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Content: The first book on double entry system of accounting was written by an Italian mathematician Fra Luca Pacioli and his close friend Leonardo da Vinci. The book was entitled as "Summa de arithmetica, geometria, proportioni et proportionalita" and was first published in Venice in 1494. Pacioli and da Vinci did not claim to be the inventors of double entry accounting but they explained how the concepts could be used in a more efficient and organized way. Pacioli wrote the text and da Vinci drew the practical illustrations to support and explain the text in the book. The book was divided into various sections and the one that talked about double entry system was entitled as "Particularis de computis et scripturis". It was further divided into many small chapters/sections describing double entry, journals, trial balance, balance sheet, income statement and many tools and techniques which were subsequently adopted by many accountants and traders. Before pacioli's contribution, some form of double entry system of accounting was already in practice. No one exactly knows when and how it was invented. However, it was pacioli's book that introduced the system in Europe and other trading countries of the world. As the acknowledgement of his work, Pacioli is known as the "father of accounting" by modern accounting professionals. The double entry system of accounting or bookkeeping is based on the fact that each business transaction essentially brings two financial changes in business. These changes are essentially recorded as debits or credits in two or more different accounts using certain rules known as rules of debit and credit. In double entry system of accounting, every debit entry must have a corresponding credit entry and every credit entry must have a corresponding debit entry. It is the basic principle of double entry accounting and there is no exception to it. For example if a business purchases furniture for \$500 cash, the value of total furniture is increased by \$500 and at the same time, the cash amounting to \$500 is decreased. If the business is using double entry system of accounting, it must debit the furniture account by \$500 and credit the cash account by \$500. To understand why the business would debit furniture and credit cash - see the 'debit and credit rules' page. The double entry system of accounting can be broadly divided into the following three stages: Original records (journal or subdivision of journal) Classification (ledger accounts) Summary (final accounts) The business transactions are first recorded in a book called journal which is further divided into various subsidiary books such as general journal, cash receipts journal, cash payments journal, purchases journal, purchases returns and allowances journal, sales journal, sales returns and allowances journal. The number of subsidiary books to be maintained by a business depends on its nature, size and volume of transactions. In the current stage, all transactions relating to the same person or thing are collected and stored in one statement called account. The book in which these classified accounts are kept is known as general ledger or ledger for short. A ledger account can be checked at any time to see the additions and reductions of particular item to which the account relates. The cash account, for example, would reveal the inflows (i.e., additions) and out flows (i.e., reductions) of cash during a particular period of time. After certain periods, the ledger accounts are balanced and a statement called trial balance is prepared which is further used for determining profit or loss and accessing the financial position of the business. The profit or loss of the business is determined by preparing an account known as profit and loss account or by preparing a statement known as income statement. The financial position of the business on a certain date is evaluated or determined by listing assets and liabilities in a balance sheet. The major advantages or merits of employing a double entry system of accounting in businesses are listed below: Under double entry system of accounting, the two aspects of each transaction are recorded (i.e., for every debit there must be a credit and vice versa). It creates an equilibrium within the records which helps in detecting errors, omissions and frauds. Under this system, a trial balance can be prepared to check arithmetical accuracy of all accounting entries. The trial balance can be further used for finding out operating results by preparing income statement and determining the financial position of the business by preparing a balance sheet. Double entry system is the most advanced and useful form of maintaining accounting records and is extensively used by companies worldwide. Without this system, a company would not be able to compare its financial statements with that of other companies. Double entry system is highly systematic that follows certain rules and principles, so it is easy to track information about a particular transaction or account quickly when needed by owners, management, accountants or other employees. Almost all accounting standards, frameworks and laws applicable worldwide require the use of double entry system of accounting. If a company fails to comply with the system, the auditors would not accept its financial statements. The financial reports and results generated by double entry system is related to great extent for decision making purpose. The major disadvantages or demerits of using a double entry system of accounting are as follows: The double entry system is complex enough to require skilled and qualified employees to handle the whole process of maintaining accounting records. Its employment may be costly, time consuming and therefore inconvenient for sole proprietors and other small businesses. The advantages of double entry system far outweigh its disadvantages. Double entry system has, therefore, become the standard and, in many cases, a basic requirement for maintaining accounting records of medium and large sized business enterprises. Most of the today's manual and computerized accounting systems are based on it. Double entry is the bookkeeping principle which states that every financial transaction has equal and opposite effects as both an asset and a liability, and therefore it must be recorded as such in two separate places. Double entry satisfies the