







Debits and Credits

- Debit (DR) – from the Latin “debere” meaning to owe something
- Credit (CR) – from the Latin “credere” meaning to believe or entrust
- By itself
 - Debit means nothing more than the left side
 - Credit means nothing more than the right side
- Significance depends on account

© Dr. Chua King
All Rights Reserved

5 Basic Elements of Financial Statements

- Asset
- Liability
- Equity
- Revenue
- Expense
- Other

© Dr. Chua King
All Rights Reserved

Elements of Financial Statements

- **Assets: Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events**
- **Liabilities: Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. . .**

© Dr. Chua King
All Rights Reserved

Elements of Financial Statements

- Stockholders' Equity: The residual interest in the assets of an entity that remains after deducting liabilities
- Assets – Liabilities = Stockholders' Equity
- Balance Sheet
 - Assets, Liabilities and Equity at a point in time
 - Permanent Accounts

© Dr. Chua King
All Rights Reserved

Elements of Financial Statements

- Expenses: Outflows or other using up of assets or incurrences of liabilities during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations
- Notice that expenses are tied to decreases in assets or increases in liabilities.

© Dr. Chua King
All Rights Reserved

Elements of Financial Statements

- Revenues: Inflows or other enhancements of assets or settlement of liabilities from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major, or central operations
- Notice that revenues are tied to increases in assets or decreases in liabilities
- Income Statement – Revenues and Expenses for a period of time
 - Temporary Accounts

© Dr. Chua King
All Rights Reserved

The Accounting Equation

- Assets = Liabilities + Stockholders' Equity
- Dual nature – Double Entry
 - For every action, there is a reaction
 - Equality must hold
- Assets = Liabilities + Stockholders' Equity

+	+	
-	-	
+ -		
+		+
-		-

© Dr. Chua King
All Rights Reserved

Back to Debits and Credits

- Debit
 - Increases assets and expenses
 - Decreases liabilities, equity and revenues
- Credit
 - Increases liabilities, equity and revenues
 - Decreases assets and expenses
- Double entry accounting.

© Dr. Chua King
All Rights Reserved

Debits and Credits

<u>Asset</u>	<u>Liability</u>	<u>Equity</u>
DR CR	DR CR	DR CR
+ -	- +	- +

<u>Revenue</u>	<u>Expense</u>
DR CR	DR CR
- +	+ -






