# Summary of T-account Rules



| Assets (cash, receivables, equipment) | |
|---|---|
| Increases | Decreases |

| Liabilities (loans payable) | |
|---|---|
| Decreases | Increases |

| Owners' equity (contributed capital, retained earnings) | |
|---|---|
| Decreases | Increases |

# Components of stockholders' equity



| Common Stock | |
|---|---|
| | Additional Capital |

| Retained Earnings | |
|---|---|
| Expenses | Revenue |
| Dividends | |

# Recording expenses: A Summary



- Expenses decrease retained earnings.
- Decreases in retained earnings are recorded on the left side
- Expenses are recorded on the left side

# Expenses and Revenues: Debits and Credits



- Retained earnings (in general) has a credit balance.
- Revenues have credit balance because
  - they increase retained earnings
- Expenses and dividends have debit balance because
  - they decrease retained earnings
- Can retained earnings have a debit balance?
  - Yes, when cumulative earnings are less than cumulative dividends

# Emily's Bakery
# Trial Balance



| | Debit | Credit |
|---|---|---|
| Cash | 6,000 | |
| Accounts Receivable | 4,000 | |
| Equipment | 5,000 | |
| Loans Payable | | 3,000 |
| Contributed Capital | | 10,000 |
| Retained Earnings | | 0 |
| ***Service Revenue*** | | ***12,000*** |
| ***Expenses*** | ***9,000*** | |
| ***Dividend*** | ***1,000*** | |
| Total | 25,000 | 25,000 |