

FINANCIAL ACCOUNTING

Topic 10 : **Double Account system**

DOUBLE ACCOUNT SYSTEM

"Double account system", a different system of presenting accounts of public utility entities, owes its origin to England. This system is mainly vogue in organizations engaged in public utilities like electricity, water, gas and the like. These organizations enjoy a unique monopolistic right in their business activities. Mostly, they are formed under special Acts of Parliament

"A system of presenting annual financial statements in two parts, viz.

- (i) Statement of receipts and expenditure on capital account and
- (ii) General balance sheet,

FEATURES OF DOUBLE ACCOUNT SYSTEM

- Generally, this system is used by public utility entities incorporated under special Acts of parliament.

ENTRI

- This is not a system of recording transactions or maintaining accounts, but is a system of presenting annual financial statements. syste
- The balance sheet is split into two parts:
 - a. Statement of receipts and expenditure on capital account
 - b. General balance sheet
- The prime objective of this system is to show how much amount of fixed capital is raised from the public and how it has been spent on the acquisition of fixed assets. Its aim is not to reveal the financial position on a particular date
- Profit and loss account is rechristened "revenue account", in which incomes and expenses of a public utility concern are disclosed.
- Profit and loss appropriation account is renamed net revenue account, in which appropriation of profits is shown
- Under this system, fixed assets are shown at cost in the capital account. Fixed assets are not shown at depreciated value
- Depreciation is not shown as a deduction from fixed assets. Depreciation on fixed assets is debited to revenue account and credited to depreciation reserve or fund which appears on the liability side of the general balance sheet.
- Interest on debentures and other loans is shown on the debit side of net revenue A/c as an appropriation. Interest received is shown on the credit side of net revenue account.
- Loans and debentures are treated as capital and shown in the capital account.

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- Discount and premium on issue of shares and debentures are permanently retained as capital items
- General reserves, sinking fund, depreciation fund, investment fluctuation fund, balance of net revenue A/c, capital reserve are shown on the liability side of the general balance sheet.
- Renewals are provided out of current revenue.
- The capital account shows the total expenditure to date on assets. It is immaterial whether such assets exist or not on the date of the account.
- The published are to be accompanied by a huge number of statistical returns and statements-a cumbersome procedure.

Single Account (Double Entry) System

1. Annual Account consists of:
 - (a) Profit and Loss Account
 - (b) Profit and Loss Appropriation A/c
 - (c) Balance Sheet
2. Record of fixed assets and fixed liabilities is kept in Balance Sheet.
3. Amount of depreciation is shown as deduction from concerned asset in Balance Sheet.

Double Account System

1. Annual Accounts consist of:
 - (a) Revenue Account
 - (b) Net Revenue Account
 - (c) Receipts and Expenditure on Capital A/c
 - (d) General Balance Sheet
2. Record of fixed assets and fixed liabilities is kept in Capital Account.
3. The fixed assets are shown at cost in the Capital Account and the amount of depreciation fund is shown in Balance Sheet.

Single Account (Double Entry) System

4. Interest is taken to Profit and Loss A/c.
5. The object of preparing Balance Sheet is to disclose the financial position of the business on a particular day.
6. There is one Balance Sheet in the form of a statement of assets and liabilities (single account system).

Double Account System

4. Interest is taken to Net Revenue Account.
5. The object of preparing Balance Sheet in two parts is to give details regarding the amount of fixed capital raised and its utilisation towards purchase of fixed assets.
6. The Balance Sheet is prepared and presented in two parts, i.e., Capital Account and General Balance Sheet.

Advantages of Double Account System

- **Easy to understand:** This system is easily understood even by persons who do not possess special knowledge of accounting as the capital account is in the form of "cash book".
- **Ready disclosure of source and use of funds:** This system readily discloses the sources of capital and how it is utilized in acquisition of fixed assets. Further, the capital account discloses the cash balance left. One can easily understand whether the organization is over-capitalized or undercapitalized.
- **Enhancement of cash resources:** Under this system, creation of depreciation fund is compulsory which in turn is invested in securities. This facilitates the replacement of fixed assets without

draining resources of the concerns. Hence, it enhances the cash resources of the organizations.

