Single Entry System

Single entry system is an incomplete system of maintaining records of financial transaction. It does not record two aspects of every transaction. It maintains only personal account and cash book and ignores all other accounts. Under this system, the accounts maintained are not complete, and therefore are not reliable. Only small business organization can follow single entry system.

For example, when an enterprise receives cash from bank as loan, it may record the cash inflow but there is no corresponding record of increase in liability i.e. repayment of the bank loan

Other Word Single Entry System is the oldest and most straightforward method of keeping records of financial transactions, which is rarely prevalent these days. In this system, **only one side of the transaction is recorded**, because of the absence of any prescribed rules and so the records maintained are more or less incomplete.

In a nutshell, single entry system of bookkeeping **lacks the duality concept** and so the financial transactions are recorded only once and not in their two-fold aspects, as debit and credit

Characteristics of Single Entry System

- **Maintenance of Cash Book**: *Cash Book is prepared and maintained, in which both business and personal transactions are included*.
- **Personal Accounts**: Only personal accounts are created and maintained, whereas the real and nominal accounts are not given due weight, in this system.
- **Original Vouchers**: Under this system, original vouchers play an important role, as they help in gathering information about the date of transaction, amount, parties, discount (if any) and so forth.
- **Final Accounts**: In Single Entry System, it is quite difficult to prepare final accounts, due to unavailability of nominal and real accounts. So, to prepare the financial statement, the available information is analyzed and converted into a double entry system, by determining the missing figures, after that Trading and Profit & Loss Account is prepared. Further, the figures of assets and liabilities are calculated from the information at hand, but they are also estimates. Hence, the Statement of Affairs is prepared in place of the Balance Sheet.
- **Profit or Loss**: Profit earned or loss sustained is estimated, out of the information available and so exact profits are not ascertained.
- **Suitability**: The system is appropriate for small businesses, like sole proprietorship business and partnership firms, as they maintain records of cash and credit transactions only.
- **Dependence on Original Vouchers**: Usually under this system, original vouchers are scrutinized for collection of information. For example, in case of credit sale, the owner may keep the invoice without recording it in accounting books and at the end of a particular period the total of the invoices gives credit sales of the business
- **Arithmetical accuracy**: under this system Arithmetical accuracy of the account is not possible since Trial Balance cannot be prepared.

Advantages of Single Entry System

(i) **Simple Method**: Single Entry System is a simple method of recording business transactions.

(ii) **Less Expensive**: It is less expensive when it is compared to Double Entry System of book keeping.

(iii) **Suitable for Small Businesses**: It is mainly suited to small businesses with limited number of transactions and very few assets and liabilities.

(iv) **No Need of Expert Knowledge**: Under Single Entry System, accounting records can be easily maintained as their maintenance does not require expert knowledge of the principles of book keeping.

(v) **Easy to Ascertain Profit or Loss**: Ascertainment of profit or loss is much easier. To ascertain the profit or loss, the proprietor has to compare the financial condition of business at the close of the accounting period with that in the beginning.

Disadvantages of Single Entry System :- Single Entry System has the following disadvantages:

(i) **Arithmetical Accuracy cannot be Proved**: Trial Balance cannot be prepared hence; arithmetical accuracy of books cannot be proved or tested. Chances of error, mischief or fraud remaining undetected are high.

(ii) **No Control on Assets**: Since assets accounts are not maintained, it is difficult to keep full control, in order to avoid misappropriations of assets.

(iii) **Correct Profit or Loss cannot be Determined**: Trading and Profit and Loss Account cannot be prepared hence, correct profit earned or loss incurred during the accounting period cannot be determined.

(iv) **Financial Position of the Business cannot be assessed**: In the absence of assets accounts, it is difficult to determine correct financial position of the business on any particular day by preparing a Balance Sheet.

(v) **No Internal Check**: Since internal check is not possible, the method leaves room for errors and a fraud, besides their detection becomes difficult.

(vi) **Difficult to Ascertain the Value of Business**: The records being inadequate, it is difficult to value the business, especially goodwill.

