1. NON-TRADING CONCERNS

INTRODUCTION

The non-trading concerns are established for promoting of art, music, culture, health education etc. They may also be established for charitable and social purposes. Hospitals, educational institutions, cultural organisations, religions and welfare institutions, clubs, libraries, literary societies etc..., come under these non – trading organisations. Their main aim of these organisations is not to earn profit, but rendering services to their members and to the general public. As such, they are also called as **Non-Trading Concerns or Non-Profit Organisations.**

Characteristics of non – Trading Concerns:

1. Service objective: These organisations are established mainly to serve the members of the organisations. In some cases, they serve the general public also.

2. Ownership: The non – profit organisations are not owned by individuals link commercial organisations There will be two types members in these organisations. They are (1) Life members and (2) Others members. They elect executive members for managing the organisation.

3.Sources of Income: The main source of income of these organisations is membership subscriptions, donations, gifts, legacies, governments grants, endowments, receipts from lectures or programmes, interest on investments, dividends etc.

Preparations of Accounts:

Non-profit organisations also prepare final accounts more or less similar to that of profit organisations. The final accounts of non – profit organisations include the following.

1.Receipts and Payments Accounts.
2.Income and Expenditure Accounts.
3.Balance Sheet.

1. RECEIPTS AND PAYMENTS ACCOUNTS

It is summary of cash transactions at the end of a particular period. It shows the receipts and payments of cash during the period. The salient **features** of this account are:

1. Prepared in lieu of cash book: It is prepared by non-trading concern in lieu of cash book.
2. Real Account: It is a real account.
3. Starting Balance: Its stats with the openings balance of cash in hand and at bank.
4. Receipts and Payments: All receipts and payments of cash are entered on the debit and credit side respectively.
5. Capital and recording: No distinction is made between the capital and revenue items while entering the receipts and payments.
6. Basis of recording: Sums actually received and paid, during the period for which it is prepared, are included in these accounts, whether they relate to past, present or future years. The outstanding income and expenditure are not entered in this account since it is not paid or received.
7. Closing Balance: The balance in the account shows the closings balance of cash in hands and at bank.

2. INCOME AND EXPENDITURE ACCIUNT

This account is just like profit and loss account or trading concerns. It is prepared on the same lines in which a Trading and profit and loss account is prepared. The result of this account may be surplus or deficit It will be transferred to capital fund account.

Characteristics: The following are the features of income and Expenditure account.

1. **Nominal Account:** it is a nominal account.
2. **Recording of expenses and income:** It records all losses and expenses on its debit side and all income and gains will be shows in credit side.
3. **Revenue and capital:** it records items of revenue nature only. As such, items of capital nature are ignored while preparing it.
4. **Income or expenditure of present year only:** all items of income and expenditures of that year only are to be shown. Income or expenditures of the past and future years are to be adjusted properly.
5. **No Opening balances of cash:** it does not record opening or closing balance of cash or bank.
6. **Balancing of the account:** The balance of this account represents either the excess of income over the expenditure (if the credit side is more than the debit side) or excess of expenditure over income (if the debit side is more than the credit side).

Differences between income and expenditure A/c and Profit and Loss A/c

Even though there are similarities between profit and loss account and income and expenditure account, both the accounts differ on following points.

Basis of Difference	Income and Expenditure A/c	Profit and Loss A/c
1.Prepared by	It is prepared by non-trading institutions	It is prepared by tracing institutions
2.Object	Its object is to find out surplus i.e., excess of excess of expenditure over income	Its objects is to find out net profit or net loss
3.Basisforpreparation	It is prepared on the basis of receipts and payments account	It is prepared on the basis of trial balance
4.Opening Item	It does not have any opening balance of the previous period	It starts with gross profit or gross loss as shown by trading account

DISTINCTION BETWEEN INCOME AND EXPENDITURE A/C AND RECEIPTS AND PAYMENTS A/C

The following are the differences between receipts and payments account and income and expenditure account.

