

# General Ledger Overview by AccountingForDummies.net

**Accounting ledger** is summary of transactions which hold all your *double-entry accounting*. At first doubt entry might sound like twice as much work, but once the accounting ledger is build up with entries, you will learn to rely on the checks and balances that help you keep accurate records.

Double-entry accounting means every transaction affects and is recorded in at least two accounts. The total amount debit must equal the total amount credit. Therefore, the sum of the debits for all entries must equal the sum of the credits. Double-entry accounting helps to prevent errors by assuring that debits and credits for each transaction are equal.

Having said that, if you go to the store and buy a hand saw? You are decreasing cash in the bank by \$89 and increasing your expenses by same amount. That's all there is to it, you just affected two accounts.

Debit Tools \$89.  
Credit Cash \$89.

What puts a spin on this **debit/credit** business, is that most people think of credit as being negative or minus and debit being a positive or plus. But each account type is affected differently depending on the nature of the entry.

Assets are what the business owns and they are always a debit balance and liabilities are what the business owes and they are always a credit balance. Assets are positive and liabilities are negative because they need to be subtracted from each other to come up with the total value of the company.

When a liability account gets credited, you are adding a negative to a negative balance, which makes a bigger negative number. It increases your liability. Take the hand saw example. If, instead of paying cash you charged it on your account, the expense entry will remain the same but because you're not taking money out of cash the accounts payable is affected with a credit.

Debit Tools \$89.  
Credit Accounts payable \$89.

Let's look at income and expenses. Income has a credit balance and expenses have a debit balance. Yes, I know we think of income as being positive and should have a debit balance but in the accounting world it's the opposite. The way to remember this is, when you sell a product and customer pays you cash, you deposit the cash in bank and the bank is debited, therefore the income must be credited.

Expenses have a debit balance. You enter an expense as a positive (debit) number to increase your record of what you've purchased. Whenever you purchase an item, ex: office supplies, that goes to your expense account and gets debited. Expenses are positive and income is negative because they need to be subtracted from each other to come up with the total net income.

**A little history** – debit and credits are remnants of 18<sup>th</sup>-century English recordkeeping practices in which the terms debtor and creditor were used instead of debit and credit. The abbreviations, Cr. and Dr. use the first letter of there terms where Dr. resulted from debtor and Cr. from Creditor, just as we still do for Saint (St) and doctor (Dr).


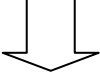
The following chart shoes how debits and credits affect the different types of accounts.



Account type	Debit (Dr)	Credit (Cr)
Assets	Increases	Decreases
Liabilities	Decreases	Increases
Owners	Decreases	Increases



Income	Decreases	Increases
Expenses	Increases	Decreases



Now, let's start by entering some info into our double-entry ledger. Read the following examples, once you've figured out one side of the entry ex: debit side, the other must be the credit entry.



### 1. Debits and Credits



Assets	
	
Debit for Increases +	Credit for Decreases -

Liabilities	
	
Debit for Decreases -	Credit for Increases +

Owner Investment	
	
Debit for Decreases -	Credit for Increases +

Revenues	
	
Debit for Decreases -	Credit for Increases +

Expenses	
	
Debit for Increases +	Credit for Decreases -

Owner Withdrawal	
	
Debit for Increases +	Credit for Decreases -

The T-accounts above are a helpful learning tool. It shows the effects of individual transactions on specific accounts. The T-account is so named because it looks like the letter T.

The left side of the T-account is always called the **debit** side often abbreviated Dr. The right side is always called the credit side, often abbreviated Cr. The difference between total debits and total credits for an account is the account balance. When the sum of debits exceeds the sum of credits, the account has a *debit balance*. It has a *credit balance* when the sum of credits exceeds the sum of debits. When the sum of debits equals the sum of credits, the account has a zero balance.

Office Supplies	
100	60
300	200
Balance	140

Accounts Payable	
350	400
500	600
	150
	Balance

$100 + 300 = 400$  total debits;  $60 + 200 = 260$  total credit; debits are greater than credits, so the 140 balance is a debit ( $400 - 260$ ).

$350 + 500 = 850$  total debits;  $400 + 600 = 1,000$  total credits; credits are greater than debits, so the 150 balance is a credit ( $1,000 - 850$ ).

Analyzing transactions - below are some transactions to show you how debits and credits rules and double-entry accounting are useful in analyzing and processing transactions.

### 1. Investment by owner

Dr.	Cash	Cr.
	10,000	

**Transaction:** Sally Creative invested \$10,000 in Creative Interiors on January 1, 2009.

**Analysis:** Assets increases. Owner equity increases.

**Double-entry:** Debits the Cash asset account for \$10,000. Credit The Sally Creative, Capital account in owner equity for \$10,000.

Dr.	Sally Creative, Capital	Cr.
		10,000

## 2. Purchase supplies for cash

Dr.	Supplies	Cr.
	2,500	

**Transaction:** Creative Interiors purchases supplies by paying \$2,500 cash.

**Analysis:** Assets increase. Assets decrease. These changes the composition of assets, but does not change the total amount of assets.

Dr.	Cash	Cr.
10,000		2,500

**Double-entry:** Debit the Supplies asset account for \$2500. Credit the Cash asset account for \$2500.

## 3. Purchase furniture and supplies on credit.

Dr.	Supplies	Cr.
	2,500 1,100	

**Transaction:** Creative Interiors purchases \$1,100 of supplies and \$6,000 of furniture on credit. Creative interiors signs a promissory note for the \$6,000 of furniture.

**Analysis:** Assets increases. Liabilities increases.

Dr.	Furniture	Cr.
	6,000	

**Double-entry:** Debit two asset accounts: Supplies for \$1,100 and furniture for \$6000. Credit two liability accounts: Accounts payable for \$1,100 and Notes Payable for \$6000.

Dr.	Accounts Payable	Cr.
		1,100

Dr.	Notes Payable	Cr.
		6,000

**4. Services rendered for cash.**

Dr.	Cash	Cr.
	10,000 2,200	2,500

**Transaction:** Creative Interiors provided consulting services to a Customer and immediately collected \$2,200 cash.

**Analysis:** Assets increase.

Dr.	Revenue	Cr.
		2,200

**Double-entry:** Debit the Cash asset account for \$2,200. Credit the Consulting Revenue account for \$2,200.

**5. Payment of expenses in cash.**

Dr.	Salaries Expense	Cr.
	700	

**Transaction:** Creative Interiors pays \$700 cash for Employee's salary for the pay period ending on January 14.

**Analysis:** Assets decrease.

Dr.	Cash	Cr.
	10,000 2,200	2,500 700

**Double-entry:** Debit the Salaries expense account For \$700. Credit the Cash asset account for \$700