(vii) **Incomplete and Unscientific System**: This system is incomplete and unscientific as both the aspects of a transaction are not recorded and no set rules are followed for recording them.

(viii) **Comparative Study is Difficult**: A major defect of this system is that the financial position of the current year cannot be compared with that of the previous year due to incomplete information of transactions of business.

Difference between Double Entry System and Single Entry System

Basis	Double Entry System	Single Entry System
1. Both Aspects	**Under this system, both aspects of a transaction are recorded.**	**Under this system, both aspects of transaction are not recorded. infect, for some transactions two aspects, for some others one aspect and yet for others no aspect at all are Recorded.**
2, Accounts	**Under this system, personal, real and nominal, etc., all the accounts are maintained. Thus, it is a complete and scientific system of Accounting.**	**Under this system, only personal accounts and Cash Book are maintained. Hence, it remains an incomplete record of accounts.**
3. Trial Balance	**Under this system, Trial Balance is prepared and thus, the arithmetical accuracy of the books of account is verified.**	**Under this system, Trial Balance cannot be prepared due to incomplete system of accounting. Therefore, arithmetical accuracy of the accounting cannot be verified.**
4. Profit or Loss	**Under this system, after a certain period, net profit or net loss can be ascertained by preparing the Profit And Loss Account.**	**Under this system, Profit and Loss Account is not prepared to ascertain the net profit or loss.**
5. Financial Position	**Under this system, correct financial position of the business can be ascertained by preparing the Balance Sheet.**	**Under this system, Balance Sheet is not prepared. Only Statement of Affairs is prepared. The reason is that the assets and liabilities do not stand at real amounts but at Estimated amounts.**
6. Adjustments	**Under this system, adjustments are made at the time of preparing the Final Accounts.**	**There is no provision to make adjustments primarily because of incompleteness of accounts.**
7. Use	**This system is used by almost all the businesses.**	**This system is used by only tiny businesses and institutions.**
8. Authenticity	**This system is considered authentic by the Court.**	**The Court does not consider this system as authentic.**
9.Principles	**It is not based on any assumption or principles**	**It is based on assumptions or principles**
10.Legality	**Under this system all entries have no legal acceptance**	**This method has legal acceptance and can be produced as a proof in the court**

Determination of Profit or Loss From Incomplete Record (Single Entry System)

The main aim of every business is to earn profit .Every business want to know its financial position and to know what profit has been earned or what loss has been incurred at the end of financial year, in the case of incomplete records any one of the following two methods should be applied

1. Statement of Affairs method or Capital comparison method or net worth method

2. Conversion into Double Entry Method

1. STATEMENT OF AFFAIRS METHOD (NET WORTH METHOD):- A Statement of Affairs is a statement of assets and liabilities. Difference between the amounts of the two sides is taken as capital. Under the Single Entry System, it is necessary to prepare Statement of Affairs at the end of the year and also in the beginning of the year, if not already prepared to determine profit. Statement of Affairs like Balance Sheet, has two sides—right-hand side for Assets and left-hand side for Liabilities. The difference between the total of assets and liabilities is capital.

CAPITAL = TOTAL ASSETS - LIABILITIES

For determining the profit, capital in the beginning of the year must also be determined, if necessary, by preparing a Statement of Affairs as in the beginning of the year. If the capital at the end of the year exceeds that in the beginning, it is taken as a profit. If, on the other hand, the capital in the beginning was more than that at the end, a loss. However, following two adjustments must be kept in mind for determining the profit:

(i) **Adjustments for Capital Introduced: If the proprietor brought in additional capital during the year, it should be deducted from the capital at the end (since this increase is not due to profit but fresh introduction of capital).**

(ii) **Adjustment for Drawings: Drawings by the proprietor should be added to the capital at the end—had the drawings not been made, the capital at the end of the year would have been higher.**

Formula for determining the Profit is as follows:

Profit = Capital at the end + Drawings - Additional capital introduced - Capital in the

beginning The procedure explained above can simply be summarized as follows:

1. **First, prepare the Statement of Affairs in the beginning, for calculating capital in the**

beginning.

