

# DEALER: Credits & Debits Explanation

06 May 2022

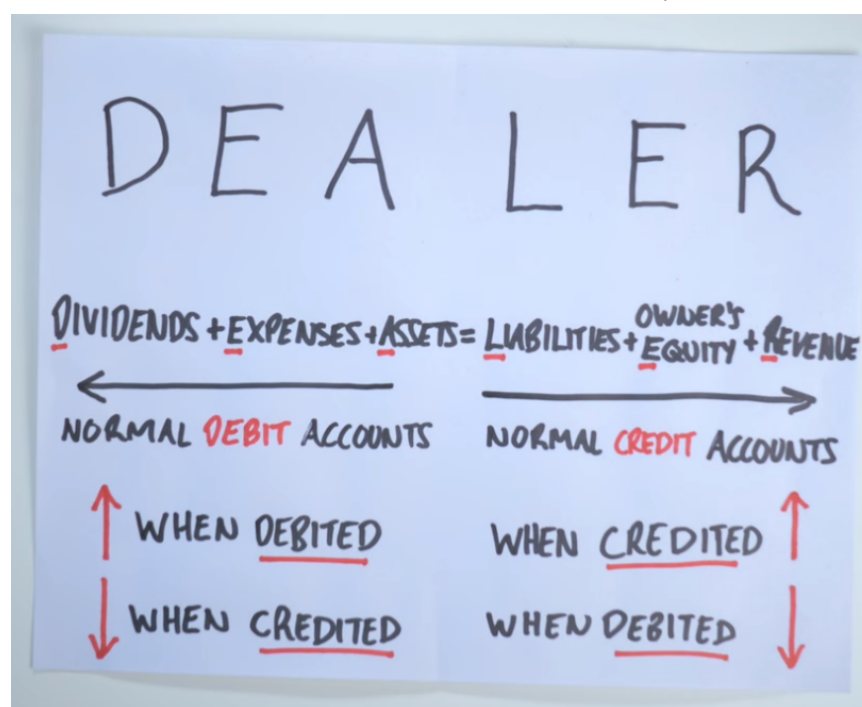
- **DEALER** is the “Number 1 accounting hack” for accounting, according to the Accounting Stuff YouTube video.



- Dealer is an acronym:
  - **Debit** accounts: **D**ividends, **E**xpenses, **A**ssets
    - Go on “left”
    - **Debits increase** these balances, Credits decrease them
  - **Credit** accounts: **L**iabilities, **E**quity, **R**evenue
    - Go on “right”
    - **Credits increase** these balances, and Debits decrease them

**EVERY  
FINANCIAL TRANSACTION  
INVOLVES A FLOW OF  
ECONOMIC BENEFIT  
FROM A SOURCE  
TO A DESTINATION**

- True meaning of debits and credits in accounting:
  - “Every financial transaction involves a flow of economic benefit from a source to a destination”
  - **Credits** represent the **Sources** that economic benefit can flow from
  - **Debits** represent the **Destinations** that economic benefit can flow to
- Intuitive explanation:
  - If a business holds some cash, broadly speaking, there are only 3 possible places that cash could come **from** (IE Source):
    - Borrowed from a third-party like a bank (Liabilities)
    - Owner invested into business from his/her own pocket (Equity)
    - Business earned it by selling a product or service (Revenue)
  - And, there are only three places that the business could spend that cash back **to** (IE Destination):
    - Distribute it back to the owners (Dividend)
    - Pay the business’s bills like rent or employee salaries (Expenses)
    - Purchase assets, like a laptop to work on (Assets)



## Worked Examples - Credits and Debits

- The owner of a car wash provides their company with a \$1,000 initial investment. Is the entry to the company's cash account a debit or a credit?
  - **Debit**
    - Explanation: The \$1000 investment causes cash to **increase** and cash is an **asset** (a normal debit account), so the entry is a **debit**.
- The owner of a car wash provides their company with a \$1,000 initial investment. Is the entry to the company's owner's equity account a debit or a credit?
  - **Credit**
    - Explanation 1 (DEALER): The \$1000 investment causes owner's equity to **increase** and owner's equity is an **equity** account (a normal credit account), so the entry is a **credit**.
    - Explanation 2 (principle of double-entry bookkeeping): Since there are two equal and opposite sides to every financial transaction, we know that since cash was debited we need to credit the other side of the transaction to keep everything balanced.
- The car wash pays a supplier \$200 in cash, which account is debited? Accounts Payable or Cash?
  - **Accounts Payable**
    - Explanation: A payment from the cash account causes cash to **decrease** and cash is an **asset** (a normal debit account), so the cash entry is a **credit**. This payment would also **decrease** Accounts Payable which is a **liability** (a normal credit account), so the accounts payable entry is a **debit**.
- A customer gets their car washed for \$10. They pay on account with 30 day credit terms. Which account is credited? Revenue, cash or accounts receivable?
  - **Revenue**
    - Explanation: A customer paying on credit causes Accounts Receivable to **increase**. Accounts Receivable is an Asset account (a normal debit account), so the accounts receivable entry is a **debit**. Revenue is **increased** as well. Since Revenue is a **credit** account and it increases, it is **credited**, and this is the answer. Cash is not impacted.
- The following month, the car wash receives \$10 from the customer. Which account is credited? Revenue, cash or accounts receivable?
  - **Accounts Receivable**
    - Explanation: Receiving \$10 causes cash to **increase** and accounts receivable to **decrease**. Cash is an **asset** (normal debit account), so cash is debited. Accounts receivable is an **asset** (normal debit account) as well, so since it **decreases**, it is **credited**. Revenue is not impacted.

These notes were taken based on this 3-minute YouTube video called [DEALER: The Number 1 HACK for Debits & Credits](#) and this 7 minute video called [5 Debit and Credit Practice Questions & Solutions](#). These videos were created by the excellent [Accounting Stuff](#) YouTube channel.

Site theme inspired by [Chris Albon](#).

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