accounting methods year to year
Constraints	Information has a cost/benefit and is material
Cost principle	Keep costs at purchase price or lower (lower of cost or market)
Economic entity	Maintain separate records for each entity
Full disclosure	Provides detailed information in addition to financial statements
Going concern	Assume business is going to and has capability to continue
Matching	Recognize cost the same time as benefit
Materiality	Significance to the overall financial picture
Monetary unit	Currency is used to record transactions and is assumed to be constant
Relevance	Financial reporting has predictive, feedback, and timeliness value
Reliability	Financial reporting is neutral, valid, and verifiable
Revenue recognition	Conditions of how an organization records revenue
Time period	Report financial activity in specific time periods

TEST VOCABULARY

Cost basis	Original cost of investment minus prior accumulated depreciation
Disposition	Sale, scrapping, or removal of an item, typically an asset
Gross | Net	Gross = total number | Net = gross number minus expenses
Goodwill	Purchase price less tangible value of physical assets purchased
Net asset value	Cost basis minus accumulated depreciation (prior total depreciation)
NSF	Non-sufficient funds, typically a returned check
Principal	The amount, typically of a loan
Unrealized gain | loss	Investment that has increased | decreased in value, but not yet sold
Unrealized calculation	Basis minus fair market value (FMV)

INTEREST FORMULAS

Monthly interest	P X (r / 12)
Compound interest	A = P(1 + (r/n))^nt

A = Amount, P = Principal, r = Rate
n = compoundings per period, t = number of periods

BUSINESS TYPES

Sole Proprietorship One owner, no liability protection
Partnership Two or more owners, no liability protection
Limited Partnership Two or more owners, liability protection
LLC Limited Liability Company Liability protection, flexible
Corporation Liability protection, double taxation issues

BANK RECONCILIATION

	Balance per bank
+	Deposits in transit
-	Outstanding checks
+/-	Errors, fees, returned items
	Balance per books

Accounting Cheat Sheet

TECHNICAL INVENTORY AND COSTING

FOB shipping point	Buyer's books at year end, title passes when goods delivered
FOB destination	Seller's books at year end, title passes when goods received
Raw materials	Direct costs of materials manufactured such as steel
Overhead costs	Costs typically thought of as expenses that are added to cost of goods
Work in process (WIP)	Goods in the process of being manufactured (assets)

ASSET SALES

Sale of inventory	Increase AR, Increase sales, Decrease inventory, Increase cost of goods sold
Debits and credits	Debit AR, Credit sales, Credit inventory, Debit cost of goods sold
Sell appreciated stock	Increase cash, Increase realized gain, Decrease stock
Debits and credits	Debit cash, Credit realized gain, Credit stock
Sell stock for a loss	Increase cash, Increase realized loss, Decrease stock
Debits and credits	Debit cash, Debit realized loss, Credit stock
Sell depreciated asset, gain	Increase cash, Decrease asset, Decrease accumulated depreciation, Increase gain
Debits and credits	Debit cash, Credit asset, Debit accumulated depreciation, Credit gain on sale
Sell depreciated asset, loss	Increase cash, Decrease asset, Decrease accumulated depreciation, Increase loss
Debits and credits	Debit cash, Credit asset, Debit accumulated depreciation, Debit loss on sale

BONDS

Bonds Financial instrument (agreement) issued by a company to borrow money from investors at a specified term (time) and rate
Issuer Company that is raising the money
Face value Amount that is repaid at the end of term
Stated coupon rate Interest that bond pays investor
Effective interest Rate of interest investor receives if the bond is purchased at a discount or premium
Premium Amount company is paid in excess of face value, often paid when coupon rate is greater than market rate
Premium = Price paid for bond - face value
Discount Amount below the face value paid for a bond often occurs when coupon rate is less than market rate
Discount = Face value - price paid for bond

Depreciation terms

Cost	Price paid for asset (may include costs to install)
Book value	Cost - Accumulated depreciation
Salvage value	Estimated scrap value at the end of asset life
Accelerated methods	Methods resulting in greater depreciation during earlier years
MACRS / ACRS / DDB	Accelerated depreciation methods
Depreciation	Expense taken on a physical asset over time
Amortization	Expense taken on an intangible asset over time

