

What is the principal of Double Entry system of accounting?
What are the advantages of Double Entry system of accounting?

The principal of Double Entry system of Accounting is “Every debit has a corresponding credit” hence the total of all debits has to be equal to the total of all credits. In simple words, every business transaction affects two accounts. If one account is debited then the other account will be credited with the similar amount. For example: if the business purchases a machinery worth Rs. 500000, then machinery account gets debited with amount Rs. 500000 as the business is receiving an asset for its operation, on the other side cash account automatically gets credited with the same amount of Rs. 500000 as cash is going out of the business.

Advantages of Double Entry system of Accounting:

- It considers both the aspects of business transaction
- Arithmetic accuracy of the accounting records can be checked and verified by preparing trial balance
- Correct results of the operations can be ascertained by preparing Final Accounts
- Correct valuation of assets and liabilities at any point of time by preparing Balance sheet