Debits and Credits

(Practice Quiz)

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Answers on page 5
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Use the following information for questions 1 and 2:
A company receives $500 of cash as an additional investment in the company by its owner, Mary Smith. The company's Cash account is increased and Mary Smith, Capital is increased.

1. Should the $500 entry to the Cash account be a *debit*?
   Yes **No**

2. Should the $500 entry to Mary Smith, Capital be a *debit*?
   Yes **No**

Use the following information for questions 3 through 6:
A company using the accrual method of accounting performed services on account in August. The services were for $2,000 and the company gave the customer credit terms that state the amount is to be paid to the company in September.

3. Assuming that the company prepares monthly income statements, what will be the account *debited* for $2,000 in *August*?
   Cash **Accounts Receivable** **Service Revenue**

4. Which account should the company *credit* for $2,000 in *August*?
   Cash **Accounts Receivable** **Service Revenue**

5. In *September*, when the company receives the $2,000 from the customer, which account should the company *debit*?
   Cash **Accounts Receivable** **Service Revenue**

6. In *September*, when the company receives the $2,000 from the customer, which account should the company *credit*?
   Cash **Accounts Receivable** **Service Revenue**

7. To *increase* the balance in the following accounts, would you debit the account or would you credit the account?

a. Accounts Payable	Debit	Credit
b. Cash	Debit	Credit
c. Land	Debit	Credit
d. Notes Payable	Debit	Credit
e. Accounts Receivable	Debit	Credit
f. Mary Smith, Capital	Debit	Credit
g. Supplies	Debit	Credit
h. Supplies Expense	Debit	Credit
i. Prepaid Insurance	Debit	Credit
j. Service Revenue	Debit	Credit
k. Mary Smith, Drawing	Debit	Credit
l. Equipment	Debit	Credit
m. Unearned Revenue	Debit	Credit

8. To *decrease* the balance in the following accounts, would you debit the account or would you credit the account?

a. Accounts Payable	Debit	Credit
b. Cash	Debit	Credit
c. Land	Debit	Credit
d. Notes Payable	Debit	Credit
e. Accounts Receivable	Debit	Credit
f. Mary Smith, Capital	Debit	Credit
g. Supplies	Debit	Credit
h. Supplies Expense	Debit	Credit
i. Prepaid Insurance	Debit	Credit
j. Service Revenue	Debit	Credit
k. Mary Smith, Drawing	Debit	Credit
l. Equipment	Debit	Credit
m. Unearned Revenue	Debit	Credit

9. What is the *normal balance* for the following accounts?

a. Accounts Payable	Debit	Credit
b. Cash	Debit	Credit
c. Land	Debit	Credit
d. Notes Payable	Debit	Credit
e. Accounts Receivable	Debit	Credit
f. Mary Smith, Capital	Debit	Credit
g. Supplies	Debit	Credit
h. Supplies Expense	Debit	Credit
i. Prepaid Insurance	Debit	Credit
j. Service Revenue	Debit	Credit
k. Mary Smith, Drawing	Debit	Credit
l. Equipment	Debit	Credit
m. Unearned Revenue	Debit	Credit

10. Generally, when an expense is involved in a transaction, an expense account will be ____________.

debited **credited**

11. Generally, when revenues are involved in a transaction, a revenue account will be ____________.

debited **credited**

12. The accountant's word to indicate that an entry will be recorded on the left side of an account is ____________.

debit **credit**

13. A contra-asset account such as Accumulated Depreciation will likely have which balance?

Debit **Credit**

14. A contra-liability account such as Discount on Notes Payable will likely have which balance?

Debit **Credit**

Answers

1. **Yes**
   Cash is always debited when cash is received.

2. **No**
   This owner's equity account should be credited, not debited.

3. **Accounts Receivable**
   The account Accounts Receivable should be debited in August. Accounts Receivable, an asset, was increased in August.

4. **Service Revenue**
   You should credit revenues when they are earned.

5. **Cash**
   We always debit Cash when cash is received.

6. **Accounts Receivable**
   When an asset such as Accounts Receivable is decreased, you credit the account.

