PRAASA ACADEMY

Financial Accounting Made Clear

A Complete Study Guide for B.Com Semester I (SEP)
Theory, solved problems and practice for every module

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Financial Accounting Made Clear: A Complete Study Guide for B.Com Semester I (SEP)

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The book follows the SEP syllabus for B.Com Semester I Financial Accounting as taught at Dr. Manmohan Singh Bengaluru City University. It is an independent study guide and is not published, approved or endorsed by the university. Syllabus and exam patterns can change, so always check the latest syllabus your college gives you.

Every business, person and figure in the illustrations and problems is invented for teaching. Any resemblance to a real business is a coincidence.

The author has taken care to check every solution. If you find an error, please write to info@shreyapatha.in so that it can be corrected in the next update.

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MODULE 2

Single Entry and Conversion into Double Entry

Syllabus. Accounts from incomplete records: meaning, features, types, advantages and limitations of single entry; difference between single entry and double entry; ascertainment of profit by the statement of affairs method; conversion of single entry into double entry; preparation of the total debtors account, total creditors account, bills receivable account, bills payable account and cash book to find missing figures; preparation of the trading and profit and loss account and balance sheet.

What the examination asks. Short questions on the meaning and types of single entry (2 marks); a statement of affairs or a missing-figure account such as credit sales or credit purchases (5 marks); and a full conversion problem ending in final accounts (15 marks). This module usually carries the most marks in the paper.

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2.1 Meaning of single entry

Many small traders, such as a kirana store, a stationery shop or a tailoring unit, do not keep a complete set of books. They usually keep a cash book and the accounts of the customers and suppliers they deal with on credit, because they need to know how much cash they have, who owes them and whom they owe. They do not keep accounts for sales, purchases, expenses or assets. Such a system is called **single entry**, or **accounting from incomplete records**.

> ***Kohler's definition.*** *"Single entry is a system of book-keeping in which, as a rule, only records of cash and of personal accounts are maintained; it is always incomplete double entry, varying with circumstances."*

The name is misleading. Single entry is not a separate system with its own rules. It is double entry kept *incompletely*. Some transactions are recorded in full, some in one aspect only and some not at all.

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2.1.1 Features

1. **Personal accounts and a cash book** are usually kept; real and nominal accounts (assets, sales, purchases, expenses) are not.
2. **No uniform method.** What is recorded differs from trader to trader, according to need.
3. **Records are mixed.** The cash book often contains both business and private transactions of the owner.
4. **A trial balance cannot be prepared**, because the ledger is incomplete, so the arithmetical accuracy of the books cannot be checked.
5. **Profit is found by estimate**, by comparing capital at the beginning and end of the year, unless the records are converted into double entry.
6. **Suited to small businesses** such as sole traders and small partnership firms. Companies cannot use it, because the Companies Act, 2013 requires books to be kept on the double entry system and the accrual basis.
7. **Information is gathered from documents and memory**: invoices, bank statements, the owner's knowledge of debtors and stock.

2.1.2 Types of single entry

(a) Pure single entry. Only personal accounts of debtors and creditors are kept. Not even a cash book is maintained.

(b) Simple single entry. Personal accounts and a cash book are kept. This is the most common form.

(c) Quasi single entry. Personal accounts, a cash book and a few subsidiary books, such as a sales book and a purchases book, are kept, with some supporting records such as a bills book.

2.1.3 Why traders use it: advantages

- It is **simple**, and needs no knowledge of accounting principles.
- It is **cheap**, because it needs few books and no trained accountant.
- It is **flexible**, since the trader records what he finds useful.
- It gives a **rough idea of profit** quickly, by comparing capital.
- It is **adequate for very small businesses** with few transactions, most of them in cash.

2.1.4 Limitations

- A **trial balance cannot be prepared**, so errors are not detected.
- The **true profit cannot be found**, only an estimate based on capital.
- The **financial position** cannot be shown accurately, because there are no real accounts for assets.
- **Frauds and thefts** are hard to detect, since nominal and real accounts are not kept.
- Results of different years **cannot be compared** properly.
- Tax authorities and banks may **not accept** the figures without further proof.
- **Valuing the business** at the time of sale or admission of a partner is difficult.

