Knowing which Accounts to Debit and which to Credit

Last Modified on 09/13/2024 6:12 pm EDT

Whether or not debits and credits increase GL accounts or decrease them is often a source of confusion. It is not as simple as debits always increasing accounts and credits always decreasing them, or vice versa. And it is not always the case that one journal entry must show one account going up and another going down.

For example, the journal entry for making a loan payment would debit the loan account and credit the bank account, and based on this both of those accounts would decrease in value (decreasing the amount owed on the loan, and decreasing the amount of money in the bank). This demonstrates that whether an account's value goes up or down does not depend solely on whether it is debited or credited, but also on the type of account it is.

Take away – Debits can increase or decrease an account's value. Credits can also increase or decrease an account's value. Whether or not an account is increased or decreased depends on the type of account.

Account Types – ways of grouping general ledger accounts together, based on what they have in common so that they can be treated the same way. For example, credit cards and bank loans are both monies businesses owe their bank, and so they belong to the same account type. A savings account is money belonging to the business, and so it belongs to a different account type. The three main account types are assets, liabilities, and equity. Equity can be further broken down into equity, revenue, expenses, and distributions. The other account types can be broken down as well, but these are all the basics.

Assets – something of monetary value owned by the business.

Liabilities – a debt the business owes.

Equity – the difference between how much monetary value a business has and how much money it owes others.

Revenue – total income of a company, usually presented for a date range. Ex. Total income this month, or this year.

Expenses – total costs incurred by the company, usually presented for a date range. Ex. Total costs this month, or this year.

Distributions – amounts taken out of the company and paid to the company owner/shareholders.

Debit Balance Accounts – accounts that are increased by debits. Assets, Distributions, and Expenses are all debit balance accounts. For example, a bank account is an asset. When you deposit money in the bank you have to increase the bank account value, which means you would enter a debit transaction to the bank account. When you pay a bill you would enter a credit transaction to the bank account to reduce it. Hopefully your bank account never goes negative, so the total value of your debits (your deposits) should always be higher than the total value of your credits (your payments). The bank account therefore always has more value in debits. In other words, it normally carries a debit balance.

In Summary – Assets, Distributions, and Expenses are all debit balance accounts. These accounts are increased by debit entries and decreased by credit entries, and they should normally carry a debit balance.

Credit Balance Accounts – accounts that are increased by credits. Liabilities, Equity, and Revenue are all Credit Balance accounts. For example, a credit card account is a liability account. When you purchase something with your credit card you have to increase the amount owed on the card by making a credit entry to the account. Whenever you make a payment on the card, the amount owed on the card can be decreased with a debit entry. The total amount you pay on the credit card, i.e. the debit entries, should never be greater than the amount of the items you purchased on the card, i.e. the credit entries. This means the credit entries should normally have greater value in the credit card account, making it a credit balance account.

In Summary – Liabilities, Equity, and Revenue are all credit balance accounts. These accounts are increased by credit entries and decreased by debit entries, and they should normally carry a credit balance.

Assets = Liabilities + Equity – the golden equation of double entry accounting. If you add together the value of all a business's asset accounts, that total should exactly match the sum of all the other accounts (those being liabilities, equity, distribution, revenue, and expense accounts). If the two amounts do not match, that is a red flag that there is an improper transaction somewhere in the general ledger.

Overall
The purpose of the above accounting rules are to make it easy to determine a business's profitability at a glance, by capturing all aspects of its finances. In addition, the rules help keep businesses honest. For example, an owner could not simply claim they got a huge increase in revenue last month, and then make an entry to the revenue account. Every transaction must include at least two accounts (sometimes more), including a debit and a credit, and the accounting equation must balance in the end. This means the owner would have to select at least one more account in their entry, to show where the revenue came from.

Cheat Sheet Graphics

Note - Images are from a Google search in 2018. We would need to find and cite these sources, or create our own images if we want to share this article.

T Account – a method used to visualize general ledger accounts, so named because it looks like a capital T. The account name goes at the top of the T, and then all the transactions that have hit the account go below that. Debit amounts are listed on the left, and credit amounts on the right. The example below lists all of the transactions for a bank account in the T Account style. The debits in this example total 14,800 more than the credits, which means this bank account has a 14,800 debit balance. This company therefore has 14,800 in the bank.

Accounting Equation and which accounts are Debit/Credit Balance

The below graphic can help you remember the accounting equation, as well as which types of accounts are increased by debits and which are increased by credits. The graphic is setup in the T Account style.

Expanded Basis Equation and Debit / Credit Rules

Assets = Liabilities + Owner's Equity

Assets = Liabilities + Owner's Capital - Owner's Drawings

+ Revenues - Expenses

Account	Dr.	Cr.
Assets	↑	↓
Liabilities	↓	↑
Owner's Capital	↓	↑
Owner's Drawings	↑	↓
Revenues	↓	↑
Expenses	↑	↓

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