7. a. **Credit**
   To increase a liability you credit the liability account.
   b. **Debit**
   Cash and other assets are debited to increase their balances.
   c. **Debit**
   Since land is an asset, you debit the account to increase its balance.
   d. **Credit**
   As with any liability account, you credit the account to increase its balance.
   e. **Debit**
   Accounts Receivable is an asset and a debit will increase an asset account.
   f. **Credit**
   Mary Smith, Capital is an owner equity account with a normal balance of credit. Hence you credit the account to increase its balance.
   g. **Debit**
   Supplies is an asset account. Asset accounts normally have debit balances and are debited to increase their balances.
   h. **Debit**
   Supplies Expense should be debited. Except for special situations (correcting entries, closing entries, and some adjusting entries) expenses are always debited.

Answers

i. **Debit**
Prepaid Insurance is an asset and assets are increased with a debit.

j. **Credit**
Revenue accounts are almost always CREDITED. (The exceptions are: correcting, closing, and some adjusting entries.) Revenues have the effect of increasing owner's equity, so it is reasonable for revenues to have a credit balance.

k. **Debit**
The drawing account normally has a debit balance and should be debited when the owner withdraws assets from the business for personal use. You can also visualize the journal entry. When the owner draws money out of the business, the business will CREDIT Cash. That means the other account involved will have to be debited. Mary Smith, Drawing is a contra owner's equity account.

l. **Debit**
Equipment is an asset and should be debited to increase the account balance.

m. **Credit**
Since Unearned Revenue is a liability account, a credit will increase its balance.

8.

a. **Debit**
Accounts Payable is a liability account. To decrease a liability account you debit the account.

b. **Credit**
A credit will DECREASE the Cash account (or any asset account) balance.

c. **Credit**
Since land is an asset, you credit the Land account to decrease its balance.

d. **Debit**
As with any liability account, you debit the Notes Payable account to decrease its balance.

e. **Credit**
A credit will decrease an asset such as Accounts Receivable.

f. **Debit**
Mary Smith, Capital is an owner equity account with a normal balance of credit. Hence you debit the account to decrease its balance.

g. **Credit**
Since Supplies is an asset account, it will be reduced by a credit.

h. **Credit**
It is very unusual that previous expenses already recorded in an expense account will be decreased. However, a credit will reduce the normal debit balances of expenses.

i. **Credit**
Prepaid Insurance is an asset and will be reduced with a credit.

Answers

j. **Debit**
Because revenue accounts have credit balances, you are correct to indicate that a debit will reduce the balance.
k. **Credit**
Because Mary Smith, Drawing is a contra owner equity account with a debit balance, you are correct to indicate a credit is needed to reduce the balance.
l. **Credit**
A credit will decrease this asset's account balance.
m. **Debit**
Unearned Revenue is a liability account and its balance will be decreased with a debit.

9. a. **Credit**
Liability accounts normally have credit balances.
b. **Debit**
Cash and other assets have debit balances
c. **Debit**
Since Land is an asset, its normal balance is a debit balance.
d. **Credit**
Liability accounts normally have credit balances.
e. **Debit**
Accounts Receivable is an asset. Therefore its normal balance is a debit balance.
f. **Credit**
Mary Smith, Capital is an owner equity account with a normal balance of credit.
g. **Debit**
Supplies is an asset account. Asset accounts normally have debit balances.
h. **Debit**
Supplies Expense (and all expenses) should normally have a debit balance.
i. **Debit**
Prepaid Insurance is an asset and assets normally have debit balances.
j. **Credit**
Revenue accounts normally have CREDIT balances. (Revenues will cause owner equity to increase and owner equity normally has a credit balance.)
k. **Debit**
The drawing account normally has a debit balance and should be debited when the owner withdraws assets from the business for personal use.
l. **Debit**
Equipment is an asset and therefore normally has a debit balance.

Answers

m. **Credit**
Since Unearned Revenue is a liability account, its normal balance is a credit balance.

10. **debited**
Expenses are almost always debited. The exceptions would be closing entries and possibly correcting and adjusting entries.

11. **credited**
Revenues are almost always credited. The exceptions would be closing entries and possibly correcting and adjusting entries.

12. **debit**

13. **Credit**
Since asset accounts are likely to have debit balances, a contra-asset account will have the opposite balance.

14. **Debit**
Since liability accounts are likely to have credit balances, a contra-liability account will have the opposite balance.