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SUBJECT - FINANCIAL ACCOUNTING

CONVERSION OF SINGLE ENTRY INTO DOUBLE ENTRY SYSTEM

The process of collecting, computing and recording missing information along with the available data in the incomplete books of a business is called 'conversion method'. Once the books are 'converted', all future can be recorded as per 'double entry system'.

Need for Conversion: The net worth method does not provide a clear picture operating results of a business. It does not show sales, purchases, gross-profit, operating expenses etc. So, it is not possible to make a meaningful analysis of the financial statements and initiate effective steps to improve the financial position of the business.

Conversion to double entry system enables a business to avoid the harassment of taxation authorities and ensure better management of the business. The following are the steps to be followed for conversion of incomplete records as per the requirements of double entry system.

Step 1: Statement of affairs at the beginning of the Year from which conversion is to be effected should be prepared. The balance in the statement represents opening capital.

In problems, it may not be possible to complete the statement due to missing opening balances like Debtors, creditors, stock. The statement should be prepared to the extent possible and can be completed at a later stage.

Step 2: Cash-book with Cash and Bank columns on a single column should be prepared. Careful scrutiny of bank pass-book and enquiry relating to cash 'takings' used by the owner for personal expenses and payments are essential.

In problems, opening or closing cash or bank balances may be missing. The balance in the cash-book represents the missing-figures. Cash-book must be prepared even when the opening and closing balances of cash and bank are given. Any shortage on the debit side can be cash sales or additional capital introduced or sundry income. Shortage on the credit side can be cash-purchases or drawings or sundry expenses.

Step 3: Bills receivable account, bills payable account, total debtors account and total creditors account must be prepared. Preparation of these accounts can help in finding any missing items like

opening or closing debtors, opening or closing creditors, credit purchases and sales etc.

Total sales and total purchases can be found by adding cash and credit sales and also cash and credit purchases.

If opening or closing stock is missing, preparation of memorandum trading account after ascertaining gross profit ratio can reveal the opening or closing stock whichever is not given.

Step 4: Opening statement of affairs can now be completed, by filling up figure and opening capital can be ascertained.

Step 5: Appropriate journal entry should be passed in respect liabilities included in the opening statement of affairs. still

Step 6: Real and Nominal accounts must be written from recorded in the cash-book, total debtors account, total creditors account etc. The double effect of every entry must be posted to the ledger, accounts wherever necessary.

Step 7: All the accounts in the ledger must be balanced balance should be extracted.

Step 8: From the trial-balance and any other additional details trading account, profit & loss account and balance-sheet must be prepared.

Note: Step 5, 6 and 7 are not needed to solve examination problems. The following table shows the figures which are usually missing and

the appropriate account from which they can be found.

Total debtors account reveals any one off the items at balancing figure.

Total creditors account reveals any one of the items at balancing figure.

S.No.	Missing Items	
1. Credit sales 2. Opening debtors 3. Closing debtors 4. Cash collected from debtors		Total debtors account reveals any one off the items at balancing figure.
5. Credit purchases 6. Opening creditors 7. Closing creditors 8. Cash paid to creditors		Total creditors account reveals any one of the items at balancing figure.
9. Opening stock 10. Closing stock		Memorandum Trading P/L reveals any one them, if gross profit ratio is known
11. Opening bills receivable 12. Closing bills receivable 13. Bills receivable received 14. Bills receivable collected		Bills receivable account can reveal any one of the items at balancing figure.
15. Opening bills payable 16. Closing bills payable 17. Bills payable issued 18. Bills payable honoured		Bills payable account can reveal any one of the items balancing figure
19. Opening Cash or Bank 20. Closing Cash or Bank 21. Cash sales 22. Cash purchases 23. Drawings 24. Sundry Income		Cash and Bank P/L can reveal any one of the missing items at balancing figure.

When opening or closing cash balances and also cash purchases or cash missing, it can be assured that there are no cash sales or cash purchases some other way is available to find them.