Basis of Distinction	Receipts and Payments A/c	Income and Expenditure A/c
1. Nature of account	It is a real account	It is nominal account
2. Basis structure	It is basically a summarized cash book	It is like profit and loss account
3. Object	It is prepared to present a summary of cash transactions during an accounting period	It is prepared to ascertain the results of all the transactions during an accounting period
4. Opening balance	Opening balance represents cash or bank balances (or bank overdraft) in the beginning of the accounting period	It has no opening balance
5. Items of debit side	It is debited with all the sums received	It is debited with the expenses and losses
6. Item of credit side	It is credited with all the sums paid out	It is credited with the incomes

7. Closing balance	Closing balance represents cash or bank balance at the end of the accounting period	Its closing balance represents either net surplus or net deficit
8. Treatment of closing balance	Its closing balance is carried forward in the same account of the next period	Its closing balance is transferred to the Capital Fund shown in the balance sheet
9. Non-cash items	Non-cash items are not shown in this accounts	Cash and non-cash items such as depreciation, bad debts, etc., are also shown
10. Period to which items relate	It records the receipts and payments whether they relate to previous, current or following accounting periods	It record only those incomes, expenses and losses which relate to current accounting period
11.Nature of items recorded	It records the receipts and payments whether of capital or revenue nature	It records the incomes, expenditures and losses or revenue nature

2. Single Entry System

Introduction:

Single Entry system is an incomplete, inaccurate, unscientific and unsystematic system of book keeping. The system itself shows that double aspects of business transactions are not recorded as such it is also known as '**Incomplete Accounting System'**. The system makes use of double entry system partially. It prepares only Personal accounts. Real and Nominal accounting are not prepared.

Definitions:

"Single Entry is a method or a variety of methods employed for recording of transactions, which ignores the two-fold aspect, and consequently fails to provide the businessman with the information necessary for him to be able to ascertain the position". **By Carter**

"Single Entry system is a system of book keeping in which as a rule only records of cash and personal accounts are maintained. It is always incomplete double entry varying with circumstances". **By Kohler**

Features of Single-Entry System:

The following are the features of single entry of accounting.

1. **Incomplete, unscientific and unsystematic system of accounting:** This system of accounting is erratic due to the partial recording of transactions. It is not authentic and hence not acceptable to tax authorities.
2. **Only personal accounts are prepared:** Real accounting and nominal accounts are not prepared. Generally, cash book and personal accounts are prepared.
3. **Limited use:** It is used by sole trader and partnership who have a few transactions. Companies are not permitted to prepare their books of accounts according to single entry system.
4. **Improper Maintenance of cash Book:** Cash book maintained under this system mixes cash and credit truncations. Sometimes, private transactions of business men are also recorded in it.
5. **Partial recording of transactions:** All the transactions are not recorded in the books of account. Some of them are recorded in the books of accounts, certain transactions are noted in the diary and some other are in memories of businessman.

6. **Estimated Profit only:** Profit ascertained under the system is only an estimate. True net income cannot be calculated.
7. **Ascertainment of true financial position not possible:** True financial position cannot be ascertained as Balance Sheet is not prepared.

Advantages of Single-Entry System:

The following are the advantages of single-entry system.

1. **Simple Method:** It is an easy and simple method of recording transactions. It does not require special knowledge of accounting, as in the case of double entry system. This method is very useful for those, who do not have the complete knowledge of double entry system.
2. **Economical:** Single entry requires a few books for recording accounts, i.e., maintenance of cash books and ledger books are sufficient. The accounting staff required for maintaining the books is also limited in number as compared to the double entry system.
3. **Economy of time:** The truncations are limited. The maintenance of account book is limited. Therefore, more time can be saved under this system.
4. **Useful for small firms:** This method is most suitable for firms of small businesses because it is not very costly. This method is also useful for those concerns, where cash transactions are numerous and large numbers of personal accounts are there.

Limitations of Single-Entry System:

The limitations or the defects of the single-entry system are given below.

1. **Incomplete System:** The accounts maintained under this system are incomplete. All the transactions are not recorded in this system.
2. **Unscientific System:** There are no set of rules for maintaining records under this system. Hence, it is unscientific.
3. **No Trial Balance:** Trial balance cannot be prepared due to non-maintenance of complete records.
4. **Preparation of financial statements difficult:** It is very difficult to calculate profit earned or loss sustained by a concern. It is very difficult to know the financial position because balance sheet cannot be prepared.
5. **Legally not recognised:** Companies and certain other organisations are not permitted to maintain accounts under single entry system.

DIFFERENCES BETWEEN SINGLE ENTRY SYSTEM AND DOUBLE ENTRY SYSTEM

Difference	Single Entry System	Double Entry System
1. Recording	The double entry principle is not followed for each and every transaction	Each debit amount(s) has an equal and opposite credit amounts (s) and vice versa.
2. Cash Book	Cash book; is not maintained in a proper form. All transactions are noted in a diary.	Cash book is maintained
3. Ledger Accounts	Ledger accounts are not systematically maintained.	Trial balance is prepared before preparation of financial statements.
4. Trial Balance	Trial balance is not prepared	Trial balance is prepared before preparation of financial statements.

