

Double-entry Bookkeeping versus Simple-entry Bookkeeping

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Abstract

A financial management efficiently begins, primarily, with an accounting record kept in the best possible conditions, this being conditioned on the adoption of a uniform form, rational, clear and simple accounting. Throughout history, there have been known two forms of accounting: the simple and double entry. Romanian society after 1990 underwent a substantial change in social structure, the sector on which put a great emphasis being private, that of small manufacturers, peddler, freelance, who work independently and authorized or as associative form (family enterprises, various associations (owners, tenants, etc.), liberal professions, etc.). They are obliged to keep a simple bookkeeping, because they have no juridical personality. Companies with legal personality are required to keep double entry bookkeeping; therefore, knowledge and border demarcation between the two forms of organization of accounting is an essential. The material used for this work is mainly represented by the financial and accounting documents, by the analysis of the economic, by legislative updated sources, and as the method was used the comparison method, using hypothetical data, in case of an authorized individual and a legal entity. Based on the chosen material, an authorized individual (who performs single entry accounting system) and a juridical entity (who performs double entry accounting system) were selected comparative case studies, using hypothetical data, were analysed advantages and disadvantages in terms of fiscal, if using two accounting systems, then were highlighted some conclusion that result.

Keywords: *authorized person, double-entry accounting, documents, legal person, simple-entry accounting,*

INTRODUCTION

Double entry accounting appeared in Tuscany and northern Italy around the 1300s. Until then, the great ancient and medieval societies persisted without it. In the Middle Ages, the accounting books record chronologically, the receivables and debts without any classification. Single entry accounting, like balancing a check book, tallies only what goes in and out of a single account. Double entry accounting, by contrast is a method of control and accurately calculating the profit, loss and the value of assets. It separates credit from debit. (Jacob Soll, 2014)

The first notion of the double entry accounting has been adopted by Benedetto Cotrugli in 1458 in his book entitled „The Book Art of Trade”, where he included a brief chapter which described many

of the features of double entry bookkeeping. After 36 years ago, in 1494, a Franciscan monk and a math teacher, Luca Pacioli, that called „the father of accounting”, published a book intitled „Summa” which included many chapters explaining the notion of double entry bookkeeping. (E. Peragallo, 1938)

Double entry bookkeeping has been shown to be reliable. Since 1494 not occurred until now, significant changes in terms of double entry bookkeeping. It relies on debit-credit mechanism, viewed as a mathematical approach by Luca Pacioli in his work entitled „Summa”. (Sony Warsono, 2013).

In essence, the double entry accounting, starts at the idea of the existence of a better equilibrium between what holds an entity and

the sources of origin of those goods. Basically it starts from accounting analysis of the transaction, which is translated into accounting language through „accounting item”, which includes a „formula accounts” and an „explanation” of it, and „the amounts”. Formula accounts „simple or composed” expresses graphically all changes in the patrimony of this entity, changes produced by a transaction, by debiting one or more accounts, in correspondence with the crediting of one or more accounts. The purpose of the registrations in the accounts of these transaction is to draw up at the end of each financial year (chalendaristic year) the financial situation, that shows the situation of the entity patrimony at a time. (E.Merce&colab.,2010).

Since a change in an account cannot be recorded alone but must be tied with a change in another account. That fact, offers a much stronger base for accountability than records on isolated accounts without explanations, as in information about simple entry accounting. (Yuji Ijiri, 2014)

Double entry bookkeeping is based on correspondance between accounts, correspondance which can be done only the asset accounts, or liability accounts, or between the mixed accounts. (M.Avram, A.Traistaru, 2014)

In Romania, the first double entry accounting book, was published in the year 1837, in Brasov, by Emanoil Ioan Nechifor, and that was a practical guide about double entry accounting, intitulated „Pravila comerciala” (trade book). After some years, were published in Wallachia some books which contains the notions of accounting, by Basil Urzescu and Dimitrie Jarcu. In the year 1874, prof.Theodor Stefanescu published his „Course in double entry accounting”, this being considered the first study that opened a new way for the Romanian accounting. In 1898 I.C.Pantu published his first double entry accounting book, and a few others autors, after 1990. (A.T.Tudor, D. Matis, 2010)

During the year 1900 – 1950 was characterized, in Romania by applying the accounting profession in the economic life. After 1950, Romania „adopted” the accounting soviet model which practically destroyed the spirit and accounting profession. Since the 1990s, Romania has greatly improved accounting system taking over the French accounting model, considered the best accounting system adopted. (A.T.Tudor, A.Mutiu, 2007)

The Romanian society after 1990, has suffered a substantial change in the structure of its social, and the sector on which the focus was the private sector, of small producers, traders street vendors, free professionals, who carries on his activity authorized, in an independent manner or in the associative forms (family enterprise, freelancers, associations of owners or tenants, etc.), without legal personality, but which have an obligation to keep the simple accounting entry. Therefore, knowledge and delimitation of the border between the two forms of organization accounting, in double or simple entry, is very important.

