# The ledgers of balance sheet accounts

## Lesson 49

Before we proceed with the next steps of the accounting cycle, some comments about the use of ledgers of balance sheet accounts are in order.

At the start-up (that means Day 1) of a business entity, all of the items of its balance sheet have a zero balance. As the business makes transactions, the balance sheet accounts get additions and reductions in values. These additions and reductions are posted either on the left or right side of the T-accounts, depending on whether the account is an asset, a liability or an equity. Based on what we learned, the debits to an asset increase the asset's value, and the credits to it reduce its value. When a balance sheet is to be drawn as of a certain date, the ending balance of an asset is calculated as follows:

**Ending balance of an asset = Beginning balance + Debits - Credits**

We also learned that the credits to a liability or an equity increase the liability's or equity's value, and the debits decrease its value. The ending balance of a liability or equity is calculated as follows:

**Ending balance of a liability or equity = Beginning balance + Credits - Debits**

Putting these in the T-accounts, we get the following:

**1.01 Cash**

| *Debit* | *Credit* |
| --- | --- |
| Beginning | |
| + Increases | - Decreases |
| -------------- | |
| Ending | |

**2.01 Accounts payables**

| *Debit* | *Credit* |
| --- | --- |
| | Beginning |
| - Decreases | + Increases |
| | -------------- |
| | Ending |

**3.01 Capital stock**

| *Debit* | *Credit* |
| --- | --- |
| | Beginning |
| - Decreases | + Increases |
| | -------------- |
| | Ending |

As we said above, if we are looking at a start-up business, all beginning balances are zero. Thereafter, as transactions happen, debits and credits get posted in the T-accounts. When we decide to draw the balance sheet as of a given date, then we use the ending balances of the balance sheet T-accounts. Usually this date is the end of the year. (However, this date can be any date. For our illustration purposes later, we will use the end of the month of January.)

For an asset, under normal circumstances, the total of its beginning balance and all of the debits outweigh the credits. Thus, an asset is said to have debit balance. For a liability or an equity, under normal circumstances, the total of the beginning balance and all of the credits outweigh all of the debits. Thus, a liability or an equity is said to have a credit balance.

<u>The ending balances are then carried over to the next accounting cycle,</u> and they become the next cycle's beginning balances, to which the transactions of that cycle add / subtract the debits / credits. For example, if the Accounts receivable books shows a net debit balance of $30,000 just before financial statements are prepared, this balance is carried forward to next accounting cycle as the beginning balance of the Accounts receivables book.