

Introduction to Double Entry System

Introduction to the Double Entry Accounting System

(Designed as concise study notes for beginners)

1. Core Concept

Principle	Explanation
Dual effect	Every financial transaction affects at least two accounts: one side receives value, the other gives value.
Accounting equation	Assets = Liabilities + Owner's Equity – the double entry system keeps this equation in balance after every transaction. The two sides of each entry:
Debit & Credit	• Debit (Dr) – left side of an account • Credit (Cr) – right side of an account • For every transaction, total debits = total credits.

2. Account Types & Normal Balances

Account Category	Normal Debit Balance	Normal Credit Balance	Typical Effect of Debit	Typical Effect of Credit
Assets	? Debit	—	Increases asset value	Decreases asset value
Liabilities	—	? Credit	Decreases liability	Increases liability
Owner's Equity (Capital, Retained Earnings)	—	? Credit	Decreases equity	Increases equity
Revenue	—	? Credit	Decreases revenue	Increases revenue
Expenses	? Debit	—	Increases expense	Decreases expense
Dividends/Drawings	? Debit	—	Decreases equity	—

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(Mnemonic: **DEALER** – **D**ebit **E**xpenses, **A**ssets, **L**osses; **C**redit **R**evenue, **L**iabilities, **E**quity.)

3. The Journal Entry Format

Date	Account Title	Ref.	Debit	Credit

	Account to be Debited		xxx.xx	
	Account to be Credited			xxx.xx
	(Explanation – brief description of the transaction)			

Key points

1. **Date** – when the transaction occurs.
 2. **Accounts** – listed in the order of debit first, then credit.
 3. **Reference** – ledger page or document number (optional).
 4. **Explanation** – 1–2 sentence “memo” for audit trail.
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4. Posting to the Ledger

1. **Create T?accounts** (or use accounting software) for every account.
 2. **Transfer** each journal entry:
 - Debit amount ? left side of the corresponding T?account.
 - Credit amount ? right side of the corresponding T?account.
 3. **Run a trial balance** after posting all entries for a period; total debits must equal total credits.
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5. Example Transaction

Scenario:

On 15?May, the company purchases office equipment for \$5,000 cash.

Step	Action	Debit	Credit
1.	Identify accounts	Office Equipment (Asset)	Cash (Asset)
2.	Determine normal balances	Both are asset accounts ? normal debit side.	

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Step	Action	Debit	Credit
3.	Apply rule – increase asset ? debit; decrease asset ? credit.		
4.	Journal entry	Office Equipment \$5,000	Cash \$5,000
5.	Post to		