accounting equation: Assets = Liabilities + Equity \begin{aligned} \text{Assets} &= \text{Liabilities} + \text{Equity} \\ \text{Assets} &= \text{Liabilities} + \text{Equity} \end{aligned} In a double-entry accounting system, credits are offset by debits in a general ledger or T-account. Double entry refers to an accounting concept whereby assets = liabilities + owners' equity.In the double-entry system, transactions are recorded in terms of debits and credits.The development of double-entry bookkeeping as early as the 14th century has been linked to the birth of modern capitalism. Jessica Olah / Investopedia In accounting, a credit is an entry that increases a liability account or decreases an asset account. A debit is the opposite. It is an entry that increases an asset account or decreases a liability account. In the double-entry accounting system, transactions are recorded in terms of debits and credits. Since a debit in one account offsets a credit in another, the sum of all debits must equal the sum of all credits. The double-entry system of bookkeeping standardizes the accounting process and improves the accuracy of prepared financial statements, allowing for improved detection of errors. All types of business accounts are recorded as either a debit or credit. Bookkeeping and accounting are ways of measuring, recording, and communicating a firm's financial information. A business transaction is an economic event that is recorded for accounting/bookkeeping purposes. In general terms, it is a business interaction between economic entities, such as customers and businesses or vendors and businesses. Under the systematic process of accounting, these interactions are generally classified into accounts. There are five different types of accounts that all business transactions can be classified: Assets/Liabilities/Equities/Income/Expenses Bookkeeping and accounting track changes in each account as a company continues operations. Debits and credits are essential to the double-entry system. In accounting, debit refers to an entry on the left side of an account ledger, and credit refers to an entry on the right side of an account ledger. To be in balance, the total of debits and credits for a transaction must be equal. Debits do not always equate to increases, and credits do not always equate to decreases. A debit may increase one account while decreasing another. For example, a debit increases asset accounts but decreases liability and equity accounts, which supports the general accounting equation of assets = liabilities + equity. On the income statement, debits increase the balances in expense and loss accounts, while credits decrease their balances. Debits decrease revenue account balances, while credits increase their balances. Double-entry bookkeeping was developed in the mercantile period of Europe to help rationalize commercial transactions and make trade more efficient. It also helped merchants and bankers understand their costs and profits. Some thinkers have argued that double-entry accounting was a key calculative technology responsible for the birth of capitalism. The balance sheet is based on the double-entry accounting system where the total assets of a company are equal to the total liabilities and shareholder equity. Essentially, the representation equates all uses of capital (assets) to all sources of capital (where debit capital leads to liabilities and equity capital leads to shareholders' equity). For a company to keep accurate accounts, every business transaction will be represented in at least two of the accounts. For instance, if a business takes a loan from a financial entity like a bank, the borrowed money will raise the company's assets and the loan liability will also rise by an equivalent amount. If a business buys raw materials by paying cash, it will result in an increase in inventory (asset) while reducing cash capital (another asset). Because there are two or more accounts affected by every transaction carried out by a company, the accounting system is referred to as double-entry accounting. This practice ensures that the accounting equation always remains balanced; that is, the left side value of the equation will always match the right side value. A bakery purchases a fleet of refrigerated delivery trucks on credit; the total credit purchase was \$250,000. The new set of trucks will be used in business operations and will not be sold for at least 10 years—their estimated useful life. To account for the credit purchase, entries must be made in their respective accounting ledgers. Because the business has accumulated more assets, a debit to the asset account for the cost of the purchase (\$250,000) will be made. To account for the credit purchase, a credit entry of \$250,000 will be made. To account for the credit purchase, a credit entry of \$250,000 will be made to accounts payable. The debit entry increases the asset balance and the credit entry increases the notes payable liability balance by the same amount. Double entries can also occur within the same class. If the bakery's purchase was made with cash, a credit would be made to cash and a debit to asset, still resulting in a balance. In single-entry accounting, when a business completes a transaction, it records that transaction in only one account. For example, if a business sells a good, the expenses of the good are recorded when it is purchased, and the revenue is recorded when the good is sold.With double-entry accounting, when the good is purchased, it records an increase in inventory and a decrease in assets. When the good is sold, it records a decrease in inventory and an increase in cash (assets). Double-entry accounting provides a holistic view of a company's transactions and a clearer financial picture. The primary disadvantage of the double-entry accounting system is that it is more complex. It requires two entries to be recorded when one transaction takes place. It also requires that mathematically, debits and credits always equal each other. This complexity can be time-consuming as well as more costly; however, in the long run, it is more beneficial to a company than single-entry accounting. An example of double-entry accounting would be if a business took out a \$10,000 loan and the loan was recorded in both the debit account and the credit account. The cash (asset) account would be debited by \$10,000 and the debt (liability) account would be credited by \$10,000. Under the double-entry system, both the debit and credit accounts will equal each other. The double-entry accounting method has many advantages over the single-entry accounting method. First and foremost, it provides an organization with a complete understanding of its financial profile by noting how a transaction affects both credit and debit accounts. It also makes spotting errors easier, because if debits and credits do not match, then something is wrong. Lastly, it makes preparing financial statements easier. 