2. Then, prepare the Statement of Affairs at the end in order to calculate the capital at the end.
3. Adjust the capital at the end by adding drawings and deducting there from capital introduced during the year.
4. From the adjusted capital at the end deduct capital in the beginning. This difference is either a profit or a loss.

Statement of profit /Loss of the Year

Closing capital or capital at the end of the year	××××
Add: Drawing during the year	××××
Total capital at the end of year	××××
Less: Additional capital introduced during the year	(××××)
Adjusted capital during the year	××××
Less: Opening capital during the year	(××××)
Profit /Loss during the Year	××××

Note:- Closing capital is determined after making necessary adjustment For example Depreciation of fixed assets, interest on capital, Bad debts, provision for bad debts, provision for discount on debtor, provision for discount on creditor, accrued interest on investment etc

Determination of Gross Profit and Net profit by single entry system

When additional information or adjustment are given then at first gross profit is determined and after that net profit is determined taking consideration in to the additional information

At the end of the year there remain some transactions which are not recorded in the books. Such transaction are known as additional information or adjustment like outstanding expenses, prepaid expenses, depreciation, interest on capital , provision for bad and doubtful debts etc.

Such additional information or adjustment do not affect the opening statement of affair, closing statement of affair should also be prepared without adjustment at the end after getting profit final statement of affair and adjustment should be prepared.

Statement of profit of ………………….

Closing capital or capital at the end of the year			××××
Add: Drawing during the year			××××
Total capital at the end of year			××××
Less: Additional capital introduced during the year			(××××)
Adjusted capital during the year			××××
Less: Opening capital during the year			(××××)
Gross profit during the Year			××××
Less: Adjustment:			
Depreciation on asset	××××		
Bad debts	××××		
Provision for bad debts	××××		
Provision for discount on debtor	××××		
Interest on capital	××××		(××××)
Add : Interest on Investment (Accrued)		××××	
Discount on creditors		××××	
Interest on drawing		××××	××××
Net Profit			××××

Specimen of Statement of Affairs

As on --------------------

Liabilities	Amount	Assets	Amount
Loan from Party	××××	Plant and Machinery	××××
Bank Overdraft	××××	Stock	××××
Creditors	××××	Cash in Hand	××××
Bank Loan	××××	Bills	××××
Outstanding Expenses	××××	Receivable	××××
	××××	Investments	××××
		Furniture	××××
Capital (Balancing Figure)	××××	Debtors	××××
		Cash at Bank	××××
		Accrued income	××××
		Prepaid Expenses	××××
		Goodwill	
	××××		××××

Difference between Balance Sheet and Statement of Affairs

Basis	Balance Sheet	Statement of Affairs
1. Objective	The main objective of preparing Balance Sheet is to know about the Financial position of the business.	The main objective of preparing Statement of Affairs is to know about capital at a point of time.
2. Accounting Method	Balance Sheet is prepared when accounts are maintained under Double Entry System.	Statement of Affairs is prepared when accounts are maintained Under Single Entry System.
3. Accounts and Information	This is prepared exclusively on the basis of ledger accounts.	In view of incomplete accounts, its preparation is based on limited accounts, calculations, estimates And other information.
4. Reliability	Being based on actual figures, Balance Sheet is regarded as a reliable statement.	Since it is based partly on the accounts and partly on other Information and one's memory, hence, it is not a reliable statement.
5. Trial Balance	Trial Balance is prepared before Balance Sheet is prepared.	In the case of Statement of Affairs, Trial Balance is not prepared.
6. Arithmetical Accuracy	The tallying of Balance Sheet implies arithmetical accuracy of accounting.	But Statement of Affairs does not prove in any sense the arithmetical accuracy of the accounting.

INTRODUCTION TO THE CONVERSION METHOD OF SINGLE ENTRY SYSTEM

The Conversion Method of Single Entry System is a more scientific way of preparation of Final Accounts from Incomplete Records. It is also called the Transaction Approach.

The Balance Sheet Approach or the Statement of Affairs Method uses the technique of comparison of opening and closing capitals for calculation of profit or loss for a given period under Single Entry System. The biggest disadvantage here is that details of revenues (incomes) and expenses are not disclosed by the Statement of Calculation of Profit and Loss prepared in this approach. It does not furnish necessary accounting information.