The research purpose is the knowledge and comparing the two types of accounting. The main objectives in achieving this goal are: comparing the two types of bookkeeping through a hypothetical case study, accounting records and documents used in the two types of accounting, similarities and differences between the two types of accounting records, advantages and disadvantages in choosing a particular form, compared to the legal form of the entity.

MATERIALS AND METHODS

The material used in achieving objectives are: the accounting and financial documents, by the analysis of the economic, by legislative updated sources, hypothetical data for data analysis. As research method was chosen comparison method. The accounting can be organised both by the method of double entry, and, in this case is accompanied by the management accounting, as well as, by the simple entry.

Comparativ example regarding the simple entry accounting using Inventory Register (Tab.1) and Receipts and payments Register (Tab.2), and double entry accounting (Tab.3) (hypothetical case). During the year 2015 is founded a medical office (dental), related for this purpose, folowing operations:

April

Collects the european funds in the amount of 20.000 lei, for the equipping of the office, which covers under the contract concluded 80% of the value of the facilities. The amount of 15.000 lei is concerned of the fixed assets and 5.000 lei is for the materials needed;

Paid 10.000 lei advance for purchase dental seats.

Tab.1. Recording the operations using simple entry accounting (Inventory Register)

Nr.crt	Named and inventoried items	Inventory value (lei)
1	2	3
	Fixed assets	
1	Dental seat 1	10.000
2	Dental seat 2	10.000
3	Stocks	
4	Materials	1.100

May

Receive bank loan 25.000 lei, which shall be reimbursed to the half-yearly, in equal tranches over a period of 2 years. The rate of the loan is the 6.250 lei/semester, plus interest at 5% per year, maturity of the half-yearly and which shall be paid at the end of each half-year, along with the reimbursement rates of the loan;

Receives the invoice for dental seats (2), in the amount of 20.000 lei, and make their reception;

Duration of use is 10 years. The depreciation is recorded starting June, and the value of a seat is 10.000 lei;

Pay the amount of 10.000 lei, in the invoice;

Purchasing consumables in the amount of 300 lei, and are given is consumption;

To receive invoices by utilities in the amount of 400 lei;

Paying the all invoices to the available at the bank.

June

Recording gross salary in the amount of 1000 lei and related contributions, incurred by the employee (CAS 10.5%, CASS 5.5%, unemployment 0.5%, salary tax 16%), and costs incurred by the employer (CAS 15.8%, CASS 5.2%, unemployment 0.5%, CCI 0.85%, FG 0.25%, FRA 0.4%);

Recording the depreciation of fixed assets;

Recording the revenues from services rendered, in the amount of 6.000 lei, of which the 2000 lei cash, and the rest of 4.000 lei by available at the bank;

To receive the utility invoices for June, in the amount of 350 lei;

Purchasing the materials in the amount of 500 lei.

July

Is paid to the net salary by the previous month, through the bank;

Is paid by bank the contributions withheld from salaries and those of the employer;

Recording the gross salary for the current month, in the amount of 1.000 lei;

Recording the depreciation of the current month;

Recording the revenue for services performed for the current month, in the amount of 8.000 lei, of which 3.000 lei collected in cash, and the rest by the available at the bank (5000 lei);

Is paid the utility invoices for the month of June, in the amount of 350 lei, in cash;

Recording the consumption of materials in the amount of 300 lei;

Is paid by bank the invoices for the materials in the amount of 500 lei;

Recording the utility invoices for the month of July in the amount of 300 lei.

RESULTS AND DISCUSSION

Newly founded company can function as authorized person (PFA) or having the legal form of a limited liability company (SRL), which being the most common and profitable companies in terms of taxation. Choosing a form or another depends on the business, and especially the advantages held by the company in terms of tax. So, if the person chooses to function as individual (PFA), will have just completed Inventory Register (Tab.1) and Receipts and payments Register (Tab.2), without making accounting records. If the person chooses to operate as a limited liability company (SRL), will be completed, in addition, to specific business documents and Journal Register, in which will pass all accounting records in chronological order (Tab.3):

Thus, the bookkeeping can lead through the next ways: single-entry and double-entry. They are distinguished by the number and the structure