Depreciation methods

Straight line	Rate = (Cost - Salvage value / Useful life)
Declining	Book value x Depreciation rate
(Accelerated method)	Rate = Straight line rate x Applicable %
	Applicable % = 150% for 150 DB and 200% for double declining
Sum-of-years'-digits	(Cost - Salvage value) X Applicable fraction
(Accelerated method)	Applicable fraction = Years of estimated life remaining / Sum of years digits

Accounting Cheat Sheet

FINANCIAL STATEMENTS

BALANCE SHEET	
As of 12/31/2100	
Assets	
Cash	1,497
Accounts receivable	400
Allowance for doubtful accounts	(90)
Equipment	200
Accumulated depreciation	(40)
Inventory	-
Total Assets	1,967
Liabilities	
Accounts payable	-
Wages payable	300
Note payable	405
Dividends payable	-
Total Liabilities	705
Equity	
Common stock	1,010
Treasury stock	(175)
Retained earnings	427
Total Equity	1,262
Liabilities + Equity	1,967

BALANCE SHEET FEATURES

Balance sheet (statement of financial position) shows the ending balances of assets, liabilities, and equity at the end of the accounting period
Mechanics Assets always equal liabilities plus equity, (which forms the accounting equation)

ASSETS

Current assets To be used within one year of the balance sheet date or longer, if the operating cycle is greater
Current assets Cash and equivalents, accounts receivable, inventory, prepaid expenses to be used within a year
Long-term assets Expected benefit greater than one year Examples: property, plant, equipment, intangible assets (copyrights, trademarks, goodwill)
Accounts receivable (AR) Cash due from customers who have purchased goods or received services not yet paid for
Inventory Goods for sale or manufacture, valued under GAAP at lower of cost or market
Prepaid expense Expenses paid in advance, considered an asset until used (such as a two year insurance policy)
Accumulated depreciation | amortization The sum of all prior depreciation | amortization (contra asset) increases with a credit and offsets the value of depreciable assets reported at cost

LIABILITIES

Current liabilities Obligations due in one year or less
Long-term liabilities Debts owed to creditors, due in more than one year from the balance sheet date
Accounts payable (AP) Money owed to creditors and vendors
Notes payable Debts owed to banks or other creditors based on written agreements
Accrued expenses Expenses incurred before the end of the accounting period, but not yet paid for
Deferred revenue Cash received in advance, but not yet earned
Long-term bonds payable Money borrowed to finance company operations, due in more than one year

SHAREHOLDERS' EQUITY

Common stock Sold to investors for ownership of a corporation
Preferred stock Investors receive dividends before common stockholders and usually do not have voting rights
Additional paid-in capital Investment received by corporation, in excess of par value per share (APIC = Issuance price - Par value)
Par (stated) value Per share amount on stock certificates, also referred to as legal capital (no relation to market value)
Retained earnings Sum of all previous profit and losses, less dividends
Treasury stock Stock repurchased by company
Dividends Corporate profits paid to shareholders from retained earnings (not an expense)

Accounting Cheat Sheet

INCOME STATEMENT	
Year ended 12/31/2100	
Income	
Revenue	930
Cost of goods sold	(10)
Gross profit	920
Expense	
Bad debt	90
Depreciation	40
Interest	5
Utilities	50
Wages	300
Total Expense	485
Net Income (Profit)	435

INCOME STATEMENT FEATURES

Income statement (profit and loss) shows the performance of a business by reporting revenue earned minus expenses incurred to equal net income or loss (profit or loss)
Mechanics Reports the business activity for a specific period of time and results in net income or loss, which gets recorded to retained earnings at the end of the accounting period

REVENUE AND EXPENSE

Revenue recognition Recognize (book into accounting record) revenue when it is earned and realizable
Expense recognition Expenses are recognized when incurred, as goods are used and services received
Net income or loss Revenue minus expenses results in net income or net loss also referred to as profit or loss
Net income increases retained earnings and net loss decreases retained earnings

STATEMENT OF CASH FLOWS FEATURES

Statement of cash flows Shows the flow of cash in and out of the business
Mechanics Starts with beginning cash from the prior period and reconciles to ending cash in the current period showing the changes
Usefulness Shows actual changes in cash on a cash basis, instead of the accrual basis which does not necessarily reflect the flow of cash
Indirect method of preparation uses the changes in accrual basis accounts
Direct method of preparation (uncommon) presents specific cash flows such as cash received from customers and paid to suppliers