5. Profit Deter monition	Profit for a period is determined by comparing closing and opening capital. No profit and loss account is prepared	Profit for a period is derived by preparing profit and loss account.
6. Balance Sheet	Only statement of affairs is prepared. It shows the financial position of the business.	Balance Sheet is prepared to show the financial position.
7. Usefulness	It is used only by small traders.	It is used by all types of traders.
8. Legal Acceptability	This system is not acceptable income tax authorities.	This system is a legal system acceptable by all authorities.

PREPARATION OF ACCOUNTS

When the accounts of a business concern are maintained under single entry system, it becomes very difficult to prepare the final accounts. It is mainly due to the partial recoding of transactions. As such, we have to find missing information. First we have to start ascertaining profit.

METHODS OF ASCERTAINING PROFIT

There are two methods which can be used generally for ascertaining profits under Single Entry system.

A. **Statement of Affairs Method:** This method is also known as **Net worth Method**. Under this method profit is computed by comparing the net worth or capital at the beginning of the accounting period with the net worth or capital at the end of the accounting period. This method does not involve the preparation of Trading and Profit and Loss Accounts. It is considered most suitable when the information available is too limited.

B. **Conversion Method:** Under single entry system the Debtors' Ledger and creditors' Ledger are usually maintained along with the cash book Thus, though the records are incomplete, they provide sufficient information for preparation of the Trading and profit & loss account. Hence, the Conversion method is employed for ascertaining the profits which involve the preparation of proper final accounts after working out the missing figures.

Statement of Affairs Method:

The following steps are necessary for ascertaining profit under this method.

1. Find out the opening capital by preparing opening Statement of Affairs, if opening capital was not given in the problem.
2. Prepare closing statement of affairs to find out closing capital, if the closing capital was not given in the problem. The Proforma of Statement of Affairs is given below;

Statement of Affairs of Sri…………..as on………

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	XXX	Cash in hand	XXX
Bills Payable	XXX	Cash at Bank	XXX
Outstanding Expenses	XXX	Sundry Debtors	XXX
Bank Overdraft	XXX	Bills Receivables	XXX
Capital (Balancing figure)	XXX	Stock-in-Trade	XXX
		Prepaid Expenses	XXX
		Fixed Assets	XXX

	XXXX		**XXXX**

3. Drawings made by the proprietor during the year are added to the capital at the end of the year as ascertained in step 2, because drawings might have reduced the capital at the end but not the profit. Capital at the end would have been more tit heat extent had there been no such drawings.
4. Capital introduced during the year is deducted from the capital at the end, because any increase in the capital at the end would have been less by that amount had there been no such additions to the capital during the year.
5. Capital at the beginning of the year is deducted from the capital at the end of the year as adjusted in the above step. The difference will be either profit or a loss.
6. There may be some other adjustments to be made to arrive at nit profit or loss. For example, interest on capital, interest on drawings, provision for bad debts etc., are adjusted to the profit or loss.

Statement of profit for the accounting period may be prepared as under:

Statement of Profit for the year ended …………

Particulars	Rs.	Rs.
Capital at the end (Closing Capital)		XXX
Add: Drawings during the year		
Cash	XXX	
Goods	XXX	
Interest on Drawings	XXX	XXX
		XXX
Less: Additional Capital introduced during the year		XXX
Adjusted capital at the end		XXX
Less: Capital in the beginning (Opening Capital)		XXX
Gross Profit		XXX
Less: Gross Profit subject to adjustments:		
a. Depreciation	XXX	
b. Provision for bad debts	XXX	
c. Interest on capital	XXX	
Net Profit		XXX

Distinction between Statement of Affairs and Balance Sheet

Basis of Distinction	Statement of Affairs	Balance Sheet
1. Basis of preparation	It is prepared in the basis of some ledger accounts and estimates.	It is prepared in the basis of ledger accounts
2. Capital Account Balance	Balancing figure in the statement of affairs is known as capital.	Capital Account balance is taken from the ledger.
3. Omission of assets or liabilities	Omission of an asset or liability cannot be easily traced.	Omission of an asset or liability can be easily traced due to non-agreement of both sides of Balance Sheet.
4. Estimated or true financial position	It shows only the estimated financial position.	It shows the true financial position.

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3. HIRE PURCHASE AND INSTALMENTS

INTRODUCTION

In the presents business world instalment sales occupies in important role. The instalment sales are mainly suitable for durable consumer goods like T.V.s, Scooters, Cars Electronic goods etc. there are two methods in Instalment sales: they are: (1) hire purchase system and (2) instalment system.

