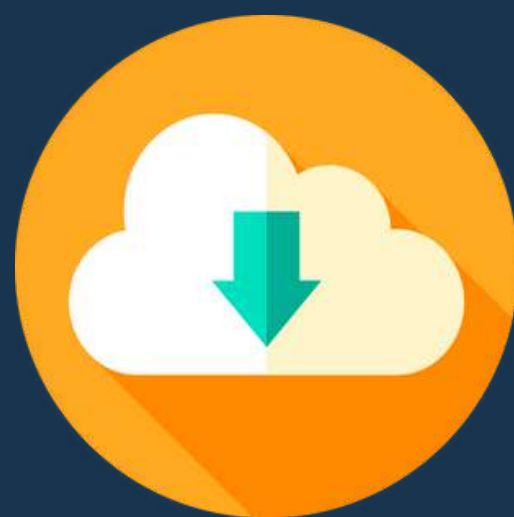


# HOW TO EXPLAIN DEBIT & CREDIT TO A 5-YEAR OLD IN 5 PAGES?

FREE DOWNLOAD



**INCLUDES EXAMPLES**

The aim of our "Explain this to a 5-Year-Old" series is to make accounting terms and topics very very easy to understand.

**ACCOUNTINGCAPITAL.COM**

Are you confused about the terms debit and credit? Do you want a simple and easy-to-understand explanation of these concepts? Look no further! Our ebook offers a clear and concise explanation of debit and credit, perfect for anyone looking to improve their financial literacy.

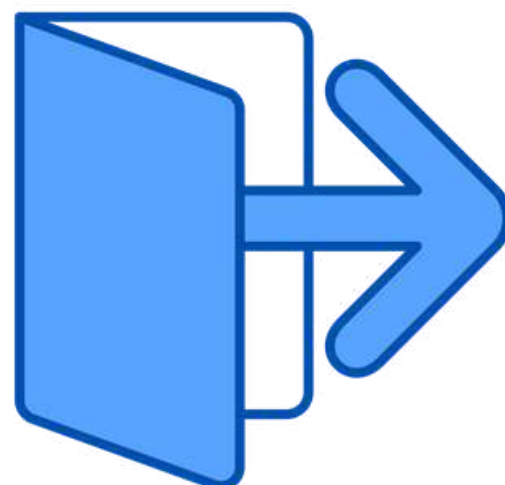
Our friendly and approachable writing style makes it easy to grasp these important concepts, and our examples and exercises help you apply what you've learned to real-life situations. Whether you're a student, a business owner, or just someone looking to better understand your finances, this ebook/pdf is for you.

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## What is a Debit?

Let us start with a frequently asked question - "Is Debit a Plus and Credit a Minus?" No, debit is not a plus in accounting. Debits and credits are not used to indicate positive or negative values. Instead, they record a financial transaction's two equal and opposite effects. They are **not used to indicate positive or negative** values.

Definition - A debit is a term used in accounting and finance to describe a financial transaction where **money is taken away from an account**.



Here is a simple explanation that might be easy for a 5-year-old to understand:

- Imagine that you have a special box where you keep your pocket money.
- Every time you spend money, you take some of that money out of the box. **This is called a debit.**

For example, if you buy a toy with your pocket money, you would take money out of your box (debiting your box).

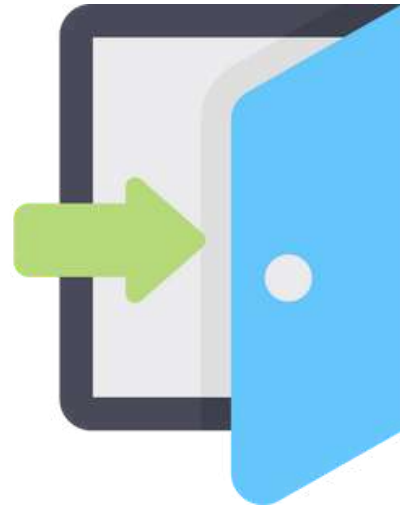
If you go to the store and buy chocolate, you would take more money out of your box (another debit).

