

Account Classification and other Facts

Account Classifications:

- Contra Capital (Daniel Oberholtzer, Drawing)
- Expense (Rent Expense, Utilities Expense, etc.)
- Revenue (Sales)
- Owner's Equity (Daniel Oberholtzer, Capital)
- Asset (Cash, Supplies, Prepaid Insurance)
- Liability (ABC Supply Company)

Normal Balance Sides Applied to T accounts:

- Debit -- (left side)
- Credit -- (right side)

Increase or Decrease Side:

- The Normal Balance Side is the INCREASE Side.
- The side opposite the Normal Balance Side is the DECREASE Side.

Other Facts:

- At least Two Accounts are ALWAYS affected by a Business Transaction.
- The Debit Part of the Transaction Must ALWAYS equal the Credit Part.

Look for key words in the transaction such as Received Cash or Paid Cash:

- Received Cash is a giveaway that Cash is Debited. (The other account affected will ALWAYS be the Credit Part.)
- Paid Cash is a giveaway that Cash is Credited. (The other account affected will ALWAYS be the Debit Part.)
- If Cash is not mentioned, nor is there mention of issuing a check or receiving payment, then Cash is not affected.

Don't forget underlying Concepts--The Accounting Equation:

- If you analyze the business transaction correctly, the accounting equation will always remain IN BALANCE.
- If the two accounts affected are on the same side of the accounting equation, then One account will be Increased, and the Other account will be Decreased.
- If the two accounts affected are on opposite sides of the accounting equation, then both accounts are either Increased or both are Decreased.

Four Steps for Analyzing a Business Transaction--It helps to understand the above facts before the four steps can be effectively applied to any transaction. If you are unsure, have these facts handy for reference. Memorize the 4 steps and practice.

Analyzing Business Transactions

Step 1: State the Accounts Affected.

Step 2: Classify each account.

Step 3: Identify the Normal Balance Side of each account.

Step 4: Decide How the Balance Side of each account is affected-- Increased or Decreased -- Debited or Credited depending on each account's Normal Balance Side.

Quick Reference

