



# **TRINITY COLLEGE FOR WOMEN NAMAKKAL**

**Department of Commerce**

**FINANCIAL ACCOUNTING**

**21UCM03 - EVEN Semester**

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# SINGLE ENTRY SYSTEM

## MEANING

A Cash Book is prepared which shows the receipts and payments of cash transactions and no other ledger is maintained except a rough book for recording transactions relating to personal accounts is called 'Pure Single Entry'.

Under this method, real accounts and nominal accounts are not recognised. In short, these transactions are only recorded in Cash Book without, applying the principles of double entry. That is why it is said: The system which does not totally follow the principles of Double Entry System is called Single Entry System'.

## DEFINITION

According to R. N. Carter, Single Entry cannot be termed as a system, as it is not based on any scientific system like Double Entry System. For this purpose, Single Entry is nowadays known as Preparation of accounts from incomplete records.

## FEATURES OF SINGLE ENTRY SYSTEM:

### **Maintenance of books by a sole trader or partnership firm :**

The books which are maintained according to this system can be kept only by a sole trader or by a partnership firm.

### **Maintenance of cash book :**

In this system it is very often to keep one cash book which mixes up business as well as private transactions.

### **Only personal accounts are kept :**

In this system, it is very common to keep only personal accounts and to avoid real and nominal accounts. Therefore, sometimes, this is precisely defined as a system where only personal accounts are kept.

## **Collection of information from original documents**

For information one has to depend on original vouchers, example, in the case of credit sales, the proprietor may keep the invoice without recording it anywhere and at the end of the year the total of the invoices gives an idea of total credit sales of the business.

### **Lack of uniformity :**

It lacks uniformity as it is a mere adjustment of double entry system according to the convenience of the person.

### **Difficulty in preparation of final accounts :**

It is much difficult to prepare trading, profit and loss account and balance sheet due to the absence of nominal and real accounts in the ledger.

# **DISADVANTAGES OF SINGLE ENTRY SYSTEM**

## **Incomplete System Of Accounting**

Single entry system ignores dual aspects (debit and credit) of transactions. It also ignores nominal account and real accounts. So, it is an incomplete system of recording transactions.

## **Unsystematic And Unscientific System**

Single entry system does not follow proper accounting rules and principles to record the financial transactions. So, it is unsystematic and unscientific system of recording transactions which cannot be taken as authentic source.

## **No True Profit Or Loss**

Trial balance, trading account and profit and loss account cannot be prepared with the help of single entry system. So, correct profit or loss amount cannot be obtained in the absence of these account.

## **No True Financial Position**

Balance sheet cannot be prepared with the help of single entry system because it ignores real accounts. So, true financial position of the firm cannot be revealed in the absence of balance sheet.

## **No Arithmetical Accuracy**

This system ignores debit and credit principles of accounting. So, the trial balance cannot be prepared with only one aspect of transaction. Therefore, arithmetical accuracy is not possible in the absence of trial balance.

## **Unacceptable To Tax Authorities**

Because of incompleteness, unscientific and lack of accuracy, tax authorities and other business agencies do not rely on single entry system.

## **Chance Of Fraud And Errors**

There is very high chance of occurrence of frauds and errors under single entry system because of lack of proper internal check system.

## **Unsuitable For Planning And Control**

Single entry system does not provide accurate and adequate information to the management. So, it does not support top level management for future planning and effective control.

## **Not Suitable For Large Business Firms**

Single entry system is not suitable for large business firms having large number of financial transactions

# METHOD OF ASCERTAINMENT OF PROFIT

- **Networth method**
- **Conversion method**

## **Networth method**

This method is called statement of affairs method. The statement of affairs is similar to the Balance Sheet with regard to the format and is based on the same accounting equation of

$$\text{Capital} = \text{Assets less Liabilities}$$



## Conversion method of single entry to double entry:

It may be possible to prepare the P & L A/c and Balance Sheet for such organizations by converting the records into double entry method. In this method, various ledger accounts are prepared e.g. sales, purchases, debtors, creditors, Trading A/c, cash book etc.

As full information is not available the balancing figure in each of these accounts needs to be correctly interpreted. For example, if we know opening & closing balances in Debtors' A/c and the cash received from debtors; then the balancing figure will obviously indicate sales figures. Also, if we know opening and closing balances of creditors & credit purchases figures; then the balancing figure will certainly mean cash paid to creditors.

Once these figures are calculated, it's easy to prepare the financial statements in regular formats

# THANK YOU

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