In order for you to understand Financial Accounting, it is essential that you understand your 'Debits' and 'Credits'.

We can use the DEAL and CLIP mnemonic to help us remember which items are Debits and which items are Credits.

Debit (Dr) Credit (Cr)

D rawings
Capital
E xpenses
Liabilities
A ssets
Income
L osses
Profits

If we apply a 'debit' action to a debit transaction or balance, it will increase it.

If we apply a 'credit' action to a credit transaction or balance, it will decrease it.

Some handy hints

Fixed assets are valued at cost (Dr) less accumulated depreciation (Cr).

Stock and Trade debtors are valued net of provisions (Cr).

Bank is a liability if it is overdrawn.

VAT can be either an asset or a liability.

‘Accrued expenses’ (Accruals) and ‘Prepaid expenses’ (Prepayments) are not classified as expenses just because the word ‘expenses’ appears!

Similarly, remember that just because the word ‘income’ is in ‘Accrued income’ and ‘Deferred income’ these do not mean these balances are classified as income.