Tab.2. Recording the operations using simple entry accounting (Receipts and payments Register 01.04.N – 31.07.N)

Nr.crt.	Data	Document (kind, no.)	Explanations Cash	Receipts		Payments	
				Bank	Cash	Bank	
1	04.N	Statement	Fd.euro		20.000		
2.	04.N	Pay order	Advance				10.000
Total April				0	20.000	0	10.000
3	05.N	Statement	Credit		25.000		
4	05.N	Pay order	Seats				10.000
5	05.N	Pay order	Invoices				700
Total May				0	25.000	0	10.700
6	06.N	Receipt		2.000			
7	06.N	Statement			4.000		
Total June				2.000	4.000		
8	07.N	Pay order	Salaries				741
9	07.N	Pay order	Payroll				489
10	07.N	Receipt	Services	3.000			
11	07.N	Statement	Services		5.000		
12		Receipt	Invoices			350	
13		Pay order	Invoices				500
Total July				3.000	5.000	350	1730
TOTAL cumulative				5.000	54.000	350	22.430
Total receipts-payments					36.220		

of the registers used, by the connection between these registers and using the technique for the registration of data. The technique of recording consist in the practical use of all forms and registers: primary documents, records, accounts, inventories, balance sheet. Between the two forms of accounting organization there are similarities and differences listed below:

Similarities:

- All transactions shall be recorded when they are made in a document that is the basis of the registration in the accounting, obtaining the quality of supporting document;
- Recording operations is made on ther basis of the supporting documents, document by document, in the chronological order of the data of drawing up or of entry into the unit, and systematic, the accounts of the synthetic and analytical technique to which they relate;
- Recording into accounts is done manually or using computers, subject to compliance with the content of the information, and the detailed rules for the drawing and use of the accounting records and of the common forms in the economy for the financial-accounting activity (OMF no.425/1998 in MO no.391 bis/1998)
- Preventive control is done by the person who lead the accounting and by the auditors, who exercising the legal accounting control, as well as the financial and fiscal control organs of the state;
- The supporting documents, which are the basis of the recording in the accounts undertake the responsibility of the person (s) who drew them up, approved and endorsed, or recorded them in the accounts, as appropriate;
- Processing, grouping and systematization of the computer data, of the operations with homogeneous nature, through the cumulative documents regarding the revenue, expenditure, purchases, funds, etc;
- Registration in the accounts of the movable and immovable property is made to the value of purchase, production or at fair value, as the case, and the receivables and debts are

Tab.3. Recording operations using double entry accounting compared with single entry accounting

Data	Explanations	Double entry accounting (DEA)	Single entry accounting (SEA)	Common documents used
04.N	European funds collection	445 = 475 5121 = 445	-not registered -in Register of R/P	
04.N	Registration advance invoice	409 = 404	-not registered	
04.N	Advance payment	404 = 5121	-in Register of R/P	
05.N	Credit receiving	5121 = 1621	-in Register of R/P	
05.N	Fixed assets acquisition	214 = 404	-not registered	Fix asset sheet
05.N	Reversing advance invoice	409 = 404 (-)	-not registered	
05.N	Partial payment of advance invoice	404 = 5121 (-)	-Register of R/P	
05.N	Purchase supplies	302 = 401	-not registered	Inventory sheet
05.N	Invoice payment of acquisition	401 = 5121	-in Register of R/P	
05.N	Material consumption	602 = 302	-not registered	Inventory sheet
05.N	Registration utility invoice	605 = 401	-not registered	
05.N	Utility invoices payment	401 = 5121	-in Register of R/P	
06.N	Register salary for June	641 = 421	-not registered	Payroll
		421 = % 4312		
06.N	Deduction from the salary	4314 4372 444	-not registered	Payroll
		645 = % 4311 4313 4371		
06.N	Employers' expenses	635 = % 447.1 447.2 447.3	-not registered	Payroll
06.N	Depreciation registration	6811 = 2813	-not registered	Fix asset sheet
06.N	Services invoice registration	411 = 704	-not registration	
06.N	Collection of revenue in cash	5311 = 411	-in Register of R/P	
06.N	Collection of revenue into bank	5121 = 411	-in Register of R/P	
06.N	Utility invoice registration	605 = 401	-not registered	
06.N	Invoice materials registration	302 = 401	-not registered	
07.N	Salary payment for June	421 = 5121	-in Register of R/P	
		% = 5121 4311 4312 4313 4314 4371 4372 444 447.1 447.2 447.3		
07.N	Payment of salary contributions		-in Register of R/P	
07.N	Depreciation	6811 = 2813	-not registered	Fix asset sheet
07.N	Registration salary for June	641 = 421	-not registered	Payroll
		421 = % 4312 4314 4372 444		
07.N	Deductions from salary		-not registered	Payroll

