

Conversion of Single Entry into Double entry

1. What is single entry system of book keeping?

Single entry system may be defined as a system in which accounting records are not kept strictly according to the double entry system of book keeping.

2. Write down the formula for determining the net profit under net worth method?

The formula for determining the net income may be put as follows

Net income = capital at the end (Ending Capital

(+) Drawings

(-) Additional capital (Fresh capital) introduced (-

) Capital at the beginning (Beginning capital)

3. Define characteristics of single entry system?

Σ It is suitable for the small businesses

Σ Only personal account are kept

Σ This system is flexible

4. What are the limitations/defects of single entry system?

The defects of this system may be summed up as follows.

Σ Under this system only partial and incomplete record is kept because two fold aspects of transactions are generally ignored.

Σ As the two fold aspects of every transaction are not recorded a trial balance cannot be drawn up to test the arithmetical accuracy of the record

Σ As nominal account are not maintained a profit and loss account cannot be prepared for want of information regarding the various income and expenditures

Σ As no real account are maintained the preparation of a balance sheet is not possible

5. Write down the fundamental balance sheet equation?

Assets = Liabilities + Owner's Equity

6. How many methods are for preparing final account from single entry system?

There are two methods for preparing the final account

- 1) First method of statement of affairs
- 2) Second method conversion into double entry system

7. What is statement of affairs?

It is statement of assets and liabilities (including capital) prepared under the single entry system.

8. Define balance sheet?

It is statement of assets and liabilities (including capital) prepared under the Double entry system.

9. What is major difference between single entry system and double entry system?

Under entry system both debit and credit aspects of all the transactions are recorded whereas under single entry system some transactions are not recorded at all while some transactions are recorded in only one of their aspect either debit aspect or credit aspect (only one aspect of transaction).

10. How Many methods are for conversion from single entry to double entry?

- **Prospective** (on and from the date on which arrangements are made for conversion)
- **Retrospective** (on and from a date before the date of conversion)

11. In case of conversion of single entry system into double entry.

What necessary information / item are required for the preparation of trading account?

In order to prepare trading account following information's / items are required

Opening stock + purchase + direct expenses-sales- closing stock

12. In case of conversion of single entry system into double entry.

What necessary information / item are required for the preparation of profit and loss account?

The following item are required in order to prepare the profit and loss account

Indirect expense- other incomes

13. In case of conversion of single entry system into double entry. What necessary information / item are required for the preparation balance sheet?

Following information are required in order to prepare the balance sheet

- All assets
- All liabilities
- Opening capital
- Profit or loss of the year

Features of Single Entry System:

- (i) This system is followed by a sole proprietorship firm or a partnership firm. The companies cannot follow this system.
- (ii) Under this system, only one Cash Book is maintained which mixes up both the private and business transactions.
- (iii) Usually personal accounts are recorded only, i.e., Real and Nominal accounts are ignored.
- (iv) Lack of uniformity is noticed if accounts are kept under Single Entry basis.
- (v) Profit or loss, under this system, can be ascertained but not the financial position as a whole.
- (vi) Arithmetical accuracy of the account is not possible since Trial Balance cannot be prepared.
- (vii) Practically, this system is the admixture of Single Entry, Double Entry and no entry.

Advantages of Single Entry System:

- (i) Since this system is very simple, anyone can maintain it without any adequate knowledge of accounting.
- (ii) Limited accounts are to be opened under this system since the transactions relating to personal accounts are recognised only and not the Real and Nominal accounts.
- (iii) Since the number of books is limited, expenses related to the keeping of records are also very nominal.
- (iv) In the case of accounting for an event, i.e., household, social and festival etc., it is very helpful.

Disadvantages of Single Entry System:

- (i) Arithmetical accuracy of the books of account is not possible since the Trial Balance cannot be prepared under this system.
- (ii) It is also not possible to ascertain the correct amount of profit or loss of the firm—i.e., results from operation—since the nominal accounts are missing under this system.
- (iii) Similarly, Balance Sheet cannot be prepared since the real accounts are not recognised. Therefore, the real financial position cannot be known at the end of the accounting period.
- (iv) As arithmetical accuracy is not possible, possibility of committing fraud or manipulation is greater in comparison with Double Entry System.
- (v) Any statistical information relating to the business or the comparison between the two firms or the interim accounts etc.—which help the

management to take decision or to formulate policy in future—is not possible under this system.

- (vi) Outsiders (e.g., Income-tax authorities, Bank etc.) do not rely on this system.

DIFFERENCE BETWEEN SINGLE AND DOUBLE ENTRY

BASIS OF DIFF	SINGLE ENTRY SYSTEM	DOUBLE ENTRY SYSTEM
Transactions Recorded	It only records single aspect (debit or credit) of the transaction.	It records both the debit and credit aspects of the transaction.
Accounts Maintained	It maintains personal accounts of debtors, creditors and a cash book for the recording of transactions.	It maintains personal, real and nominal accounts for the recording of transactions.
Used by	Single entry system is mainly used by small business firms and partnership firms.	The Double entry system is can be used by both small and big business firms for recording the transactions.
Special skills	There is no need for specialized knowledge to maintain books in single entry system.	The person who is responsible for book-keeping in double entry system should possess specialized knowledge and skills.
Trail Balance	In this system, Trail Balance cannot be prepared because of incomplete record of transactions.	Trail Balance can be prepared by using debit and credit aspects of the recorded transactions.
Final	Preparation of trading	Trading and Profit & Loss

Accounts	and profit & loss accounts for knowing the financial position of the firm is not possible.	accounts are prepared to ascertain the financial position of the firm.
Detection of Errors	Detection of errors in the books prepared by single entry system is very tough.	Detection of errors can be easily done in double entry system.
Nature of Cost	Single entry method of book-keeping is less costly and is considered as the simple way of recording transactions.	Double entry method of book-keeping is costly and complex work is involved in the recording of transactions.

Conversion of Single Entry into Double entry

The conversion method involves converting accounting from a single-entry system to a double-entry system. The double-entry bookkeeping is a more reliable system that growing small businesses need to adopt. This system allows business owners to produce a document called a trial balance that will let you check if your entries are correct.

Objectives of Conversion:

1. To find out correct profit
2. To find out true and fair financial position of business
3. To make accounting ideal and reliable
4. To measure accuracy of accounting records
5. To make a meaningful analysis of financial statements
6. To make a meaningful analysis of financial statements

7. To enable taking effective steps for improvement of financial position of the business
8. To enjoy other benefits of double entry system of book keeping.

STEPS IN CONVERSION:

1 Ascertaining Missing information:

- a. Preparation of opening statement of affairs
- b. Preparation of BR account
- c. Preparation of BP account
- d. Debtors account
- e. Creditors account
- f. Memorandum cash account
- g. Memorandum trading account
- h. Profit and loss account

2. Final accounts under Double entry system