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2.1.5 Single entry and double entry compared

Basis	Single entry	Double entry
Recording	Some transactions recorded in one aspect only, some not at all	Both aspects of every transaction recorded
Accounts kept	Personal accounts and cash book, mostly	Personal, real and nominal accounts
Trial balance	Cannot be prepared	Can be prepared
Profit	Estimated from change in capital	Found accurately from the profit and loss account
Financial position	Shown in a statement of affairs, partly on estimates	Shown accurately in the balance sheet
Fraud and errors	Hard to detect	Easier to detect
Legal acceptance	Limited	Accepted by courts, banks and tax authorities
Suitable for	Small sole traders and firms	All businesses; required for companies

2.2 Finding profit from incomplete records

There are two ways of finding the profit of a business whose books are incomplete:

1. **The statement of affairs method**, also called the net worth method or capital comparison method. It finds profit as the change in capital during the year, adjusted for drawings and additional capital. It gives the *amount* of profit but not how it was earned.
2. **The conversion method**, in which the incomplete records are completed with the help of other information, so that a full trading and profit and loss account and balance sheet can be prepared. It shows gross profit, every expense and the net profit.

2.3 The statement of affairs method

2.3.1 Statement of affairs

A **statement of affairs** is a statement of the assets and liabilities of a business on a date, prepared when the books are kept on single entry. It looks like a balance sheet, and the excess of assets over liabilities is the capital on that date.

Capital = Total assets − Total liabilities

If liabilities are greater than assets, the difference is a **deficiency of capital** and is shown on the assets side.

Basis	Statement of affairs	Balance sheet
System	Prepared under single entry	Prepared under double entry
Source	Partly from books, partly from estimates and memory	From ledger balances in the trial balance
Accuracy	Approximate	Accurate

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Capital	Found as the balancing figure	Taken from the capital account
Purpose	Mainly to find capital at a date	To show the financial position
Omissions	Missing assets or liabilities may go unnoticed	Omissions are detected, because the totals must agree with the ledger

2.3.2 Steps

1. Prepare the **opening statement of affairs** to find the opening capital.
2. Prepare the **closing statement of affairs** to find the closing capital, after making any adjustments asked for, such as depreciation, provision for doubtful debts, outstanding and prepaid expenses.
3. Prepare a **statement of profit or loss**:

Statement of profit or loss for the year

	₹
Capital at the end of the year	xxx
Add: Drawings during the year	xxx
Less: Additional capital introduced during the year	(xxx)
Adjusted closing capital	xxx
Less: Capital at the beginning of the year	(xxx)
Profit for the year (a negative figure is a loss)	**xxx**
Less: Interest on capital, salary to the owner, if any	(xxx)
Net profit after these adjustments	**xxx**

Drawings are added back because they reduced capital but were not a loss of the business. Additional capital is deducted because it increased capital but was not a profit.

Illustration 2.1 5 marks

Anand keeps his books on the single entry system. His position on two dates was as follows:

	1 April 2025 (₹)	31 March 2026 (₹)
Cash	15,000	22,000
Stock	60,000	75,000
Debtors	45,000	58,000
Furniture	25,000	25,000
Machinery	—	40,000
Creditors	38,000	42,000
Bank loan	30,000	20,000

During the year Anand withdrew ₹3,000 a month for personal use and introduced additional capital of ₹25,000. Find his profit for the year.

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SOLUTION

Statement of Affairs as on 1 April 2025

Liabilities **Assets**

Particulars	₹	Particulars	₹
Creditors	38,000	Cash	15,000
Bank loan	30,000	Stock	60,000
Capital (balancing figure)	77,000	Debtors	45,000
		Furniture	25,000
	1,45,000		**1,45,000**

Statement of Affairs as on 31 March 2026

Liabilities **Assets**

Particulars	₹	Particulars	₹
Creditors	42,000	Cash	22,000
Bank loan	20,000	Stock	75,000
Capital (balancing figure)	1,58,000	Debtors	58,000
		Furniture	25,000
		Machinery	40,000
	2,20,000		**2,20,000**

Statement of profit for the year ended 31 March 2026	₹
Capital on 31 March 2026	1,58,000
Add: Drawings (₹3,000 × 12)	36,000
Less: Additional capital introduced	(25,000)
Adjusted closing capital	1,69,000
Less: Capital on 1 April 2025	(77,000)
Profit for the year	**92,000**

Illustration 2.2

15 marks

Kavya runs a boutique and keeps her books on single entry. From the following, prepare a statement of profit or loss for the year ended 31 March 2026, and the statement of affairs on that date.