So, debits are like taking money out of your box. They are transactions that decrease the amount of money you have.

For example, if you spend money (such as buying a toy), that would be recorded as a debit to your account. This doesn't mean that the money is "positive" or "good" - it just means it is taken out of your account. (it is going outwards/exiting your A/c)

# What is a Credit?

Definition - When you get money, that is called credit. For example, if you get pocket money from your parents, that would be a credit. If you keep track of your money in a bank account, a credit would mean that you **have deposited money into the account**.



Here is a simple explanation that might be easy for a 5-year-old to understand:

- Imagine that you have a special box where you keep your pocket money.
- Every time you deposit money, you add some money to the box. **This is called credit.**

For example, if your parents give you 100 as pocket money, you would put that money in your box (crediting your box).

So, credits are like adding money to your box. They are transactions that increase the amount of money you have.

This doesn't mean that the money is "negative" or "bad" - it just means it is added into your account. (it is coming inwards/entering your A/c)

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## Think Like a Business

Imagine that you are running a business. A debit is an entry in your business's financial records that shows that the **business has spent or used up something**. For example, if your business buys a new computer, the cost of the computer would be recorded as a debit in the business's financial records.



A credit is an entry in your business's financial records that shows that the business has **received something or has made money**. For example, if a business sells a product for 50,000, the 50,000 would be recorded as a credit in the business's financial records.



# Remember

It is important to remember the following.

**Debit** = Money is going out of your business, i.e. the business has spent money or used something.

**Credit** = Money is coming into your business, i.e. the business has received something or has made money.

## Examples

- Purchase of an asset - Is the money going out or coming into the business? Has the business spent on something or used something?

Yes, the money is going out! Therefore, the main subject of the entry, i.e. the "**Asset**", will be **debited**. The other side is (credit) is recorded to show the opposite effect.

### Entry

Asset A/c - Debit  
To Cash A/c - Credit

### Example

Machinery purchased by a business for 10,000 in cash.

Machinery A/c - 10,000  
To Cash A/c - 10,000

- Payment of an expense - Is the money going out or coming into the business? Has the business spent on something or used something?

Yes, the money is going out! Therefore, the main subject of the entry, i.e. the "**Expense**", will be **debited**. The other side is (credit) is recorded to show the opposite effect.

### Entry

Expense A/c (Debit)  
To Cash/Bank A/c (Credit)

### Example

Rent expenses of 5,000 paid by your business in cash

Rent Expense A/c - 5,000  
To Cash A/c - 5,000



- Recognizing Revenue - Is the money going out or coming into the business? Has the business received something or made money?

Money is coming in! Therefore, the main subject of the entry, i.e. "**Revenue**", will be **credited**. The other side (debit) is recorded to show the opposite effect.

### **Entry**

Cash A/c - Debit

To Revenue A/c - Credit

### **Example**

Sold goods for 25,000 in cash

Cash A/c - 25,000

To Sales Revenue A/c - 25,000

- Recording a Liability - Is the money going out or coming into the business? Has the business received something or made money?

In such scenarios, the business usually receives supplies or loan money. Therefore, the main subject of the entry, i.e. "**Liability**", will be credited. The other side (debit) is recorded to show the opposite effect.

### **Entry**

Purchase A/c (Debit)

To Liability A/c (Payable, Credit)

### **Example**

Bought goods for 40,000 on credit (liability)

Purchase A/c - 40,000

To Accounts Payable A/c - 40,000

## **Additional Related Articles**

- What is a Debit Balance and Credit balance?
- What is the meaning "Assets have a Dr. Balance & Liabilities have a Cr. Balance?"
- Is Debit Balance Positive and Credit Balance Negative?
- What is the meaning of "Trading A/c has a Debit Balance?"
- Is Capital/Equity Debited or Credited?
- Is Expense Debited or Credited?
- Is Liability Debited or Credited?
- Accounting Interviews
- Journal Entries
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- Ratios