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Discover Our PlansTalk to Our ExpertsScalable growth, Reduced costs, Improved margins & better efficiency with Desкера ERP and MRP.Discover Our PlansTalk to Our ExpertsSee How You Can Run Your Business with DesкераBetter Financial ControlManage financial processes, from core accounting to budgeting, forecasting, bank reconciliations, financial period closing and multi entity accounting with ease. Easily set up automations, approval flows, access roles and financial controls.Fulfill Orders on TimeManage multi-channel sales orders with ease. Fulfill directly, dropship, or pick-pack-ship. Track shipments and generate delivery notes, picklists, shipping and packing labels, bill of lading and more. Track backorders and reserve stock to be utilized for order fulfillment.Optimize Supply Chain LogisticsMinimize costs, optimize order and lead times. Manage vendor scorecards, purchase orders and invoices. Setup rule based approval flows. Receive detailed reports and analytics to gain visibility into your entire procurement cycle.Reduce Inventory CostsTrack inventory levels and movements in real-time across multiple warehouses. Generate stock-level alerts when reaching critical low thresholds. Automate ordering and restocking processes to maintain optimal inventory levels.Improve Topline GrowthSegment customer, prospects and contact lists. Track opportunities and deals across pipelines. Manage sales teams and salesperson activities. Automate the flow of leads from qualification to close. Run marketing campaigns and leads via drip campaigns.Optimize HR OperationsTrack employee records and performance, set up payroll and automate attendance, leave & expense tracking. Ensure compliance with local and federal regulations.Reduce paperwork and minimize manual data entry.Track transactions, create invoices, generate reports, monitor accounts receivable, manage financial processes like budgeting and forecasting, bank reconciling,Manage all aspects of sales orders from multiple channels, including shipments, pick-pack-ship. Manage all aspects of sales orders from multiple channels, including shipments, pick-pack-ship. Track inventory levels and movements in real-time. Generate stock-level alerts.Automate receiving, order picking, and shipping. Manage multiple warehouses.Track, monitor, and analyze product revenue, expenses, and billable hours.Segment customers. Create deal pipelines. Analyze customer data.Manage HR operations efficiently. Track employee records and performance, attendance tracking. Track customer interactions in one centralized system to improve response times.Monitor business performance, track key metrics, take corrective action with data analysis.Discover Our PlansTalk to Our ExpertsDiscover Our PlansTalk to Our ExpertsDesкера's cross industry experts make sure you have the right guidance on accounting, financial management, manufacturing operations, sales pipeline automation, & more.Discover Our PlansExplore Our ProductsMade to Order or Made to StockAutomate work order task creation and assignment, track progress, and monitor completion with real-time updates. Monitor resources, costs and time associated with each work order for improved accuracy and efficiency.Plan ahead for better deliveryAnticipate future customer demands to plan procurement and production schedules. Visualize future inventory requirements for finished goods and sub-assemblies and manage availability of materials, resources and machines efficiently.Optimize available resourcesCreate production plans with ease. Assign resources, set schedules and deadlines, and manage your entire production process in one place. Track production costs and optimize efficiency with comprehensive analytics.Track outsourced manufacturingAutomate planning, scheduling, and tracking of outsourced production. Easily monitor costs and progress, and gain visibility of the entire process from supplier selection to order fulfillment.Accurate Production OutputsCalculate yields and costs of finished goods accurately. Automatically calculate production costs and analyze product profitability. Generate reports that can be used to assess price competitiveness.Data Driven Manufacturing InsightsGenerate comprehensive production reports to monitor the cost, efficiency and profitability of production processes. Gain insight into process bottlenecks, and identify cost-saving opportunities.Anticipate future customer demand and optimize inventory levels and accurately predict customer needs.Plan and manage materials and inventory for production. Manage product structures with ease using Multi Level Bill of Materials.Easily monitor and optimize performance, improve maintenance scheduling, automate data collection.Automate the financial, scheduling, and tracking of outsourced production with integrated tools.Automate work order task creation and assignment, track progress, and monitor completion.Create production plans with ease. Assign resources, set schedules and deadlines. Track work-in-progress (WIP) with ease, monitor production progress and identify bottlenecks quickly.Keep track of the production of by-products and scraps.Calculate yields and costs of finished goods with ease.Generate comprehensive production reports to monitor the cost, efficiency and profitability.Create and manage temporary Bills of Materials (BOMs) for specific, one-time production runs or custom orders.Efficiently produce goods by combining and transforming raw materials through a series of chemical reactions, physical changes, and other processes.Streamline machine maintenance with automated scheduling, work order management, and performance tracking.Discover Our PlansTalk to Our ExpertsDiscover Our PlansTalk to Our ExpertsWhatever your business size, Desкера enables you to simplify operations across business functions. Here's what our customers say about us.Discover Our PlansTalk to Our Experts