	1 April 2025 (₹)	31 March 2026 (₹)
Cash at bank	32,000	26,000
Cash in hand	3,000	4,500
Stock	48,000	59,000
Debtors	64,000	76,000
Machinery	80,000	80,000

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Furniture (bought on 1 October 2025)	—	20,000
Creditors	41,000	47,500
Rent outstanding	2,000	—
Salary outstanding	—	3,600
Insurance prepaid	—	1,800

Kavya withdrew ₹2,500 a month in cash and took goods worth ₹6,000 for her own use. Provide depreciation at 10% a year on machinery and furniture, and a provision for doubtful debts at 5% on closing debtors. Allow interest on opening capital at 6% a year.

SOLUTION

Statement of Affairs as on 1 April 2025

Liabilities **Assets**

Particulars	₹	Particulars	₹
Creditors	41,000	Cash at bank	32,000
Rent outstanding	2,000	Cash in hand	3,000
Capital (balancing figure)	1,84,000	Stock	48,000
		Debtors	64,000
		Machinery	80,000
	2,27,000		**2,27,000**

Statement of Affairs as on 31 March 2026

Liabilities **Assets**

Particulars	₹	₹	Particulars	₹	₹
Creditors		47,500	Cash at bank		26,000
Salary outstanding		3,600	Cash in hand		4,500
Capital (balancing figure)		2,03,400	Stock		59,000
			Debtors	76,000	
			Less: Provision for doubtful debts (5%)	3,800	
					72,200
			Machinery	80,000	
			Less: Depreciation (10%)	8,000	
					72,000
			Furniture	20,000	
			Less: Depreciation (10% for 6 months)	1,000	
					19,000
			Insurance prepaid		1,800
		2,54,500			**2,54,500**

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Statement of profit or loss for the year ended 31 March 2026	₹
Capital on 31 March 2026	2,03,400
Add: Drawings: cash (₹2,500 × 12) ₹30,000 + goods ₹6,000	36,000
Adjusted closing capital	2,39,400
Less: Capital on 1 April 2025	(1,84,000)
Profit before interest on capital	55,400
Less: Interest on capital (6% of ₹1,84,000)	(11,040)
Net profit for the year	**44,360**

The furniture was used for only six months, so depreciation is ₹20,000 × 10% × 6/12 = ₹1,000. Interest on capital is a charge against profit, but it is credited to Kavya's capital, so her capital does not change because of it.

Exam tip. Make every adjustment to the *closing* statement of affairs before you find the closing capital. If depreciation or a provision is left out there, the profit will be overstated by exactly that amount.

2.4 Conversion of single entry into double entry

The statement of affairs method gives only the final profit. A businessman, a bank or the tax department often needs to know the gross profit, the sales, the expenses and the true financial position. For this, the incomplete records are **converted into double entry**: the missing figures are found from the information available, and a trading and profit and loss account and a balance sheet are prepared as if full books had been kept.

2.4.1 Steps in conversion

1. **Opening statement of affairs.** Prepare it from the opening balances to find the **opening capital**.
2. **Cash book.** Prepare a summary of cash (and bank) receipts and payments. If the closing balance is not given, it is the balancing figure. If the closing balance is given but some receipt or payment is missing, the missing item is the balancing figure.
3. **Total debtors account.** Find the **credit sales**, or any other missing figure such as cash received from debtors or closing debtors.
4. **Total creditors account.** Find the **credit purchases**, or any other missing figure.
5. **Bills receivable and bills payable accounts.** Find bills received from debtors or bills accepted in favour of creditors, if these are missing.
6. **Total sales and total purchases.** Total sales = cash sales + credit sales. Total purchases = cash purchases + credit purchases.
7. **Trading and profit and loss account** for the year, including all adjustments.
8. **Balance sheet** at the end of the year.

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