- **Enrichment of operating activities:** The income statement is split into revenue A/c and net revenue A/c. The revenue A/c is concerned purely with the operating activities of the concerns. All other activities are taken to net revenue A/c. Hence, the net operating results of the concerns will be enriched.
- **Prescribed forms:** The undertakings which adopt double account system have to adopt prescribed forms for the preparation and presentation of accounts. This enables the state to ensure efficient service at reasonable cost to the public.
- **Statistical returns:** The publications of accounts in the prescribed, standardized forms enable the concerns to compile varied statistical returns reflecting the services rendered to the public.

Disadvantages of Double Account System

- **Not a true and fair view:** The general balance sheet does not show a true and fair view of the financial position of the company, as the assets are shown at the cost price in the capital account. Depreciation is credited to depreciation fund which is shown on the liabilities side of the balance sheet.
- **Shown profit or loss is not correct:** The repairs and renewals are charged to the revenue account of the same period in which they are incurred. This may result in little expenditure in some years

and huge for some other years. Due to this, profit and loss arrived at is not a correct figure.

- **Replacement of an asset:** The amount to be charged to revenue on replacement of an asset may not be ascertained precisely. This practice may mar the result.
- **Interest paid/received:** This item, i.e., the interest paid or received, is not shown in the revenue account. As a result, the revenue A/c may not reflect a true view of its financial position.
- **Not a correct accounting principle:** Some of the assets of short duration are taken to the capital A/c. Further, they are shown as cost price even after they reflect a true view of its financial position

FINAL ACCOUNTS

Under double account system, the final accounts of public utility undertakings are prepared under the following heads:

- i. Revenue account
- ii. Net revenue account
- iii. Capital account (Receipts and expenditure on capital A/c)
- iv. General balance sheet

Revenue Account

This is similar to profit and loss account of handing enterprises. All items of expenditure are shown on the debit side of this account and all items of income are shown on the credit side of this account. It is to be again noted that depreciation is debited to this account only.

Revenue Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Staff Salaries	...	By Incomes (One by One)	...
To Rent, Rates, Taxes	...	(Excluding Interest Earned	
To Printing & Stationery	...	Earned & Subsidies	
To Postage & Telegrams	...	Received from Government)	
To Repairs & Renewals	...	By NET REVENUE A/c (Loss) (Balancing	xx
		Figure)	
To Depreciations on Fixed Assets	...		
To Discount Allowed	...		
To Miscellaneous Expenses	...		
To NET REVENUE A/c (Balancing Figure)	xx		
(Profit)			
	xxx		xxx

Net Revenue Account

- It is similar to ordinary profit and loss appropriation a/c. this account starts with the balance of the Net revenue a/c brought forward from the previous year.

ENTRI

- The balance disclosed by the revenue a/c of the current year is shown in this account. All interests paid are entered on the debit side and all interests received are entered on the credit side of this account.
- In the case of railway companies, even the rent paid on leased lines and rent charges and chief rent (i.e., rent paid on leasehold properties) are entered on the debit side of this account.

Net Revenue Account

- All appropriations of profits such as transfer to any reserve, income tax on profits, interim dividends and final dividend are entered on the debit side.
- Government subsidy (i.e., Govt. grant grant and not government loan) is entered on the Credit side.
- The balance of this account is transferred to the general balance sheet.

Dr.		Net Revenue Account		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d (Last Year Balance, if any)	...	By Balance b/d (Last Year Balance, if any)	...		
To Revenue A/c, (Current Year's Loss Transfer from Revenue A/c)	...	By Revenue A/c (Current Year's Profit Transfer from Revenue A/c)	...		
To Interest on Debentures	...	By Government Subsidy	...		
To Interest on Loans	...	By Interest Earned	...		
To Interest on Security Deposits	...	By Transfer from Reserve	...		
To Contingency Reserve	...	By General Balance Sheet (Balancing Figure)	XX		
To Dividend Control Reserve	...	(Loss—to Be Transferred to General Balance Sheet)	XXX		
To General Balance Sheet (Balancing Figure) (Profit—to Be Transferred to General Balance Sheet)	XXX		XXX		
	XXX		XXX		

Capital Account (Receipts and Expenditure on Capital A/c)

- The prime object of preparing this account is to show how much capital is raised and how the same has been utilized. This consists of three columns on either side. This is also known as receipts and expenditure on capital account.