Under both the systems, the goods are delivered immediately and price is collected in easy instalments with regular interests. In the Hire Purchase System if the Hire Purchaser fails to pay the instalments, the Hire Vendor has the right to repossess the goods. But in the case of Instalment System, the hire vendor has no right to repossess the goods even if the hire purchaser fails to pay the instalments.

HIRE PURCHASE SYSTEM

A hire purchase agreement is one under which the buyer takes delivery of goods, promising to pay the price certain number of instalments until full payment is made.

According to Carter “Hire Purchase System is a system under which money is paid for goods by means of periodical instalments with a view of ultimate purchase. All money being paid in the meantime is regarded as payment for hire and goods become the property of the buyer only when all the instalments have been paid.’’

According to J.R. Batliboi, “Under the Hire Purchase System, goods are delivered to a person who agrees to pay the owner by equal periodical instalments. Such instalments are to be treated as hire of these goods until a certain fixed amount has been paid, when these goods become the property of the hirer.”

Parties in Hire Purchase System: There are two parties in Hire purchase system. They are Hire Purchaser and Hire Vendor. The person who purchases the goods on hire purchase system is called Hire Purchaser. The person who sells goods on hire purchase system is called Hire Vendor.

Feature of Hire purchase: The following are the important features of hire purchase system.

1. A hire purchase transaction originates from an agreement between purchaser and vendor.
2. On signing the agreement possession of the goods is delivered to the hire purchaser.
3. The hire purchaser agrees to pay for the goods in agreed instalments. Each instalment is treated as hire.
4. The hire purchaser can use the goods with reasonable care and diligence. But he cannot dispose of the goods.
5. Legal title to the goods does not pass to the hire purchaser until he pays the last instalment.
6. If the hire purchaser fails to pay any instalment, the hire vendor enjoys the right to reclaim or repossess the goods.

IMPORTANT TERMS USED IN HIRE PURCHASE

1. Hire vendor: The seller in a hire purchase agreement is known as hire vendor.

2. Hire purchaser: The buyer in hire purchase agreement is known as hire purchaser.

3. Cash price: The amount to be paid on outright purchase in cash is known as cash price.

4. Down payment: It is the initial payment made at the time of signing the hire purchase agreement.

5. Hire purchase price: The amount to be paid if the goods are purchased under the hire purchase system. It includes the cash price and interest of the future instalments.

6. Cash price instalment: it means an amount which bears to the net price the same proportion as the amount of hire purchase instalment bears to the total amount of hire purchase price.

$$\text{Cash price instalment} = \frac{\text{Net cash price X Hire purchase instalment amount}}{\text{Total Hire Purchase Price}}$$

7. Net hire purchase price: it means the total amount of hire purchase price of the goods comprised in the hire purchase agreement less any amount payable and specified as included in the hire purchase price (a) to cover the expenses of delivering the goods (b) to cover registration or other fee under any law in respect of the goods or/and the agreement; and (c) for insurance (other than third party insurance) in respect of the goods.

8. Net hire purchase charges: it means the difference between the net hire purchase price and the net cash price of the goods included in the hire purchase agreement.

INSTALMENT SYSTEM

An instalment sale is a credit sale in which payments are made in instalments over a period of time. Under this system the buyer is given the possession and also ownership of the goods right at the time of signing the agreement itself. If the buyer defaults, the seller cannot repossess the goods but he can sue the buyer for the amount due.

Features of Instalment System: The following are the features of an instalment payment system

- **a.** It is an outright sale of goods on credit basis
- **b.** The buyer has the facility to pay the price in instalment over a period of time
- **c.** The buyer gets immediate possession as well as ownership of the goods.
- **d.** In the event of default by the buyer in the payment of any instalment, the seller cannot repossess the goods (because the ownership has already been transferred) .
- **e.** In case of default, the total amount of instalment paid by the buyer are not forfeited. The seller can only bring a suit against the buyer for the unpaid instalments.

Distinction between hire purchases system and instalment system.

Basis of difference	Hire purchase system	Instalment system
1. Nature of contract	It is a contract of 'hire' and after the last instalment is paid, it converts into contract of sale	it is a contract of sale from the very beginning
2. Transfer of ownership	Ownership is transferred only after the last instalment is paid	Ownership is transferred in the very beginning
3. Right to seize and repossession the goods	The hire vendor can seize the goods in case of default of any instalment	The vendor has no right to seize the goods in any case
4. Repair of the goods	The responsibility of the repairs of the goods would be of the hire vendor, till the instalment is paid.	There would be no responsibility of the hire vendor to repair goods
5. Risk	The risk is to be borne by the vendor till the last instalment is paid	The risk is to be borne by the buyer from the beginning of the contact