Double Entry System

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A double-entry bookkeeping system is where a corresponding entry is made for every transaction, i.e. debits and credits. The basis of the double-entry bookkeeping system is that every transaction has two parts and affects two ledger accounts. The double-entry system of bookkeeping deals with two or more accounts for every business transaction.

For example, if a company enters into a transaction of borrowing money from a bank, there will be two entries as an asset and a liability. This is because it will increase the assets for the cash balance account and also increase the liability for the loan payable account.

Thus, all financial transactions have an opposite and equal entry in at least two different accounts. The double-entry system of bookkeeping is widely used, and it includes detailed descriptions of the services and products, expenses, income, bad debt, loans, etc.

One of the fundamental equations of accounting is – **Assets = Liability + Equity.** The total of both sides of the equation should be the same. If the total assets are not equal to the total liabilities plus capital, then there is a mistake in the books of accounts. Thus, every transaction has two entries, and if the liabilities increase, then the assets must also increase for the books to be balanced.

Principles of Double-Entry System of Bookkeeping

The principles to be followed while recording the double-entry system of bookkeeping are as follows:

- Debit is written to the left, credit on the right
- Every debit must have a corresponding credit
- Debit receives the benefit, and credit gives the benefit

There are rules to be kept in mind while posting the double-entry transactions in the bookkeeping process. The following are the rules for the different types of accounts:

- **For Personal Accounts:** Debit the receiver, credit the giver
- **For Real Account:** Debit what comes in, credit what goes out
- **For Nominal Account:** Debit all the expenses, credit all the incomes

Personal Accounts are general ledger accounts related to persons like individuals, associations and firms. The Real Accounts are general ledger accounts connected with assets and liabilities other than individuals and people. The Nominal Accounts are general ledger accounts relating to all expenses, incomes, gains and losses.

Journal Entries of Double-Entry System of Bookkeeping

Every transaction entered in a journal involves a debit entry in one account and a credit entry in another account. Thus, every transaction should be recorded in two accounts. The transaction recorded in two accounts reflect the debit in the account that receives value and credit in the other account that has given value.

The main rule for the double-entry system entry is 'debit the receiver and credit the giver'. The debit entry for a transaction will be on the left side of the general journal, while the credit entry will be on the right side of the journal. The total of debits and credits should be equal for the transactions to be balanced.

The following table shows an example of the double-entry of transactions in a journal.