Unit 1 Single Entry System

Single Entry System: The term 'Single Entry' refers to a method of maintaining the accounts in a manner convenient to a business house, which does not exactly follow the principles of double entry system. Under this system only the minimum accounts, which in the opinion of business house are absolutely essential, are being maintained *(i.e. Normally cash book and personal accounts of debtors & creditors are maintained)*. The other impersonal accounts i.e. real and nominal accounts may not be maintained. **In other words single entry system is incomplete form of account keeping.**

Special Features:

The following are the special features of single entry system :

1) **Unsuitable for big business :**This system is suitable only for small business carried on proprietary or partnership basis. Big businesses especially Joint Stock companies cannot afford to maintain accounts as per this system, which is defective and unscientific.
2) **Only personal and cash Accounts :** Under this system only the personal accounts of debtors and creditors as well as cash and bank accounts are maintained. The impersonal accounts (i.e. real & nominal accounts) are not maintained.
3) **Incomplete account keeping :** This system records double effect of only some transactions. It record only the single aspect of many transactions while it fails to records few other transactions. Hence it is incomplete, defective and crude system.
4) **Variations :** The single entry system of accounting varies from business to business. Hence it lacks uniformity.
5) **Flexible :** No rigid rules and principles are followed under this system.

Difference between Single Entry System & Double Entry System.

Following are the main differences between single entry and double entry system.

	Double Entry System	Single Entry System
1. Double Aspects	Two aspects of each and every transaction are recorded.	1) Two aspects of each and every transaction are not recorded.
2. Nature	It is a complete, scientific and satisfactory system of book keeping	2) It is incomplete, crude and unscientifi system of book keeping.
3 Trial Balance & Accuracy	It is possible to prepare trial balance to verify the arithmetic accuracy of transaction	3) It is not possible to prepare trial balance to verify arithmetic accuracy trans.
4. Fraud	There is no much scope for misappropriation and fraud as the accounting is foot proof.	4) There is much scope for negligence, misappropriation & fraud asccounting is a faulty.
5. Record of Transactions	All the personal, real and nominal accounts are maintained.	5) Only personal accounts of debtors & creditors and cash book are maintained
6. Final Account	It is possible to prepare trading and profit & loss account as accounts of purchases, sales, returns & expenses are maintained.	6) It is not possible to prepare trading, profit & loss a/cs. as accounts of purchases, sales, returns & expenses are not maintained.
7. Balance sheet	Balance sheet can be prepared on the basis of book values of assets and liabilities & capital.	7) Statement of affairs can be prepared on the basis of book values of some accounts maintained and on estimates & owners' memory
8. Scope & suitability	It is suitable for all types of suitability business whether small or large.	8) It is suitable only for very small business concerns.
9. Economy	It is complex, costly and requires expert knowledge and skill and elaborate books of accounts.	9) It is simple, economical and does not need expert knowledgeand detailed books of accounts.

Statement of Affairs

A statement of affairs, like a balance sheet, is a statement which shows the assets and liabilities of a concern on a particular date and reveals its financial state of affairs. Many of the assets and liabilities shown on this statement are based on the estimates made by the proprietor. They are not based on book values as in case of balance sheet. Statement of affairs is prepared to ascertain the financial position and capital investments in the organisation where books of accounts are not properly maintained or may be destroyed. The values of various assets and liabilities of the concern are ascertained as under:

i) **Cash in hand:** It is ascertained from cash book or through physical verification of cash in hand

ii) **Cash with bank:** It is ascertained by balancing cash book. In case the cash book has no bank column it is confirmed on the basis of pass book or bank records.

iii) **Debtors & creditors: They** are calculated from the personal ledgers maintained by the concern.

iv) **Stock in trade:** It is valued on the basis of actual stock taking and valuation.

v) **Fixed Assets:** The values of fixed assets owned by concern like furniture, machinery & equipments, buildings, vehicles etc., are judged from available records or by estimates.

vi) **Other values:** The other values such as outstanding expenses and incomes, prepaid expenses, loans and incomes received in advance etc., are found from available records and memory of proprietor or partners.

vii) **Capital :** *Finally, the excess of assets over liabilities is taken as capital.*

The proforma of Statement of Affairs is as under :

Statement of Affairs as on ....

