Natural Balance

by Sophia

This tutorial will cover the topic of natural balance, focusing on its definition and how it applies to the different account groups, as well as the individual accounts within those groups. Keep in mind that accounts are associated with only one account group.

Our discussion breaks down as follows:

1. Natural Balance

Natural balance is the expected type of balance for a specific account classification. Type of balance refers to the fact that the balance is typically going to be a debit or a credit. Now, how do we determine if it's a debit or a credit natural balance?

- If the debits exceed the credits, it's a debit balance.
- If the credits exceed the debits, it's a credit balance.

Each account group is typically going to have either a debit or a credit balance.
Increases take place on the same side as the natural balance. If an account naturally has a debit balance, any increases in that account are going to be debits.

Decreases in account occur on the opposite side as the natural balance. If an account has a typical credit balance as its natural balance, any debits to that account would be seen as decreasing that account.

📄 TERM TO KNOW

Natural Balance
Expected type of balance for a specific account classification.

2. Examples

2a. Assets

The natural balance for assets is a debit.

Suppose you have a cash sale. Is the cash increasing or decreasing if you've made a sale? The cash is increasing, or going up. You have an account with a natural debit balance, and it is increasing; therefore, you're going to debit it.

2b. Revenues

The natural balance for revenues is credit.

We will use the same example of a cash sale, just focusing on the sale portion. With a cash sale, your revenues are increasing. If your revenues are increasing, and your natural balance is a credit, it follows that you will credit revenue. Since revenues are increasing, it needs to go on the same side as the natural balance--which, in this case, is a credit.

2c. Expenses

The natural balance for expenses is a debit.

In this example, let's suppose you incur office expense on account, meaning your expenses are increasing. If your expenses are increasing, and they have a natural debit balance, are you going to debit or credit your expense? Well, you're going to debit expense. It has a natural debit balance, and it's going up. Increases occur on the same side as the natural balance, so you're going to debit your expense.

2d. Liabilities

The natural balance for liabilities is a credit.

Using the same example as above, incurring office expense on account, let's focus on that "on account" portion. Your liabilities are increasing. If your liabilities are increasing, the natural balance is a credit. Therefore, you're going to credit your liabilities, because, again, increases take place on the same side as the natural balance, which, in this case, is a credit.

2e. Equity

The natural balance for equity is credit.

Suppose you are an owner who is contributing into your company. Therefore, equity is increasing. If your equity is increasing, and the natural balance is a credit, are you going to debit or credit your equity? Again, you're going to credit your equity, because those increases take place on the same side as the natural balance.

	Natural Balance	Increased By	Decreased By
Assets	Debit	Debit	Credit
Liabilities	Credit	Credit	Debit
Equity	Credit	Credit	Debit
Revenues	Credit	Credit	Debit
Expenses	Debit	Debit	Credit

SUMMARY

Today we learned about the concept of **natural balance**, which is the expected type of balance for a specific account classification. We explored **examples of natural balance** and how it applies to each of the different account groups, given debits and credits, as shown in the above chart.

Remember, whatever these accounts are increased by, whether it's debits or credits, is going to be the same as the natural balance.

Source: Adapted from Sophia instructor Evan McLaughlin.

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Expected type of balance for a specific account classification.