Due to this limitation, another approach called the Transaction Approach or The Conversion Method was developed. The Conversion Method is a better approach for preparing accounts from incomplete records of transactions.

CONVERSION METHOD OF SINGLE ENTRY SYSTEM WORK?

The Conversion Method of Single Entry System tries to convert the records from Single Entry to Double Entry system and then prepare Final Accounts from the same.

THE STEPS IN CONVERSION OF SINGLE ENTRY TO DOUBLE ENTRY CAN BE LISTED AS FOLLOWS:

1. **First we need to find out the opening capital by preparing the opening Statement of Affairs.**
2. **An opening journal entry needs to be passed to incorporate all assets, liabilities and capital in the books of accounts:**

   Assets …………………………. Dr

   To Liabilities

   To Capital (Balancing Figure)

3. **The Cash Book/Cash Account should be prepared carefully to find out missing figures such as sales, expenses, drawings, closing balance of Cash/Bank etc.**
4. **Total Debtors Account, Total Creditors Account, Bills Receivable Account and Bills Payable Account should be prepared. These accounts will help to find out figures like Credit Sales, Credit Purchases, and Balances of Debtors, Creditors, Bills payable and Bills receivable respectively.**
5. **Total Sales will be Cash Sales + Credit Sales. Total Purchases will be Cash Purchases + Credit Purchases**
6. **The nominal accounts for expenses and revenues should be prepared with the help of the information ascertained from the Cash Book. If there are any cash transactions related to Real Accounts, those should also be recorded by preparing ledger accounts.**
7. **Necessary journal entries for the adjustments should be made as per information provided in the problem.**
8. **Finally the Profit and Loss Account and the Balance Sheet can be prepared.**

Determination of missing Figure

Case 1.When credit sales to be determined from Preparation of Total Debtors Account

Total Debtor Account

Particulars	Amount	Particulars	Amount
To Balance B/D (Opening Debtor)	******	By Cash A/C(cash received from debtor)	********
To Bills Receivable Dishonored	******	By Bills Receivable a/c	**********
To Credit Sales (Balancing Figure)	********	By Discount Allowed	**********
		By Bad Debts	**********
		By Return Inward(sales return)	**********
		By Balance C/d (Closing debtor)	***********

Case 2 when Amount of Bills receivable received from debtor to be determined from Bills receivable account

Bills Receivable Account

Particulars	Amount	Particulars	Amount
To Balance B/D (Opening)	******	By Cash A/C	********
To Debtor A/c (Bills received during the year)	******	By Debtor A/c(Bills Receivable dishonored)	**********
(Balancing Figure)		By Creditors (bills receivable endorsement)	********** **********
		By Balance C/d (Closing)	**********

Case 3. When credit Purchase to be determined from Total Creditors Account

Total Creditors Account

Particulars	Amount	Particulars	Amount
To Cash A/C(cash Paid to Creditors)	******	By Balance B/D (Opening Creditors)	********
To Bills Payable a/c	******	By Bills Payable Dishonored	**********
To Discount Received	********	By Credit Purchase	**********
To Return Outward(Purchase return)	********	(Balancing Figure)	
To Balance C/d (Closing Creditors)	********		

Case 4. When amount of bills payable from creditors to be determined by preparing Bills Payable Account

Bills Payable Account

Particulars	Amount	Particulars	Amount
To Cash A/C	******	By Balance B/D (Opening)	********
To Creditors A/c(Bills Payable dishonored)	******	By Creditors A/c (Balancing Figure)	**********
To Balance C/d (Closing)	********		

Note: -☹ (I) On the Basis of above specimens the following missing can be determined

(1)Amount Received From debtor

(2)Amount paid to creditors

(3)Closing Debtors

(4)Closing Creditor

(5)Closing Bills Receivable

(6)Closing Bills payable

(II) Opening Capital is not known then prepared opening statement of Affairs A/c

(III) To Prepared Cash/Bank account for determination of Cash/Bank closing and opening figure

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