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# Principles of Financial Accounting

## Recording Process

FINANCIAL CHART





## Debit / Credit Procedures for assets and liabilities

The two rules of the double-entry system are that every transaction affects at least two accounts and that total debits must equal total credits.

In other words for every transaction:

- One or more accounts must be debited, or entered on the left side of the T account
- One or more accounts must be credited, or entered on the right side of the T account
- The total dollar amount of the debits must equal the total dollar amount of the credits.





## For Example

If Cash increases —an asset—were entered on the left side, and decreases in Cash were entered on the right side. We know that both sides of the basic equation (Assets = Liabilities + Owner's Equity) must be equal.

Decreases in liabilities  
must be entered on the  
left or debit side.



**It therefore follows that increases  
and decreases in liabilities will  
have to be recorded opposite  
from increases and decreases in  
assets.**



Increases in liabilities  
must be entered on the  
right or credit side



As summarized below: The Recording Process Summary of Debit/Credit Rules illustrates a summary of the debit/credit rules and effects on each type of account.

Debit	Credit
Increase assets Decrease Liabilities	Decrease assets Increase liabilities

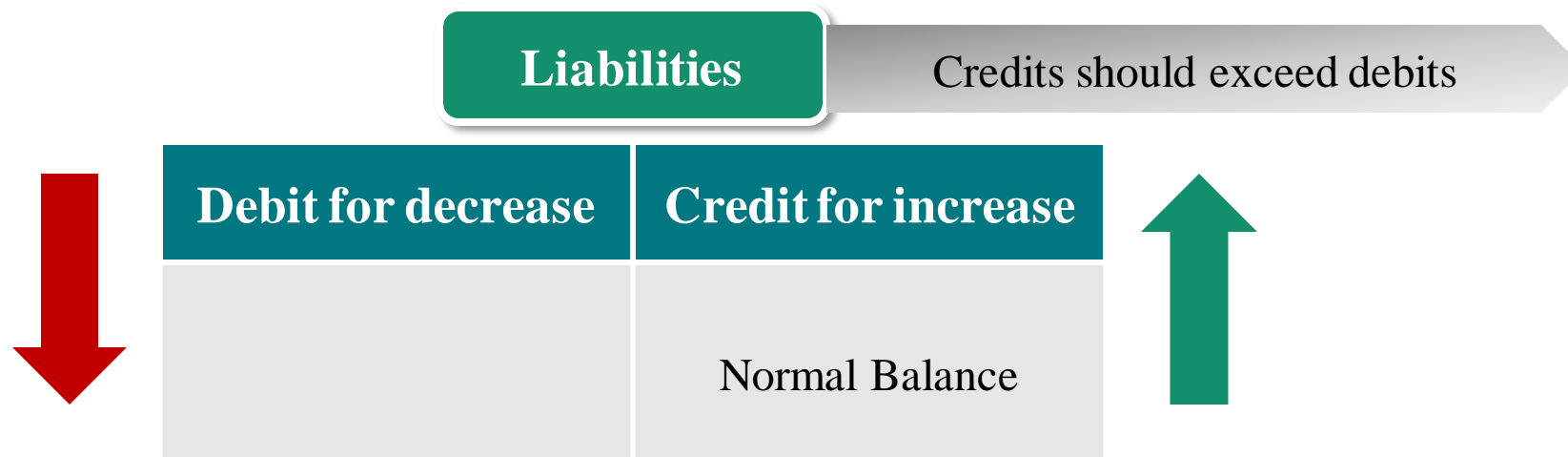
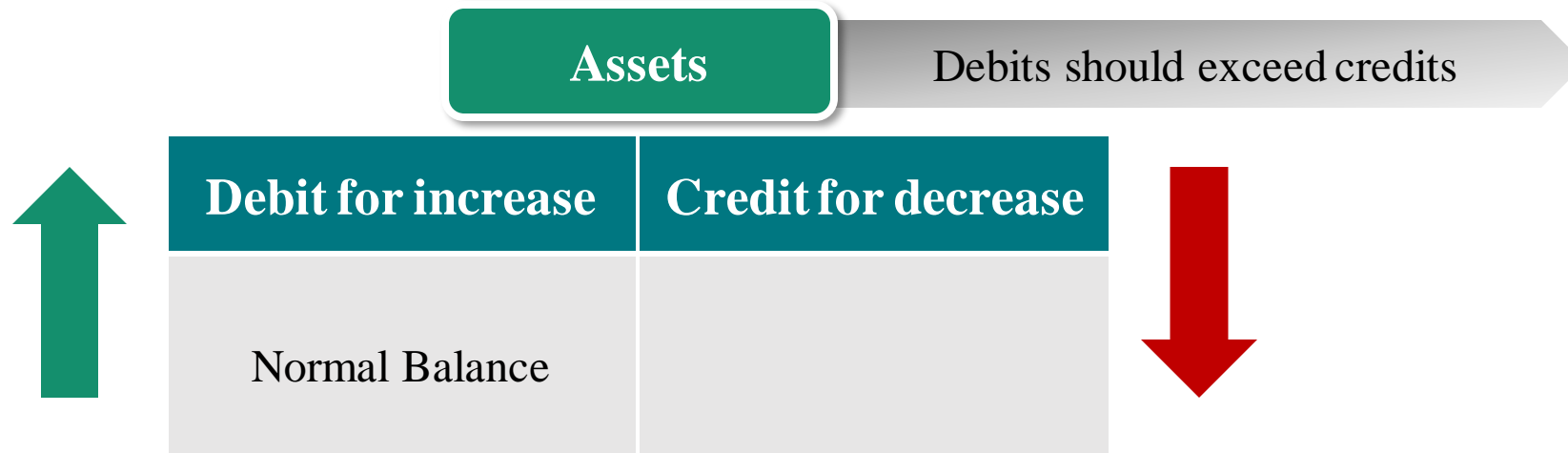