Liabilities	**Rs.**	**Assets**	**Rs.**
Creditors	xxx	Cash in Hand	xxx
Bills Payable	xxx	Cash at Bank	xxx
Loans & Overdrafts	xxx	Prepaid Expenses	xxx
Outstanding Expenses	xxx	Outstanding Income	xxx
Capital (Balancing figure)	xxx	Debtors	xxx
		Stock	xxx
		Investments	xxx
		Furniture & Fittings	xxx
		Plant & Machinery	xxx
		Buildings & Land	xxx

Difference between Statement of Affairs and Balance Sheet :

The following are the main points of distinction between the two.

Point of Difference	**Statement of Affairs**	**Balance Sheet**
1. Basis	It is prepared on the basis of available records memory owners and estimates.	1.It is prepared on the basis of ledger balance
2. Situation	It is prepared where complete accounting records or not maintained	2.It is prepared for organisations maintaining complete double entry accounting records.
3. Purpose	Its main purpose is to ascertain profit or loss of concern.	3.Its main objective is to ascertain the financial state of affairs of a concern.
4. Tally	Tallying of statement of affairs cannot be done to judge the accuracy of financial records	4.Tallying of Balance Sheet confirms the accuracy of financial records.
5. Reliability	The financial position shown by this statement is not reliable.	5. The financial position of concern as shown by this statement is reliable.

Unit II : Consignment Accounts

Often a business house sends goods to its agents in another place to be sold on its behalf and at its risk in return for a fixed rate of commission on the gross sales proceeds. The sender of goods is called a *'Consignor'* or `Principal' and the party to whom the goods are sent is called a 'consignee' or agent. This type of transaction is called *'consignment'*. The relationship between the consignor and the consignee is that of principal and agent. The agent has to sell the goods on behalf of and according to the instructions of the principal. **In short, consignment means *"sending of goods by a principal to his agent to be sold on behalf of, and at the risk of, the principal in return for a fixed rate of commission on the gross sales proceeds".***

Type of Consignment :
From accounting point of view consignments are of two types namely (i) Outward Consignment
and (ii) Inward Consignment.
To the principal the consignment is "*Out ward Consignment*" because he consigns goods out wards.
But for the consignee or agent it is "*Inward Consignment*".

Consignment V/s Sale :

The difference between consignment and sale is as under:

Point of Distinction	Consignment	Sale
(1) Ownership	Ownership in goods remains with the consignor. It does not pass on to the consignee.	Ownership in goods passes on from seller to buyer.
(2) Risk	Risk connected with the goods lies with the consignor.	Risk connected with the goods passes to buyer.
(3) Relation	Relationship between consignor and and consignee is that of principal and agent	Relation between the seller and buyer is that of a creditor and debtor in credit sale.
(4) Expenses	Expenses incurred on goods are borne by the consignor.	Expenses incurred on goods are to be borne by purchaser.
(5) Return of goods	Unsold goods can be returned by consignee to consignor at any time.	Goods once sold cannot be returned except for some special reasons.

***Delcredere* Commission :** Normally when consignee sells goods on credit, he is not responsible for the bad debts arising therefrom. But if the consignee undertakes the risk of bad debts arising from credit sale, the consignor agrees to pay a special commission for this special service. It is called delcreder, commission. Hence when the *delcredere* commission is paid to the consignee he is responsible for all the bad debts arising from credit sales. *The delcredere* commission may be computed as a fixed percentage on total sales or on credit sales. In absence of any clear agreement however, *delcredere* **commission is to be computed on total of cash and credit sales.**

Account Sales : (A/S)
Either on completion of the sales or at periodical intervals the consignee sends a detailed account of the sales affected by him in the form of a statement which is called and 'Account Sales'. It gives the complete details of :

(i) Gross sales made by the consignee on behalf of consignor.
(ii) Expenses incurred by consignee on behalf of consignor.
(iii) Commission due to him for the work done.
(iv) Advance paid by him, if any, in respect of consignment.
(v) The final net amount due from consignee to the consignor.

On the basis of the account sales sent by the consignee, the consignor makes entries in his books in respect of consignment transactions. The account sales also serves as an evidence of the amount receivable from the consignee to the consignor. The following is the specimen of an account sales.

