

DOUBLE ENTRY BOOKKEEPING.

1. **A Business Transaction** is an exchange of values. This exchange may be a *present* exchange, as when goods are sold for cash; or it may be a *deferred* exchange, as when goods are sold on account, that is, to be paid for at a future time.
2. **Bookkeeping** is the recording of business transactions in a systematic manner in suitable books. The main feature of this record is the **Ledger Accounts**; so that bookkeeping is sometimes called *accounting*.
3. **A Ledger Account** is a number of items of the same kind collected under a heading. Each account has two distinct parts separated by a vertical line; the left-hand side is called the **Debtor** (Dr.) side, and the right-hand side is called the **Creditor** (Cr.) side.

(a) The following is the form of a Ledger Account in outline :

DEBTOR.		JOHN SIMPSON.	CREDITOR.	
<i>He received on account</i>	8 80		<i>He gave on account</i>	\$75
" " "	110 50		" " "	40 25

(b) The following is the usual form of a Ledger Account :

Dr.		JOHN SIMPSON.	Cr.	
<i>To</i>			<i>By</i>	
Jan. 2	80		Jan. 5	75
10	110 50		14	40 25

4. Debtor and Creditor, Debit and Credit.

We must remember that John Simpson's account, mentioned in Section 3, is an account in *our* books, not in *his* books. John Simpson is our *debtor* (he owes us) for the amounts on the left-hand half of his account; he is our *creditor* (we owe him) for the amounts on the right-hand half of his account. He is our *debtor* when he *receives* any value from our business *on account*, that is, without giving any value in return at the time; he is our *creditor* when he *gives* any value to our business *on account*, that is, without receiving any value in return at the time.

The terms *debit* and *credit* indicate the effect of a business transaction on the financial relation between a *debtor* and a *creditor*, and therefore the effect on the *debtor* and *creditor* sides of an account. Apply the terms *debtor* and *creditor* to accounts or to the sides of an account; for example, "John Simpson, Dr.," "the *creditor* side of John Simpson's account"; apply the terms *debit* and *credit* to the items or separate entries, for example, "that is a *debit* entry," "credit John Simpson's account with \$75." Dr. is an abbreviation for *debtor* not for *debit*, and so with Cr.