

BCM-102
FINANCIAL ACCOUNTING
UNIT-16 SINGLE ENTRY SYSTEM
(B. COM. FIRST YEAR)

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Single Entry System: Meaning

- Single entry system is a misnomer as it is an incomplete form of double entry system of book keeping. It is a system of maintaining records whereby accountants record the dual aspects of some transactions with proper debits and credits, records only one aspect of certain other categories of transactions and totally skip recording of certain other categories of financial transactions. Therefore, this system of maintaining books of accounts is also known as incomplete records. It can be described as that system of accounting wherein an entrepreneur maintains the record of business transactions as per his convenience and doesn't keep himself bound by the procedures and principles of double entry system of book keeping.

Characteristics of Single Entry System

- **Record of only Personal accounts and Cash Transactions**
- **Unsystematic**
- **Profit or Loss ascertained from original vouchers**
- **Statement of Affairs**

Reasons for Maintaining Record as per Single Entry System

- **No Need to Hire Professionals**
- **Inexpensive**
- **Less Time consuming**
- **Convenient Mode of Maintaining Records**

Limitations of Single Entry System

- **Accuracy of Records cannot be ensured**
- **Correct Assessment of Financial Position and Financial performance not possible**
- **Legal Compliance difficult**

Ascertainment of Profit and Loss

- All types of business organizations, irrespective of their size and line of business, are always keen in assessing the results of business operations and the financial position. The result of business operations and financial position can be known by preparing the profit and loss account and balance sheet.
- In case of single entry system, preparation of financial statements is bit difficult as compared to preparation of financial statements under double entry system. In case of single entry system, the problem faced is how to use the information, available in the incomplete records, to ascertain the profit or loss for the particular accounting year and also to determine the financial position of an entity as at the end of the year. There are two ways which can be used to find out the profit earned or loss incurred and to find out the financial position of the business. The two methods are as follows:
 - 1. Statement of Affairs or Net worth Method.
 - 2. Conversion method

Statement of Affairs or Net worth Method

- There are two steps involved in this method, at first step we prepare statement of affairs to find out the capital of the firm. At second step a statement is prepared to find out the amount of profit earned or loss incurred by the business.

Statement of Affairs as at —

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Creditors	Furniture
Bills payable	Machinery
Outstanding expenses	Land and Building
Capital (balancing figure)*	Debtors
		Stock
		Cash and Bank
		Capital (balancing figure)*

XXXX

XXXX

Statement of Affairs or Net worth Method

Statement of Profit or Loss for the year ended

Particulars	Amount Rs.
Capital as at the end of the year (Computed from statement of affairs prepared for the end of year)	XXXX
<i>Less</i> Additional capital introduced during the year	XXXX
<i>Add</i> Drawings (capital withdrawn during the year)	XXXX
Adjusted capital at the end of year	XXXX
<i>Less</i> Capital as at the beginning of year (Computed from statement of affairs prepared for the beginning of year)	<u>XXXX</u>
Profit or Loss made during the year	XXXX

Difference between Statement of Affairs and Balance Sheet

Sr. No.	Statement of Affairs	Balance Sheet
1	A statement of affairs is prepared from incomplete records	Balance sheet is prepared from records maintained on the basis of double entry book-keeping
2	Value of Assets cannot be verified as they are recorded on the basis of estimates	Value of assets and liabilities can be verified from the ledger accounts
3	Objective of preparing a statement of affairs is to ascertain the amount of capital on a particular date	Balance sheet is prepared to know the financial position of the business at a particular date
4	While recording assets and liabilities, some assets or liabilities may get omitted and this omission may remain unknown because the effect of this omission gets adjusted in the capital account balance and the total of both sides of statement match	Omission of any asset or liability not possible as two sides of balance sheet will not agree and the accountant will trace the missing item from accounting records.
5	Omissions of assets or liabilities cannot be discovered easily	Omission of assets or liabilities can be discovered easily
6	Statement of affairs is less reliable	Balance Sheet is more reliable

Conversion Method

- Conversion method is yet another method which takes information from the accounting record maintained as per single entry system, and converts it into double entry system to ascertain profit earned or loss incurred by the firm and also assess the financial position of the business enterprise by preparing the profit and loss account and balance sheet.

Ascertainment of Missing Information through Summary of Cash

- To ascertain information about any missing item of receipt or payment, cash book summary showing all receipts and payments made during the year is prepared and the balancing figure is taken as the amount of missing item.
- Sometimes, information pertaining to two or more transactions may be seen missing simultaneously e.g. if both amount paid to creditors and that received from debtors are missing along with the information pertaining to any one cash receipts or payment, then any one of these may be obtained first through the total creditors or total debtors account, as the case may be, and then the other missing information may be ascertained from the cash book summary.
- After tracing the missing figures, the final accounts may be prepared straight away or one may first examine the accuracy of information by preparing trial balance and thereafter prepare final statements.

Summary

- Single entry system of book keeping is the distorted version of double entry system. Business organizations operating on small scale who cannot afford the cost of maintaining detailed accounting records maintain their accounts as per single entry basis. In case of single entry system, firms normally maintain accounts of debtors, creditors, other personal accounts and record of cash transactions only. There are two methods i.e. Net worth method and second Conversion method which are helpful in assessing the profit or loss and financial position of the business enterprises from records maintained as per single entry system.

References

- SILM developed by Uttarakhand Open University for BCM-102 (Financial Accounting), Year 2017, ISBN: 978-93-85740-44-2