Goa Agro Chemicals And Fertilisers Ltd., **487, Vasco Goa** **Account Sales** Re : Consignment of chemicals received from Rashtriya Agro Chemicals Ltd., New Delhi. For sale on their behalf and at their risk.		
		Rs.
300 M. Tonnes of Urea @ Rs 350 per tonne.		1,05,000
200 M. Tonnes of Potash @ Rs 600 per tonne		1,20,000
800 M. Tonnes of Sulphate @Rs 700 per tonne		5,60,000
		7,85,000
	Rs.	
Less. Expenses & commission		
Carriage	5,000	
Wages	10,000	
Rent	25,000	
Commission @ 10%	78,500	1,18,500
		6,66,500
Less Advance payments made		1,50,000
		5,16,500
Less Demand draft enclosed		5,16,500
Balance due		NIL
E & OE		**Signature,**
Enclosures		For Goa Agro Chemicals Fertilisers Ltd.,

Proforma Invoice :

Since goods sent on consignment is not a normal sale, the consignor cannot prepare a sales invoice. Instead he prepares *'**proforma invoice**'*. A statement similar to sales invoice sent by the consignor for the goods sent on consignment is called **'*Proforma Invoice*'.** It contains the description, quantity price of goods sent, and other necessary information. Though it is very much similar to sales invoice, it does not make the consignee indebited to the consignor until the goods are sold by him. Hence it is called proforma invoice. It merely conveys the price, value and description of goods to consignee. The consignee is not supposed to sell the goods at a price which is lesser than what is quoted in proforma invoice.

Unit III - Branch Accounts

Branch Accounts: In order to increase the sales by intensive coverage of extensive markets, some business organizations open their own shops in different parts of the market. These shops are called branches and the parent office is known as head office. The branches may undertake manufacturing, trading and several other activities. In India, Banks, Insurance Companies & several other business organizations have a network of their branches throughout the nation.

Definitions

Some important definitions of branch are as follows :

1. "Branch is a section of a business segregated physically from the main section". Willam Pickles.
2. "Branch is a department conducted at a distance".- L.C. Cropper.

Objects :

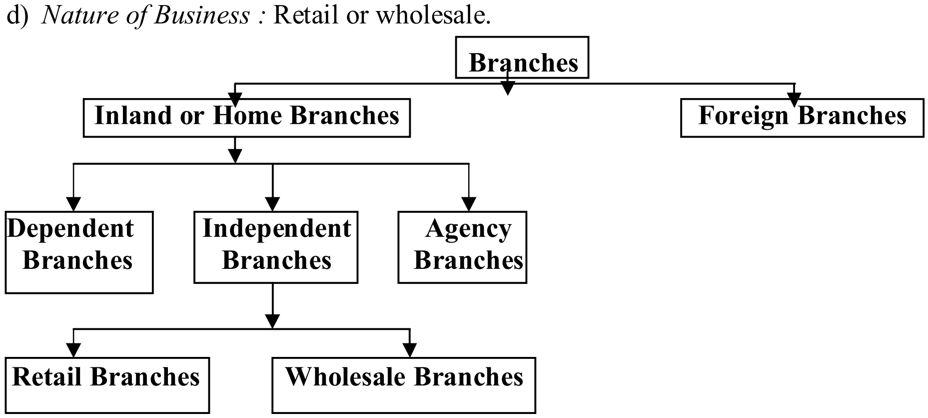
Following are the main objects of keeping the branch accounts.

1. To ascertain the correct trading results and progress of each branch.
2. To know the financial position of branches on a particular date.
3. To estimate the cash and goods requirements of the different branches and to make necessary arrangement.
4. To compute the remuneration of managers of branches; if based on branch profits.
5. To take corrective measures to improve the working of the branches running in losses.
6. To evaluate the performance and exercise the control over the working of various branches.
7. To meet the statutory audit requirement.

Types of Branches :

Branches are divided into various types based on various factors, such as :

a) *Area of operation :* Home country or Foreign country.
b) *Powers enjoyed by branches :* Dependent or independent.
c) *Accounting procedure adopted by them :*
d) *Nature of Business :* Retail or wholesale.



From the point of veiw of accounting the following are the main types of branches.

I) Where the branch sells goods, supplied by the head office only for cash.
II) Where the branch sells goods, supplied by the head office for cash as well as on credit.
III) Where the goods are supplied by the head office at invoice price.
IV) Where the branch trades independently of the head office.
V) Where the branch is in foreign country.