Tab.3. continuation

Data	Explanations	Double entry accounting (DEA)	Single entry accounting (SEA)	Common documents used
		645 = % 4311 4313 4371		
07.N	Employers' expenses	635 = % 447.1 447.2 447.3	-not registered	Payroll
07.N	Services invoice registration	411 = 704	-not registered	
07.N	Collection of revenue in cash	5311 = 411	-in Register of R/P	
07.N	Collection of revenue into bank	5121 = 411	-in Register of R/P	
07.N	Utility invoices payment from June	401 = 5311	-in Register of R/P	
07.N	Materials invoice payment from June	401 = 5121	-in Register of R/P	
07.N	Materials consumption	602 = 302	-not registered	Inventory sheet
07.N	Utility invoices registration	605 = 401	-not registered	

Source: Green Paper of accounting for PFA, 2015, pag.122

recorded in the accounts at their nominal value;

- Property valuation is made on the basis of the annual inventory and/or whenever necessary, and their reflection in the accounts is done according to the rules established by the Ministry of Finance;
- Recording of the operations is made operative, without delay from the date of their are made, clearly, without any erasures and razing, and mandatory in Romanian and in national currency.

Differences:

- The registration of an operation is not made in the same time, in two accounts, based on their correspondence;
- An operation is recorded only to a single account, on the inputs or on the outputs, and the turnover and balance are established periodically and compulsory at the end of the month;
- It is not necessary to recording a balance sheet with eight columns, that to confirm the equality of balances amounts and the turnovers debit and credit;
- Do not make an accounting items for establishing a correlation between the accounts that reflect a transaction;

- Are not drawn up accounting notes and does no draw up the balance sheet, as by double-entry accounting.

Having regard to these things, is put the problem of the choice a form of company (natural or legal person) which offer you as many advantages from a fiscal point of view; and if we are taking about the simply entry accounting, the person who runs a such accounts is PFA (natural authorized person). In the case of a legal person, with legal personality, who runs the double entry accounting, considered from the fiscal point of view an „advantages” company, would have a limited liability company (SRL).

In either of the two legal forms of the society we organize, in both cases there are advantages and disadvantages.

CONCLUSION

In conclusion, the simply entry accounting requires: to complete the Inventory Register and Receipts and payments Register, filling out a minimum number of documents (those mentioned above), and the use of other documents is optional (except the invoice, which is mandatory); taxable income is determined based on receipts and payments and not by invoices issued or received; it makes annual inventory, but not necessarily at the end of the year.

In the case of a PFA:

Advantages:

- ✓ Quick record, tax obligation lower, accounting records more simple;
- ✓ The cost of registration are smaller as compared with those for a company set-up (between 200 or 300 lei), does not need to share capital for setting up;
- ✓ The accounting is much simpler (driving to the simple entry accounting), does not need by the accounting officer authorised, the accounting may be led even by the person who applied for setting up the PFA (Union);
- ✓ PFA has obligations from fiscal point of view only once a year, while the commercial companies these obligations are numerous in the course of a fiscal year;
- ✓ And PFA may have employees and may benefit from the profit realized at any time without to share the dividends;
- ✓ It has to pay to the state budget three obligations: tax of 16% on the net income, CASS 5.5% of the gross income, and CAS 26.3% of the monthly income declared by the insured. This income may not be less than 35% of the gross average salary, but no greater than the equivalent of five times the income gross average salary (for 2015 this is the 2415 lei) (Law 187/2014), this increased in 2016 at 2681 lei. Declaration of the income showing the basis for the calculation of the social contributions, it is realizing shall be effected by the fiscal body of a statement (Form 600, which was introduced by Order of the ANAF No.847/2012). On the basis of this statement, the tax authorities issue the tax decision, in which shall assess the contribution of the annual social due, and the time limits for payment.
- ✓ The contribution to the health of 5.5% has the basis for calculating different, depending on how the enforcement of the PFA: in real system (the basis for calculation is the annually net income realized, excluding expenditure with the social contributions), or, on the basis of the standard income (the basis for calculation is the annual value of the standard income, which to divide to the 12 months of the year, which may not be less than a basic minimum gross salary over country, which from June 1, 2015, is 1050 lei – if this income is the only on which are calculated the contribution.
- ✓ Payment of health contribution, shall be carried out in the course of the year, in advance, according to make settlement at the end of the year. Thus, in the basis of statement of the income estimated (Form 220) or, to the declaration of the income achieved (Form 200), the tax authorities issue a decision to impose for advance payments, in which lays down the contribution of the health insurance fund due to predict, and the limit time for payment.

