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B.Com Honours | Semester II | Calicut University

Financial Accounting

Course Code: COM2CJ101 • Module 1 Notes

1. Single Entry System of Accounting: Basics and Profit Determination

The Single Entry System is an unscientific and incomplete method of recording financial transactions. Unlike the double-entry system, which records both the debit and credit aspects of every transaction, the single-entry system maintains only personal accounts of debtors and creditors and a cash book. Real and nominal accounts (such as machinery, sales, salary, and purchases) are completely ignored. This module covers the definition, objectives, advantages, and limitations of single-entry systems, its distinction from double entry, and the Statement of Affairs method to calculate profit or loss.

Key Features of Single Entry

- **Incomplete Records:** Transactions are recorded partially, with some transactions having only one aspect recorded, and others ignored entirely.
- **Accounts Maintained:** Only personal accounts of debtors/creditors and a cash book are kept.
- **Suitability:** Mostly used by small sole traders, partnership firms, and professionals who cannot afford full-time accountants.

Advantages and Limitations

Advantages

- **Simplicity:** Easy to write and maintain without specialized accounting knowledge.
- **Cost-Effective:** Less expensive to manage, as detailed ledger books and accounting software are not required.
- **Flexibility:** Can be adapted to the personal convenience of the small shop owner.

Limitations

- **No Trial Balance:** Arithmetic accuracy of the books cannot be verified since double-entry matching is absent.
- **Fraud Vulnerability:** Errors, thefts, and misappropriation of cash or stock are highly difficult to detect.
- **Profit Inaccuracy:** Real profit or loss cannot be calculated accurately; it is only estimated.

Distinction: Double Entry vs. Single Entry

Basis of Difference	Double Entry System	Single Entry System
Aspects Recorded	Both debit and credit aspects of every transaction are recorded.	Only one aspect (or none) is recorded for most transactions.
Ledgers Kept	Personal, Real, and Nominal accounts are fully maintained.	Only Personal accounts and a Cash Book are maintained.
Trial Balance	Prepared to check mathematical accuracy.	Cannot be prepared due to incomplete records.
Financial Position	Reflected accurately via the Balance Sheet.	Estimated using a Statement of Affairs.

Determination of Profit or Loss: Statement of Affairs Method

Under single entry, profit or loss is calculated using the **Statement of Affairs Method** (or Capital Comparison Method). A **Statement of Affairs** is a statement of assets and liabilities prepared under single entry to estimate capital. The difference between total assets and total liabilities represents the owner's capital.

The Profit Calculation Formula:

[ext{Adjusted Closing Capital} = ext{Closing Capital} + ext{Drawings} - ext{Additional Capital introduced}]

[ext{Net Profit or Loss} = ext{Adjusted Closing Capital} - ext{Opening Capital}]

If the adjusted closing capital is greater than the opening capital, it is a profit; if less, it is a loss.

Statement of Affairs vs. Balance Sheet

- **Balance Sheet:** Prepared using a trial balance under double entry. All values are verified by ledger balances.
- **Statement of Affairs:** Prepared under single entry when ledger balances are missing. Asset and liability values are estimated based on physical counts and invoices.