Stock and Debtors System

'Stock and Debtors System ' is one more method of ascertaining the profit or loss made by the branch. This method is generally followed where the volume of branch transactions is more. Under this method, the head office maintains the various accounts for recording the transactions affected at branch, instead of maintaining single Branch Account. These various accounts, where goods are sent to Branch at or above cost, are:-

1. **Branch Stock Account :**It shows the position of stock of goods at branch. It is debited when goods are received by branch from the head office or returns from the branch customers. It is credited with the amount of goods sold for cash or on credit. The balance on this account represents closing stock. However, if there is any difference in this account, such difference will be generally treated as deficit or surplus of stock, as the case may be.

2. **Branch Debtors' Account :**This account is prepared in usual manner and the balance in this account represents closing debtors of branch.

3. **Branch Expenses Account :**All the expenses of the branch paid by head office and expenses related to credit sale such as discount allowed, bad debts etc. are debited to this account. Then the balance in this account is transferred to the Branch Profit & Loss A/c.

4. **Branch Adjustments Account :** This account serves the purpose of branch trading account. The 'Load' on opening stock, closing stock, goods sent to branch, goods returned from branch, are adjusted against this account. The value of surplus or deficit stock in stock if any, is also adjusted in this account. The Balance in this account indicates the gross profit and it is transferred to branch profit and loss account.

5. **Branch Profit And Loss Account :** The gross profit or loss shown by the Branch Adjustment Account is transferred to this account. Then, it is debited with the balance of Branch Expenses Account. The balance in this account, then, will represent either net profit or loss, as the case may be.

INDEPENDENT BRANCHES :

IV.Where the branch trades Independently of the Head Office (Independent Branches)

In this type of branches, the head office gives complete liberty to the branches to purchase the goods in open market, in addition to the goods sent by head office. The branches are even authorised to sell on cash and credit for whatever price they want, to pay their expenses out of sales proceeds and remit the excess cash, if any, periodically to the Head Office. They are, sometimes, even allowed to manufacture the goods and supply to the head office whenever head office needs. In short, these branches operate as an independent unit for all practical purposes but their only link with the head office is that they are owned by the head office and whatever their profit or loss will be, that belongs to the head office.

Accounting Procedure:

These branches keep a complete set of books of accounts and prepare their own trial balance, trading and profit & loss account and the balance sheet. Though the branches keep complete set of accounts their general ledger may not, sometimes, be complete, as some of their fixed assets accounts are maintained by head office in its books. But even then the branches prepare their own trial balance and extract final accounts.

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a) **Cash in Transit :** Sometimes cash is remitted by the branch to the head office just before the close of accounting year, say on 29th December and accounts are closed on 31st December. The branch will debit the head office current account immediatly after the amount is sent but the head office might not have received the amount till the end of account year (31st December) and hence it will not credit the branch for the amount. As a result, the two balances i.e. Head Office Account (in branch books) and Branch Account (in Head Office books) differ. To reconcile this difference *the branch passes the adjustment entry.*

Cash in transit A/c	Dr.	xxx	
To Head Office A/c			xxx

In case the entry is required to be made in Head Office books :

Cash in transit A/c	Dr.	xxx	
To Branch A/c			xxx

b) **Goods in transit :** Sometimes goods are sent by the Head Office just before close of accounting year, say on 28th December and accounts are closed on 31st December. The head office debits the Branch account immediatly after the goods are despatched but the Branch does not receive the goods till the end of accounting year (31st December) and hence it does not credit the head office account with the amount. As a result, the two balances i.e. Branch Account (in head office books) and Head Ofice account (in branch books) differ on 31st December. To reconcile, the Head Office passes adjustment entry.

Goods in transit A/c	Dr.	xxx	
To Branch A/c			xxx

Note : Now the goods in transit will appear on the asset side of the balance sheet.

Benefits of Computerizing the Accounting Function

As an organisation grows, maintaining accounts manually becomes a time consuming and costly process. Several people are needed to maintain the accounts, possibly at different places. Even after maintaining a large staff there may not be consistency in the quality of accounting and generation of consolidated reports is time consuming as well as expensive affair. The real time information that is so vital for strategic decisions is missing.

The following are the major advantages of computerizing of accounting process of business.

(1) Speedy data entry : The transactions can be entered on computers at relatively faster speed compared to manual accounting because of the following reasons :

(i) Less typing :

(ii) Auto-dates and narrations :

(iii) Automatic Ledge Posting :

(iv) Automatic transfer of narrations to ledgers :

2) Accurate Accounting : Accounting software ensures that the effects of every entry in a day book is automatically and accurately given to the concerned ledgers and stock records. The Trial Balance, Profit and Loss Account, Balance Sheet, Stock Registers can be obtained by the accountant at any time after every entry. Thus the accountants need not break their heads to locate the errors in accounting for tallying the trial balance as in case of manual accounting.

