FINANCIAL MANAGEMENT FOR
GEORGIA LOCAL UNITS
OF ADMINISTRATION

Date Issued	Effective Date	Section	Title:
10/21/92	07/01/92	I	GAAP Accounting and Financial Reporting Principles
Revision No.	Date Revised	Chapter	Title:
3	March 2017	I-3	Double Entry Accounting

INTRODUCTION

As illustrated in Chapter I - 2, each financial transaction increases or decreases a Local Unit of Administration's (LUA) accounts. The primary purpose of this chapter is to explain the relationship of increases or decreases and the accounting terms "debits" and "credits."

DEBITS AND CREDITS

Accounting classifies increases or decreases in an LUA's accounts as <u>debits</u> or <u>credits</u>. Sometimes, the abbreviations for these terms in the accounting records are "DR" for debit and "CR" for credit. Before the use of computers for governmental accounting purposes, a general ledger account was pictured as looking like a "T." The left side of the "T" account was the debit side and the right side was the credit side. Exhibits I-3-1 illustrates a "T" account.

Debits are recorded on the left side of an account and credits on the right side. "T" account charts are helpful when needing a visual on how proposed journal entries affect the line items presented on the financial statements.

Exhibit I-3-1
ILLUSTRATION OF A "T" ACCOUNT

Account Name and Number

Debit	Credit
DR	CR
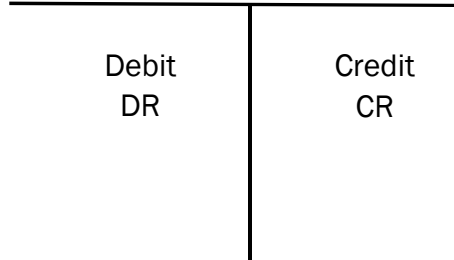
With the use of various levels of technology in governmental accounting, the "T" account no longer is visible in computer systems. However, an awareness of the concept of the "T" account is useful in understanding double entry accounting.

CHANGES IN ACCOUNT BALANCES

Recording transactions in accounting systems are simply changes in account balances. Changes in account balances, (i.e., a debit or credit) either will increase or decrease an account balance depending upon where that account appears in the accounting equation. When one account is debited, another account must be credited. This is how an accounting ledger remains balanced. Using Exhibit I-3-2 below, each transaction may be analyzed individually to determine which accounts are increased and decreased, resulting in either debits or credits. Debits or credits have different effects on accounts depending on the account type.

Exhibit I-3-2
CHANGES IN ACCOUNT BALANCES
DEBITS AND CREDITS

ACCOUNT	NORMAL BALANCE	DEBIT	CREDIT
Assets	Debit	Increase	Decrease
Deferred Outflows of Resources	Debit	Increase	Decrease
Liabilities	Credit	Decrease	Increase
Deferred Inflows of Resources	Credit	Decrease	Increase
Revenues	Credit	Decrease	Increase
Expenditures/Expenses	Debit	Increase	Decrease

The following expanded accounting equation (see Chapter I - 2) illustrates when debits and credits appear as increases ⬆ or decreases ⬇ (for purposes of illustration, the term expenditures is used, however, the term expenses could have been substituted):

Assets	+	Deferred Outflows	=	Liabilities	+	Deferred Inflows	+	Fund Balance	+	Revenues	−	Expenditures
DR / CR		DR / CR		DR / CR		DR / CR		DR / CR		DR / CR		DR / CR
↑ ↓		↑ ↓		↓ ↑		↓ ↑		↓ ↑		↓ ↑		↑ ↓
+ -		+ -		+ -		+ -		+ -		+ -		+ -

Since the accounting equation always must be in balance, every transaction always must consist of the total debit amounts equal to the total credit amounts. Double entry accounting requires that for every entry (or entries) made to the debit side of an account(s), an entry (or entries) for the same total amount is made to the credit side of another account(s). The following examples illustrate the use of debits and credits.

1. A LUA begins the year with assets of $600, no liabilities and therefore a fund balance of $600.

Assets	+	Deferred Outflows	=	Liabilities	+	Deferred Inflows	+	Fund Balance	+	Revenues	−	Expenditures
DR / CR		DR / CR		DR / CR		DR / CR		DR / CR		DR / CR		DR / CR
↑ ↓		↑ ↓		↓ ↑		↓ ↑		↓ ↑		↓ ↑		↑ ↓
600	+		=		+		+	600	+		-	

Note that the accounting equation balances and the debits equal the credits.

2. The LUA receives an unrestricted state grant totaling $6,000. This transaction increases assets (i.e., a debit) and increases revenues (i.e., a credit) by the same amount.