Disadvantages:

- ✓ To set up a Union (PFA) is mandatory submission of some documents showing the preparation and professional experience of the applicant in the field of activity requested: diploma, certified, Employment work book showing professional experience;
 - ✓ You can choose between CAEN codes, which related to the activities in which the applicant wishes authorisation PFA;
 - ✓ The contribution to the health and the social security contribution (CAS) will be paid and in a situation in which PFA does not register the income in an year, and, in this situation are fixing as a basis for calculating, the minimum income in the economy.
 - ✓ The responsibility for its obligation is unlimited (can respond even with personal belongings)
 - ✓ Lower possibility for development business;
 - ✓ Legal person liable for the tax on value added tax (WATT), avoid to work with PFA repayments of WATT, because do not have the possibility to deduction of WATT in the case of invoices received from them;
-

Double entry accounting requires the management accounting by the rules established in OMFP no.1802/2014, regarding the accounting regulations applicable to commercial companies. Entities which applying the double entry accounting, are required to complete Ledger and Inventory Registers. Taxable income is determined in this case, all depending on the receipts and payments, do not apply the „accrual accounting” (Tax Code, art.48). The accounting shall be up to the level of

balance, without filling in and submitting the financial statements.

The persons that pass from the simple entity accounting to double entity accounting, will retrieve, on the basis on the inventory and information relating to the receivables and debts, as initial balances, at beginning of the financial year for which have opted to pass to the keeping the double entry accounting, the amounts into the documents prepared for the simply entity accounting system, namely: inventory register

In the case of a limited liability company (SRL):

Advantages:

- ✓ There is no need for the submission of documents that certifying the professional training and experience of the founders in the field of activity;
- ✓ No limits of activity and can have several CAEN codes;
- ✓ In the case of debts, the responsibility of each associate is limited to the capital which it has submitted to the establishment the company;
- ✓ Starting with the date of February 1, 2013, all companies that carrying out the income under 65.000 euros, regardless of the number of employees, pay a tax of 3% on the income (which replace the profit tax of 16%);
- ✓ The young owners (under 35 years old) may establish the mutual-type SRL-D(debutant), within framework of which may require the non-refundable support from the state (within the limit of the sum of 10.000 euros), and can benefit from tax reduction, such as those for the establishment of the company perceived by the Trade Register.

Disadvantages:

- ✓ Tax for the establishment are higher than in the case of a PFA, being mandatory and registered the minimum capital of 200 lei;
- ✓ The accounting will be led only by an authorized accountant, which shall draw up and sign all documents and all accounts, so, the costs for the accounting records, will be much higher than in the case of a PFA;
- ✓ In addition to the tax of profit of 16% (or, 3% on microenterprises income), the associations still pay a tax on dividends of 16%. It is the only way to get money out of the company (compared with a PFA); if an associate does not have and other sources of income and wages, the state will apply and will retain the social security contribution from dividends.

for tangible assets, intangible assets, inventories, receivables and debts; jurnal register of receipts-payments to take over the cash in hand, worksheet asset, to take over the accumulated depreciation, statement (the account extract) to take over the balance of the bank account, and other documents specific to the objects of activity of the natural person authorized.

The opening of these accounts, in view of their retrieve into double entry accounting is carried out using the account 455, „Amounts due to shareholders/associates“. Thus, in the credit of „455“ account it's recording the balances of assets (fixed assets, inventories, receivables, cash on hand), and in the debit of „455“ account it's recording the balances of debts (Green Paper of Accounting for PFA, 2015).

The newest things, consist in the fact that, since 2015, the authorized individual (PFA) whose annual net income is determined in real system (whether it was legally required or optional choice), they can choose to lead „double entry accounting“, which was not allowed before. The measure allows the PFAs to keep accounting records in a manner similar to SRLs, but from a tax perspective there is no difference. Double entry accounting allows, for exemple, that the acquisition of property is effected by registration of debts, which will be paid

later. The advantage of such a system is that, the authorized individuals may have a clearer record of assets held, receivables and debts, respectively, income and expenditures, and can be seen on the basis of accounting, for example, what receivables has received in relation with its customers. The disadvantage is that assume a bureaucratic effort bigger than simply entry accounting.

In the current situation, the changes imposed by the government, impose conditions too severe for the authorized individual, new accounting regulations for the year 2016, drastically limiting the situations in which authorized individuals can act and practice as independent person.

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