However, computers do not have any mechanism to curb or detect the errors of principle made by an accountant in recording a transaction. For example, if an accountant debits the wages paid for the construction of a building in *Production Wages Account* or capitalizes the minor building repairs (revenue expenditure) by debiting to the *Buildings Account*, the computer will not be able to curb such error.

(3) Availability of Reports : In manual accounting system preparation of reports from the accounting information takes so much of time that the report loses its relevance by the time it is made available to the management for decision making. However, computerized accounting makes available any kind of accounting information within a fraction of second. Most of the routine reports necessary for the management, as well as government and tax authorities are pre defined and incorporated in software instructions. As a result, the user can just press few keys to generate the reports needed by him. The examples of such reports are :

(a) Trial balance, Profit and Loss and Balance sheet.
(b) Statement of Debtors or Creditors.
(c) Sale or Purchase Summary.
(d) Outstanding Bills Reports.
(e) Interest Receivable and Payable Details Reports.
(f) Bank Reconciliation Statement.
(g) Inventory Reports.
(h) T D C and T C S Reports.
(i) VAT Composition Reports.
(j) Service Tax Reports.
(k) Pay roll Reports
(l) Cash Flow and Funds Flow statements.
(M) Accounting Ratios Report.

(4) Analysis of Accounting Data : It is very difficult to obtain analytical accounting information if the accounts are maintained manually. But computerization of accounting enables us to obtain any sort of analytical information within few minutes through *Filtering the Data or Query Facility*. For example, if you want to have a *Statement of Amounts Due from your Customers in 'Andhra Pradesh State' (or 'Nagpur City') for more than 60 days* from the data base of all your customers in India, you may obtain such statement within few minutes and hand if over to your sales person in that area to follow up the credit collection. To prepare such statement manually it will take long period if you have large number of customers all over the country.

(5) Paperless Office : The computers help in eleminating a lot of paper work and internal and external correspondence of organisation. This has resulted in paperless office. A lot of communication and correspondence can be done with the employees of the organisation through E-mail. Though *'Local Area Network and (LAN)'* the computers located within one office or one building are connected together. Similarly though *'Wide Area Network (WAN)'* the computers of a company located at remote places can be linked through sattellites. The computerized data can be transferred to a remote location by using the telephone line which is called '*modem*'. Thus technological developments in the telecommunication field have facilitated the transfer of huge data at different places in electronic mode.

Tally Accounting :

Tally is the most popular and widely used computerised accounting software package. It provides financial accounting and inventory management system. It is a package with vast application with lots of features aimed for a large section of users of various trade and industry, each having its own kind of requirements. The tally accounting has been refined from time to time hence number of versions of tally have come from time to time such as Tally 4.5, Tally 5.4, Tally 7.1, Tally 8.1, Tally 9 and so on.

Features of Tally :

Tally has achieved great success account of its unique features as under :

(1) A leading accounting Package : The first version of Tally was released in ***1988*** and since then it has undergone continuous development. Today it is recognized as one of the leading accounting packages across the world. Tally's market share in computerised accounting is more than 90%.

(2) Simple Installation : Tally is very simple to install. It gets installed instantly without any problem on any operating system.

(3) Codeless System : Normally accounting packages use numeric coding system. But Tally is a codeless accounting package. You have freedom to allocate meaningful names in simple English to your data items in the system.

(4) Complete Business Solution : Tally provides a comprehensive solution to the accounting and inventory needs of business. By using Tally you can maintain a complete set of accounts and inventory record for any kind of business. You can also extract various kind of information and reports such as Trial Balance, Final Accounts, Cash Flow and Funds Flow statements, Accounting Ratios etc.

(5) Accounting with and without inventory : While working on Tally you can decide which part of the system to use; Only accounting or accounting with inventory. If accounting with inventory is used whether it should be integrated or not. In *accounting with inventory* simultaneously while doing financial accounting the stock record is indirectly maintained. When accounting entry for purchase or sale of goods is passed you have to fill the details of items of goods purchased and sold, as a result of which the stock of those items is up-dated automatically.