

If you spend any time learning about small business accounting, you'll likely come across the term "double-entry accounting." But what is double-entry accounting?

Single entry accounting vs. double-entry accounting

Single entry accounting is like keeping a checkbook register. In the register, you record cash coming in and out of your bank account. This accounting method might work for very small businesses, but for organizations with a lot of transactions and more complex needs, double-entry accounting is much more useful.



In double-entry accounting, you make at least two entries for every transaction: a debit to one account and a credit to another account. Debits and credits must be equal – that's why accountants sometimes refer to bookkeeping as "balancing the books."

The key is knowing when to debit an account and when to credit it.

Understanding normal account balances

Every business has a chart of accounts. Although the actual account names may vary from company to company, most charts of account contain the following categories:

Balance sheet accounts:

- **Assets.** Assets are resources your company owns. This can include cash, receivables, inventory, furniture and equipment.
- **Liabilities.** Liabilities are amounts your company owes. This can include payables, loans and lines of credit.
- **Owner's equity.** This represents the amount that would be returned to the company's owners if they liquidated all the organization's assets and paid off all its debts. Assets minus liabilities equal owner's equity.

Income statement accounts:

- **Revenues.** These are earnings from providing services or selling products.
- **Expenses.** These are the costs of running the business and selling your products or services.

What Is Double-Entry Accounting?

The “normal balance” of an account tells you whether an account increases with a debit or credit. Debit entries increase assets and expenses. Credit entries increase revenues, liabilities, and owner’s equity.

For example, say you purchase \$200 of postage for your business. When you pay for the postage, your cash decreases by \$200 (a credit), and your office supplies expense account increases (a debit) by the same amount.

On the other hand, say your customer pays you \$500 for your services. When you deposit the cash, your cash account increases (a debit) by \$500, and your revenue account also increases (a credit) by the same amount.

Benefits of double-entry accounting

Once you start using double-entry accounting, you’ll soon realize it provides a much more complete picture of your business finances.

Many business transactions don’t impact cash at all, including buying inventory on credit, sending invoices to clients, and financing the purchase of new equipment with a loan. These transactions can have a significant impact on what your company owns and owes. If you’re only tracking cash in and out of the bank account, you’re missing a big piece of the picture.

Double-entry accounting also helps you prepare accurate financial records. Every time you post a transaction, you know right away if you made a data entry or math error, and your transaction is out of balance. And if \$5,000 comes out of your checking account and you haven’t recorded an expense or purchase of inventory or equipment for the same amount, you’ll know the next time you reconcile your checking account. Simply tracking cash in and out of your bank account doesn’t offer that kind of built-in oversight.

If you’re new to accounting, getting the hang of double-entry might take some time. The good news is that accounting software, like CenterPoint Accounting from Red Wing Software, handles most of the work for you. You simply enter a transaction, and the software takes care of the necessary debits and credits. Still, it’s a good idea to understand the logic behind double-entry accounting. That way, you have a better understanding of how different transactions impact various accounts.

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