Double-Entry Bookkeeping

Double-entry bookkeeping began with the discovery that every transaction of a firm affects both the assets of a firm and how those assets are financed (i.e. either liabilities or equity) in exactly equal proportion. This leads to the famous accounting equation that says the following:

Assets = Liabilities + Owner's Equity

If ever a transaction does affect only one side of this identity, it must affect at least two accounts within that side in exactly offsetting ways.

Satisfying this equation results in accountants recording the same number twice and is the inspiration behind the term "double-entry." At least two entries are made for each transaction.

Double-entry bookkeeping allows bookkeepers and accountants to discover mistakes relatively quickly before they compound, proliferate, and become much more difficult to sort out, track down, and correct. Bookkeeping and accounting became much more accurate with the invention of double-entry bookkeeping.