

Single entry system of accounting

The double entry system of accounting is used in all advanced countries and in any country where detailed trading records are required for the purpose of determining the taxable trading income of a business enterprise.

The simple process of totalling all the assets of a business and then deducting the gross liabilities from that total would give you the net asset value at the yearend date. One would then deduct the net asset value of the business at the beginning of the year to arrive at the net profit or loss for the year. This system of accounting would suffice in a country where no taxation is payable and there are a limited number of owners.

A simple cash in and cash out business with no other assets and liabilities would give you an accurate record of your profit for the year. Any increase in the cash balance over the balance at the beginning of the year would be the profit and a decrease would give you a loss.

This system could be expanded by only recording the double entry when asset and liability movements are involved. Also only recording the liability side of the entry when consumable goods are bought on credit.

Example no 1Cash entries onlyCash Book

	\$
Capital infusion at start of business	100 000
Less: Consignment no 1 bought for resale and delivered to client	-20 000
	<u>80 000</u>
Proceeds received in respect of consignment no 1	40 000
	<u>120 000</u>
Less: Delivery costs consignment no 1	-3 000
	<u>117 000</u>
Less: Consignment no 2 bought for resale and delivered to client	-40 000
	<u>77 000</u>
Proceeds received in respect of consignment no 2	80 000
	<u>157 000</u>
Less: Delivery costs consignment no 2	-6000
	<u>151 000</u>
Less: Rental of premises	-3 000
	<u>148 000</u>
Profit for period	(148 000 - 100 000)
	<u><u>48 000</u></u>

Summary of assets

Cash at bank	<u>148000</u>
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Example no 2Cash Book and asset accountsCash Book

	\$
Capital infusion at start of business	100 000
Less Delivery van purchased	-10 000
	<u>90 000</u>
Less: Consignment no 1 bought for resale and delivered to client	-20000
Less: Consignment no 2 bought for resale and delivered to client	-40000
Less: Delivery costs consignment no 1	-3 000
Less: Delivery costs consignment no 2	-6 000
Less: Rental of premises	-3 000
	<u>18 000</u>
Proceeds received in respect of consignment no 1	40 000
Proceeds received in respect of consignment no 2	80 000
	<u>138 000</u>
<u>Delivery Van at cost</u>	
Second hand delivery vehicle	10 000
	<u>10 000</u>
<u>Total assets</u>	<u>148 000</u>
Profit for period	(148 000 - 100 000)
	<u>48 000</u>

## Summary of assets

Cash at bank	138000
Delivery vehicle	10000
	<u>148000</u>

The scenario can alter for all sorts of reasons. Say for instance the supplier of the second consignment granted us sixty days to pay for the consignment and the purchaser paid us in thirty days and payment was not due at the year end, then there would be an additional forty thousand rand in the bank and a creditor for forty thousand rand.

The profit will not alter provided we have compensating factors. In the case of the unpaid creditor the goods were received before the year end. If we increase the creditor by forty thousand rand, we also increase the bank balance by the same amount.

This is evident from the next example

Example no 3Cash Book and asset accounts and creditorCash Book

	\$
Capital infusion at start of business	100 000
Less Delivery van purchased	-10 000
	<u>90 000</u>
Less: Consignment no 1 bought for resale and delivered to client	-20000
Less: Delivery costs consignment no 1	-3 000
Less: Delivery costs consignment no 2	-6 000
Less: Rental of premises	-3 000
	<u>58 000</u>
Proceeds received in respect of consignment no 1	40 000
Proceeds received in respect of consignment no 2	80 000
	<u>178 000</u>
<u>Delivery Van at cost</u>	
Second hand delivery vehicle	<u>10 000</u>
<b>Total assets</b>	<b><u>188 000</u></b>

Creditor

Creditor for consignment no 2	<u>-40000</u>
Net assets being assets of R 188 000 less creditor R 40 000	<u>148 000</u>
Profit for period	(148 000 - 100 000) <u>48 000</u>

## Summary of net assets (assets less liabilities)

Cash at bank	178000
Delivery vehicle	<u>10000</u>
	188000
Less Creditor for consignment no 2	<u>-40000</u>
	<u>148000</u>

We now need to look at the benefit of applying the double entry system to the single entry scenario as reflected in our example above.

To assist the beginner, I have designed a colour coded chart of accounts so that the learner can identify the general ledger account to which the payment or receipt item needs to be allocated. As we progress the learner will refer less and less to the chart of accounts. This is more broadly explained in the Chart of Accounts section. We now need to understand the debit and credit system of accounting.