Assets	+	Deferred Outflows	=	Liabilities	+	Deferred Inflows	+	Fund Balance	+	Revenues	-	Expenditures
DR / CR		DR / CR		DR / CR		DR / CR		DR / CR		DR / CR		DR / CR
↑ ↓		↑ ↓		↓ ↑		↓ ↑		↓ ↑		↓ ↑		↑ ↓
600								600				
6,000										6,000		
6,600	+		=		+		+	600	+	6,000	-	

Note that the revenue increased so the revenue account was credited and the asset account increased or was debited. The total debits still equal the total credits (i.e., $6,600).

3. The LUA receives invoices for expenditures totaling $7,000. This transaction increases expenditures (i.e., a debit) and increases liabilities (i.e., a credit).

Assets		+	Deferred Outflows		=	Liabilities		+	Deferred Inflows		+	Fund Balance		+	Revenues		-	Expenditures	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
⬆	⬇		⬆	⬇		⬇	⬆		⬇	⬆		⬇	⬆		⬇	⬆		⬆	⬇
600													600						
6,000																6,000			
6,600		+			=			+			+		600	+		6,000	-		
							7,000											7,000	
6,600		+			=		7,000	+			+		600	+		6,000	-	7,000	

Note that expenditures increased so they were debited and liabilities increased so they were credited.

4. The LUA borrows $4,500 from the bank to cover future operating expenditures. This transaction increases assets (i.e., a debit) and increases liabilities (i.e., a credit).

Assets		+	Deferred Outflows		=	Liabilities		+	Deferred Inflows		+	Fund Balance		+	Revenues		-	Expenditures	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
⬆	⬇		⬆	⬇		⬇	⬆		⬇	⬆		⬇	⬆		⬇	⬆		⬆	⬇
600													600			6,000			
6,000																			
6,600		+			=			+			+		600	+		6,000	-		
							7,000											7,000	
6,600		+			=		7,000	+			+		600	+		6,000	-	7,000	
4,500							4,500												
11,100		+			=		11,500	+			+		600	+		6,000	-	7,000	

The accounting equation still balances (i.e., $11,100 = $11,500 + $600 + $6,000 - $7,000). Also, note that the recording of each transaction results in debit amounts equal to credit amounts (i.e., $18,100).

FIVE STEPS IN RECORDING JOURNAL ENTRIES

Journal entries are a common method of recording accounting transactions. The following steps will assist you in successfully recording journal entries and transactions directly into your accounting software.

Step 1: Determine which accounts are involved.

Each transaction needs to be analyzed to determine the individual accounts that are affected by the transaction.

Say, for example, a LUA receives cash. We can determine from the statement that the cash account is involved, but we need more information. We need to determine for what purpose the cash was received.

The LUA government receives cash for grants (revenue). We can now determine that the accounts affected by this transaction are cash and revenues.

Step 2: Classify the accounts according to category (A, DO, L, DI, R, E).

After determining which individual accounts are affected by the transaction, the accounts can then be classified according to category. The primary categories include assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenditures/expenses (i.e., A, DO, L, DI, R, E).

In the example from Step 1, cash and revenues are the affected accounts. Cash is an asset; grants are classified as revenue.

Step 3: Determine the normal balance of each account.

We determined in Step 2 that the categories of accounts affected are assets and revenues. Assets normally carry a debit balance; revenues normally carry a credit balance.

Step 4: Decide for each part of the transaction whether the affected accounts should be increased or decreased.

The LUA receives cash for grants (revenue). Cash, which is an asset, is increased. Assets normally carry a debit balance, and an increase is the same as the normal carrying balance. Therefore, to increase cash, we debit the account.

Grants, a revenue account, is also increased. Revenues normally carry a credit balance, and an increase is the same as the normal carrying balance. Therefore, to increase revenues, we credit the account.

Step 5: Record the entry with debit entry (entries) first and credit entry (entries) last.

Let's expand the example. The LUA receives cash in the amount of $15,000 for grants (revenues).

Using the steps, the journal entry would be recorded as follows:

	DR	CR
Cash (asset)	$ 15,000	
Revenues (revenue)		$15,000

To record cash received for grants.

SUMMARY

1. Debits are recorded on the left side of a T account and credits on the right side of a T account.

2. Assets, deferred outflows of resources, expenditures and expenses normally have debit balances.

3. Liabilities, deferred inflows of resources, and revenues normally have credit balances.

4. An LUA with a positive fund balance would have a credit balance in its fund equity account and a LUA with a fund balance deficit would have a debit balance in its fund equity account.

5. Debits increase asset balances and credits decrease asset balances.

6. Debits increase deferred outflows of resources and credits decrease deferred outflows of resources.

7. Credits increase liability balances and debits decrease liability balances.

8. Credits increase deferred inflows of resources and debits decrease deferred inflows of resources.

9. Credits increase fund equity balances and debits decrease fund equity balances.

10. Credits increase revenue balances and debits decrease revenue balances.

11. Debits increase expenditure or expense balances and credits decrease expenditure or expense balances.

12. Double entry accounting means that for every entry (or entries) made to the debit side of accounts, equal entry (entries) must be made to the credit side of the accounts.