## Recording Process

Asset accounts normally show debit balances. That is, debits to an asset account should exceed credits to that account.

otherwise, liability accounts normally show credit balances.



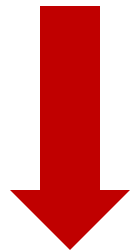


## Recording Process

The normal balance is on the increase side

### Revenues

The purpose of earning revenues is to benefit the owner(s)



Debit for decrease	Credit for increase
	Normal Balance



### Expenses

Expenses decrease owner's equity.



Debit for increase	Credit for decrease
Normal Balance	







- Owner's investments and revenues increase owner's equity (credit).
- Owner's drawings and expenses decrease owner's equity (debit)


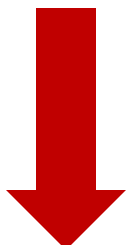
### Owner's Drawings

Owner's Drawings	
Debit for increase	Credit for decrease
Normal Balance	



### Owner's Capital

Owner's Capital	
Debit for decrease	Credit for increase
	Normal Balance





Expansion of the Basic Accounting Equation and income statement

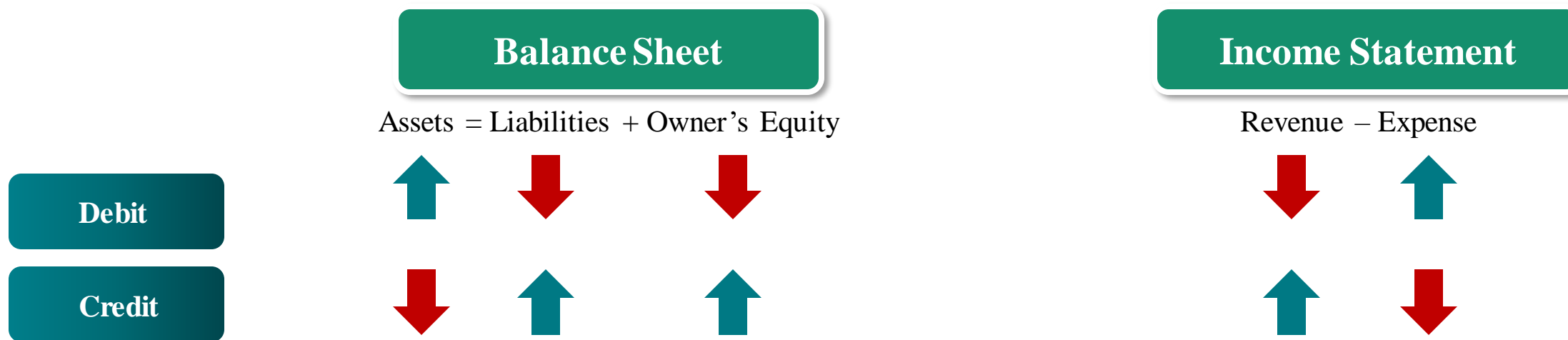


Exhibit 2-2: Summary of Dr / Cr rule

**Basic Equation**

Assets = Liabilities + Owner's Equity

**Expanded Equation**

	<b>Assets</b>	<b>=</b>	<b>Liabilities</b>	<b>+</b>	<b>Owner's Capital</b>	<b>-</b>	<b>Owner's Drawings</b>	<b>+</b>	<b>Revenues</b>	<b>-</b>	<b>Expenses</b>
	Dr.   Cr.		Dr.   Cr.		Dr.   Cr.		Dr.   Cr.		Dr.   Cr.		Dr.   Cr.
<b>Debit / Credit Effects</b>	+   -		-   +		-   +		+   -		-   +		+   -