What are ‘debts and credits’ in the bookkeeping system?
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'Debits and Credits' in the bookkeeping system- Foundation level

The answer to this question will help you understand the meaning for the terms "Debit and Credit" as it is used in the bookkeeping system. These terms are confusing. The terms "Debit and Credit" have many different meanings in our society. Bookkeeping has its own special meaning for the terms "Debit and Credit". To make it clear in writing this article, we use "(Dr.-Debit) and (Cr.-Credit)" to identify that we are using the meaning as used in the bookkeeping system.

(Dr.-Debit) and (Cr.-Credit)
The importance of "(Dr.-Debit) and (Cr.-Credit)"

The concept of "(Dr.-Debit) and (Cr.-Credit)" in accounting is very difficult to understand. However, if you don’t understand the concept of "(Dr.-Debit) and (Cr.-Credit)", you will find bookkeeping impossible to use and apply. The concept of "(Dr.-Debit) and (Cr.-Credit)" is a vital part of the double-entry bookkeeping system. The double-entry bookkeeping system has been used for over 500 years.

The confusion with the terms "(Dr.-Debit) and (Cr.-Credit)"
The first thing to understand is that the terms "(Dr.-Debit) and (Cr.-Credit)" have their own special meaning in the bookkeeping system. Also, the meaning of the terms "(Dr.-Debit) and (Cr.-Credit)" in the bookkeeping system have no relationship with other more common meanings of these terms in society.

For example, below are some examples of meanings for the term "credit". These meanings are different from the meaning of the term (Cr.-Credit), that is used in the bookkeeping system:

1. The term is used as a recognition for work: i.e. "He give her credit for trying"
2. The term is used as a recognition for past achievements. i.e. "She already had several performances to her credit"
3. The term is used to grade a level of academic achievement. i.e. "You received a credit on that exam paper"
4. The term is used as a short note to identify the source of information i.e. "You must credit the original author of that work"

5. The term is used to describe a system of takings goods now and paying for them later: i.e. "You can have these goods on credit"

Also, the meaning of the term (Dr.-Debit) in the bookkeeping system has no relationship with the term "debt". The term "debt" means "money that is owed to someone else" and does not relate to (Dr.-Debit) in any way.

The origin of the terms "(Dr.-Debit) and (Cr.-Credit)" in the bookkeeping system

In 1494, the Italian "Friar-Luca-Pacioli" first recorded the double-entry bookkeeping system. It was Friar-Luca that first described the use of the Latin terms "Credre" and "Debere" for the bookkeeping system. In the 1500's, English translators used these Latin terms as the basis for the translated terms "Debit and Credit". The Latin terms obviously helped create the bookkeeping abbreviations (Dr.) and (Cr.) as well. This is because there is no ‘r’ in the English word Debit but there is one in the Latin term 'Debere'.

In Latin, the term "Credre" means to entrust something. Also, the term "Debere" means to owe someone. For example, if Person (A) entrusts USD$100 to Person (B) then Person (B) owes USD$100 to Person (A). This example also shows that financial transactions always have two-sides to them. A similar aspect specific to economic resources is that they flow or transfer from a source to a destination. Using the terms "Credre" and "Debere", Friar-Luca was able to describe this principle of two-sides to every financial transaction where the source was recorded as a (Cr. Credit) and the destination recorded as a (Dr. Debit). This concept of two-sides or duality in financial transactions is a vital part of the bookkeeping system.

Traditional definitions of the concept of (Dr.-Debit) and (Cr.-Credit) explain that (Dr.-Debit) is one side of the entry in the bookkeeping system that is placed on the left side of a "T" account and that (Cr.-Credit) is the other side of the financial transaction that is placed on the right side of a "T" account. While this is not a very informative definition of the terms it is the one you are most likely to find in the dictionaries.
Debits and Credits

It was Friar-Luca and his double-entry bookkeeping system that called entries on the left side of the ledger's "T" accounts as Debits. He also called entries on the right hand side of the ledger's "T" account, Credits. This is the most common way of explaining the meanings of these two terms.

Friar-Luca was so convinced of the duality of financial transactions, that he declared that no bookkeeper should go to sleep at night unless the total of the (Dr.-Debit) equaled the total of the (Cr.-Credit).

What does "(Dr.-Debit) and (Cr.-Credit)" mean in the bookkeeping system?

Firstly, we will describe what "(Dr.-Debit) and (Cr.-Credit)" is not:

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1. "(Dr.-Debit) and (Cr.-Credit)" in the bookkeeping system does not mean "+" positive and "-" negative.
2. "(Dr.-Debit) and (Cr.-Credit)" in the bookkeeping system is not "good" and "bad".

"(Dr.-Debit) and (Cr.-Credit)" in the bookkeeping system is simply a method of classification for financial transactions. This method of classification provides a way of recording the changing values in the financial accounts of a business caused by monetary transactions. It also properly captures, reflects and records the flow of economic resources from a source to a destination. At the same time, the "(Dr.-Debit) and (Cr.-Credit)" method of classification and recording process, keeps the accounting equation in balance for each new entry. i.e. Assets = Liabilities + Owners Equity

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**Summary**

1. There are many meanings of the terms "Debit and Credit" in society
2. Bookkeeping has its own special meaning for the terms "(Dr.-Debit) and (Cr.-Credit)"
3. Every financial transaction has two sides to it being the source of the economic resource and the destination of those financial resources.
4. The source of economic resources is recorded as a (Cr. Credit) and the destination of the economic resources is recorded as a (Dr. Debit).
5. Bookkeeping calls these two sides "(Dr.-Debit) and (Cr.-Credit)".
6. "(Dr.-Debit) and (Cr.-Credit)" is a method of classification and recording financial transactions
7. This "(Dr.-Debit) and (Cr.-Credit)" method of classification and recording, keeps the accounting equation in balance