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ACCOUNTING EQUATION & DOUBLE ENTRY

CHEAT SHEET & PRACTICAL GUIDE

Learn Today. Lead Tomorrow.

1 WHAT IS THE ACCOUNTING EQUATION?

The Accounting Equation is the foundation of double entry bookkeeping.

ASSETS = LIABILITIES + EQUITY

It shows that a business's resources (Assets) are financed by Liabilities and/or Equity.

KEY POINTS

- The equation must always balance.
- Every transaction affects at least two accounts.
- Total Debits must always equal Total Credits.
- Helps ensure accuracy and detect errors.

2 DOUBLE ENTRY CONCEPT

Every business transaction has a dual effect: it affects at least two accounts.

	DEBIT (DR)	CREDIT (CR)
↑	Left side entry of an account	Right side entry of an account
↑	Increase certain accounts	Increase certain accounts
↓	Decrease certain accounts	Decrease certain accounts

RULE: Total Debits = Total Credits
The equation will always stay in balance.

3 EFFECT ON THE ACCOUNTING EQUATION

How transactions affect the equation:

TRANSACTION TYPE	EXAMPLE	EFFECT ON EQUATION
Assets increase	Cash received from owner	Assets ↑ = Equity ↑
Assets decrease	Cash paid for rent	Assets ↓ = Equity ↓ (or Liabilities ↓)
Liabilities increase	Bank loan obtained	Assets ↑ = Liabilities ↑
Liabilities decrease	Loan repayment	Assets ↓ = Liabilities ↓
Equity increase	Additional capital by owner	Assets ↑ = Equity ↑
Equity decrease	Owner withdrawal	Assets ↓ = Equity ↓
Exchange within Assets	Cash used to buy equipment	Assets = Assets (no change in total)

4 NORMAL BALANCE OF ACCOUNTS

Each account has a normal balance side.

BALANCE SHEET ACCOUNTS	
ASSETS	Dr (Debit)
LIABILITIES	Cr (Credit)
EQUITY	Cr (Credit)

INCOME STATEMENT ACCOUNTS	
REVENUE / INCOME	Cr (Credit)
EXPENSES	Dr (Debit)
DRAWINGS	Dr (Debit)

TIP: Think "DEALER" to remember normal balances
D – Drawings & Expenses (Debit)
E – Equity, Liabilities & Revenue (Credit)
A – Assets (Debit) L – Liabilities (Credit) R – Revenue (Credit)

5 EXAMPLES OF DOUBLE ENTRY TRANSACTIONS

No.	TRANSACTION	ACCOUNTS AFFECTED	
		DEBIT (DR)	CREDIT (CR)
1	Owner invests cash into the business	Cash	Owner's Capital
2	Purchase goods on credit from supplier	Inventory (Goods)	Accounts Payable
3	Pay rent in cash	Rent Expense	Cash
4	Provide services and receive cash	Cash	Service Revenue
5	Pay electricity bill by bank transfer	Utilities Expense	Bank

6 JOURNAL ENTRY EXAMPLES

Every transaction is recorded in the journal with double entry.

NO.	TRANSACTION	JOURNAL ENTRY		
		ACCOUNT	DEBIT (RM)	CREDIT (RM)
1.	Owner contributes cash RM10,000	Cash Owner's Capital	10,000	 10,000
2	Purchase equipment by bank RM3,000	Equipment Bank	3,000	 3,000
3.	Purchase goods on credit RM2,500	Inventory (Goods) Accounts Payable	2,500	 2,500
4.	Receive cash from customer for services RM1,800	Cash Service Revenue	1,800	 1,800
5	Pay salary RM1,200 by bank	Salary Expense Bank	1,200	 1,200

Remember: Every entry has an equal and opposite effect.

7 T-ACCOUNT EXAMPLES

T-accounts help to see the Debit and Credit effects.

Cash (Asset)

Dr	Cr
10,000 1,800	2,500

Accounts Payable (Liability)

Dr	Cr
	2,500

Equipment (Asset)

Dr	Cr
3,000	

Owner's Capital (Equity)

Dr	Cr
	10,000

Salary Expense (Expense)

Dr	Cr
1,200	

Service Revenue (Revenue)

Dr	Cr
	1,800

The total of Debit side must equal the total of Credit side.

8 COMMON ERRORS TO AVOID

- Recording single entry instead of double entry.
- Wrong account classification.
- Debit/Credit on the wrong side.
- Wrong amount posting.
- Not balancing total Debits and Credits.
- Missing or incomplete narration.
- Not reviewing before posting.

Always review your entries to keep the books accurate and the equation in balance.

9 RESPONSIBILITIES

Accounting Staff
- Record transactions accurately.
- Ensure all debits and credits are correct.
- Maintain supporting documents.
- Review and reconcile regularly.

Finance / Accountant
- Review journal entries.
- Ensure the equation balances.
- Analyze and explain variances.
- Prepare accurate reports.

Management
- Ensure proper controls are in place.
- Review financial information.
- Make informed decisions.

10 BEST PRACTICES

- Understand the Accounting Equation first.
- Know the normal balance of each account.
- Analyze the transaction carefully.
- Record in the journal immediately.
- Check that Total Debits = Total Credits.
- Post to ledger accurately.
- Review and reconcile regularly.

★ Accuracy today, reliable reports tomorrow!

11 INTERVIEW QUESTION

Q: What is the Accounting Equation?
A: The Accounting Equation is:
Assets = Liabilities + Equity
It shows that a business's assets are financed by liabilities and/or equity.

Q: Why is double entry important?
A: Double entry ensures every transaction is recorded completely, the equation stays in balance, and it helps prevent and detect errors.