STATEMENT OF CASH FLOWS FEATURES	
Year ended 12/31/2100	
Cash flows from operating activities:	
Net income	435
Adjustments to reconcile cash used for operations	
Depreciation and amortization	40
Changes in operating assets and liabilities:	
Accounts receivable	(400)
Inventories	10
Accounts payable	-
Allowance for doubtful accounts	90
Accrued expenses	300
Total adjustments	40
Net cash used in operating activities	475
Cash flows from investing activities:	
Purchase of property and equipment	(200)
Net cash used in investing activities	(200)
Cash flows from financing activities:	
Proceeds from notes payable	500
Proceeds from issuance of common stock	1,000
Purchase of treasury stock	(175)
Principal on loan payment	(95)
Dividend paid	(8)
Net cash provided by financing activities	1,222
Net increase in cash and equivalents	1,497
Cash and cash equivalents, beginning	-
Cash and cash equivalents, ending	1,497

STATEMENT OF OWNERS' EQUITY FEATURES

Statement of owners' equity shows sources of capital (business funding), additional paid in capital and common stock breakdown, changes in retained earnings, and treasury stock (stock repurchased)
Mechanics The statement starts with beginning balances and reconciles to ending period balance

STATEMENT OF OWNERS' EQUITY					
As of 12/31/2100					
		Common stock	Retained earnings	Treasury stock	Total
Balance					
	December 31, 2099	10			10
	Net income for 2100		435		435
	Common stock issued	1,000			1,000
	Treasury stock			(175)	(175)
	Dividends		(8)		(8)
Balance					
	December 31, 2100	1,010	427	(175)	1,262

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Accounting Cheat Sheet

COMMON JOURNAL ENTRIES			
Year ended 12/31/2100			
		debit	credit
Receive 1,000 investment for common stock			
Cash		1,000	
	Common stock		1,000
Receive $500 loan			
Cash		500	
	Note payable		500
Purchase $200 equipment			
Equipment		200	
	Cash		200
Make $900 credit sale for services performed			
Accounts receivable		900	
	Revenue		900
Collect $500 credit sale			
Cash		500	
	Accounts receivable		500
Establish $90 Allowance for doubtful accounts			
Bad debt expense		90	
	Allowance for doubtful		90
Record utilities expense $50 after receiving bill			
Utilities expense		50	
	Accounts payable		50
Pay utility company $50 in cash for prior bills			
Accounts payable		50	
	Cash		50
Accrue $300 in wage expense			
Wage expense		300	
	Wages payable		300
Make $100 payment on note payable with cash:			
$5 interest $95 principal			
Interest expense		5	
Note payable		95	
	Cash		100
Record $40 of depreciation expense			
Depreciation expense		40	
	Accumulated depreciation		40

Make $30 cash sale, 1 unit, cost $10			
Cash		30	
	Revenue		30
Cost of goods sold		10	
	Inventory		10
Repurchase $175 of company stock			
Treasury account		175	
	Cash		175
Close out income statement accounts to income summary			
Revenue		930	
	Bad debt		90
	Cost of goods sold		10
	Depreciation		40
	Interest		5
	Utilities		50
	Wages		300
Income summary		435	
Close income summary to retained earnings			
Income summary		435	
	Retained earnings		435
Declare $8 dividend			
Retained earnings		8	
	Dividends payable		8
Pay $8 dividend			
Dividends payable		8	
	Cash		8

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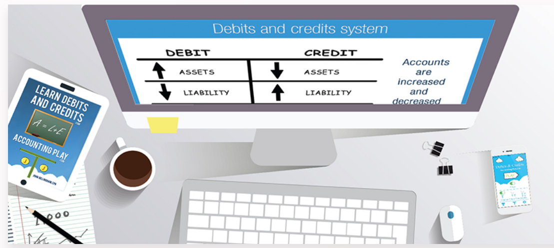

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-Cal State CA

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-CA Junior College

Students:

★★★★★ September 25, 2016 — 23

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★★★★★ July 21, 2015 — 1

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