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- Capital expenditure is shown on the left-hand side and capital receipts on the right. The first column (on either side) is meant for recording transaction up to the time of commencement of the accounting period (previous years.) The second column indicates the items pertaining to the current accounting period.
- The third column indicates the total of first two columns on either side of this account.

Capital Account (Receipts and Expenditure on Capital A/c)

Expenditure	Previous Year ₹	During the Year ₹	Total ₹	Receipts	Previous Year ₹	During the Year ₹	Total ₹
To Preliminary Expenses	...	...	...	By Equity Shares	...	...	...
To Land	...	...	...	By Preference Shares	...	...	...
To Building	...	...	...	By Debentures	...	...	...
To Plant	...	...	...	By Loans	...	...	...
				By Calls-in-Advance	...	...	...
Total Expenditure	XX	XX	XXX	Total Receipts	XX	XX	XXX
To BALANCE of Capital A/c (Transferred to General Balance Sheet)			...	By BALANCE of Capital A/c (transferred to General Balance Sheet)			
			XXX				XXX

Capital Account (Receipts and Expenditure on Capital A/c)

- It is to be noted here that preliminary expenses on forming the undertakings are to be taken as capital expenditure. Premium received on issue of shares and debentures is a capital receipt.
- Regarding discount on issue of shares and debentures, they are to be deducted from the proceeds of respective issues and the net amount is to be shown here.
- The balance of the capital account is carried down and shown as a separate item in the general balance sheet. But in case of electric supply companies, the total capital receipts and the total expenditure are shown in the general balance sheet instead of only the balance.

General Balance Sheet

The following are shown in the general balance sheet:

1. The balance of the capital account
 2. Current assets and
 3. Current liabilities
- On the left-hand side of the general balance sheet, various funds, such as depreciation fund, sinking fund, investment fluctuation fund and so on, and current liabilities are recorded.

ENTRI

- On the right-hand side, the current and floating assets and other all other debit balances are recorded.
- In case of electricity supply companies, total of the expenditure as per capital account is shown on the assets side and the total of receipts is shown on the liabilities side of the general balance sheet

General Balance Sheet

Liabilities	₹	Assets	₹
Capital A/c	...	Stores	...
(Balance Brought Forward from Capital A/c)		Sundry Debtors	...
Sundry Creditors for Capital A/c	...	Cash as Bank	...
Sundry Creditors on Open A/c	...	Cash in Hand	...
NET Revenue A/c	...	Securities	...
(Balance Brought Forward from Net Revenue A/c)	...	Special Items	...
Reserve Fund	...	Other Assets	...
Depreciation Fund	...		
Sinking Fund	...		
Investments Fluctuation Fund	...		
Other Liabilities	...		
	XX		XX

Balances as on 1-4-2020	
Land	162000
Machinery	648000
Building	216000
Expenditure during the year	
Land	5400
Machinery	6480
Building	54000
Share capital	592920
Debentures	216000
Creditors	1080
Cost of generation	37800
Rent Rates and Taxes	5400
Managerial Expenses	12960
Cost of distribution	27000
Sale of current	140400
Mater rent	5400
Interest on debentures	10800
Interim Dividend	21600
Net Revenue A/c 1/4/20	30780
Depreciation fund	270000
Debtors	49140

Revenue A/c

Cost of generation	37800	Sale of current	140400
Rent Rates and Taxes	5400	Mater rent	5400
Managerial Expenses	12960		
Cost of distribution	27000		
Balance c/d	62640		
	145800		145800

Net Revenue A/c

Interest on debentures	10800	Balance on 1-4-20	30780
Interim Dividend	21600	Revenue A/c	62640
Balance c/d to General BS	61020		
	93420		93420

Capital Account (Receipts and Expenditure on Capital A/c)

Expenditure	Previous Year	Current Year	Total	Receipts	Previous Year	Current Year	Total
Land	162000	5400	167400	Share capital	592920		592920
Machinery	648000	6480	654480	Debentures	216000		216000
Building	216000	54000	270000		808920		808920
	1026000	65880	1091880	Balance			282960
			1091880				1091880

General Balance Sheet

Liabilities	Amounts	Assets	Amounts
Capital A/c Amount Received	808920	Capital A/c Amount expended	1091880
Net Revenue A/c	61020		
Creditors	1080	Debtors	49140
Depreciation fund	270000		
	1141020		1141020