

Double entry system

The double entry system of accounting or bookkeeping means that every business transaction will involve two accounts (or more). For example, when a company borrows money from its bank, the company's Cash account will increase and its liability account Loans Payable will increase. If a company pays \$200 for an advertisement, its Cash account will decrease and its account Advertising Expense will increase.

- Double entry also allows for the accounting equation (assets = liabilities + owner's equity) to always be in balance. In our example involving Advertising Expense, the accounting equation remained in balance because expenses cause owner's equity to decrease. In that example, the asset Cash decreased and the owner's capital account within owner's equity also decreased.
- A third aspect of double entry is that the amounts entered into the general ledger accounts as debits must be equal to the amounts entered as credits.

Debits and credits are numbers recorded as follows:

- *Debits* are recorded on the left side of a T account in a ledger. Debits increase balances in asset accounts and expense accounts and decrease balances in liability accounts, revenue accounts, and capital accounts.
- *Credits* are recorded on the right side of a T account in a ledger. Credits increase balances in liability accounts, revenue accounts, and capital accounts, and decrease balances in asset accounts and expense accounts.
- *Debit accounts* are asset and expense accounts that usually have debit balances, i.e. the total debits usually exceeds the total credits in each debit account.
- *Credit accounts* are revenue (income, gains) accounts and liability accounts that usually have credit balances.

Advantages of Double entry system

- **1. Scientific**

The double-entry book-keeping system is a scientific system of book-keeping. Double-entry system has its own set of principles and rules. Under those principles and rules, two aspects of every financial transaction are recorded.

- **2. Systematic**

A systematic technique is followed in recording financial transaction in double-entry book-keeping system. It records financial transactions in a systematic and chronological order with suitable narration of the financial transaction.

- **3. Complete**

Double-entry system is a complete system of book-keeping. It records not only each and every financial transaction, but also each aspect of the transaction.

- **4. Accuracy**

Double-entry book-keeping system is based on the double-entry principle which means 'for every debit amount there is a corresponding credit amount'. Such a method of debit and credit can help ensure arithmetical accuracy of the recordings of financial transactions.

- **5. Profit Or Loss**

Double-entry book-keeping system helps to ascertain the true profit or loss of a business by preparing the profit and loss account for a given period.

- ***6.. Financial Position***

Double-entry book-keeping system also helps to reveal information about the financial position of the business by preparing a statement called balance sheet.

7. Control

Double-entry book-keeping system keeps a detailed record of financial transactions. Therefore, the recording of financial transactions in books provides necessary information for the purpose of costs control.

8. Decision Making

Double-entry book-keeping system communicates financial information that is necessary for taking decisions by a business. Double-entry book-keeping system also provides necessary information to different users such as owners, managers and creditors for their decision making purposes.