

Accounts from Incomplete Records

MEANING OF KEY TERMS USED IN THE CHAPTER

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| 1. Incomplete Records | Incomplete records is a system in which accounting records are not kept according to Dual Aspect Concept (Principle). In some of the transactions, both aspects are recorded, while in others one aspect is recorded or it is not recorded at all. |
| 2. Single Entry System | It is an incomplete double entry system varying with circumstances. The records maintain under the Single Entry System are termed as Incomplete Records . |
| 3. Statement of Affairs | It is a statement of assets and liabilities. The excess of assets over liabilities represents proprietor's capital.

Assets – Liabilities = Capital |
| 4. Capital | Amount invested by the owner. |
| 5. Drawings | Money or goods taken (withdrawn) by the proprietor from the business for his/her personal use. |

CHAPTER SUMMARY

- **Single Entry System** is a system in which accounting records are not kept strictly according to the double entry principles of Book Keeping. Since all the transactions are not recorded strictly on the double entry principle, it is not possible to prepare a Trial Balance and check the arithmetical accuracy of the books of account.
Single Entry System is very simple, economical and time saving system for recording transactions.
- **Disadvantages of Single Entry System** are: (i) Arithmetical accuracy of accounts cannot be proved; (ii) Difficult to detect fraud; (iii) True profit cannot be known; (iv) No control on Assets; (v) True financial position of business cannot be ascertained; (vi) Not Acceptable to Tax Authorities.
- **Profit under the Single Entry System** is determined by any of the following two methods:
(i) Statement of Affairs Method and (ii) Conversion Method.
- **Statement of Affairs Method.** Under the method a statement, which shows assets on one side and the liabilities on the other is prepared. The difference between the totals of the two sides is taken as the capital.
- **Ascertainment of Profit or Loss.** Under this method, Statement of Affairs at the end of the year and in the beginning of the year are prepared to determine closing and opening capitals. The capital is adjusted as to capital introduced and drawings made to determine profit earned during the year. We can express it mathematically as follows:
Profit/(Loss) = Closing Capital – Additional Capital + Drawings – Opening Capital.

Solved Questions

Illustration 1.

Ashok does not maintain his accounts on complete double entry system. He started his business with Cash ₹ 36,000, Furniture ₹ 32,000, Stock ₹ 18,000, and Machinery ₹ 60,000 on 1st April, 2019. His position on 31st March, 2020 was as follows:

Stock in Trade ₹ 27,000, Cash in Hand ₹ 22,600, Debtors ₹ 42,000, Creditors ₹ 23,000, Loan from Ganesh ₹ 14,000, Computer ₹ 25,000 and Stationery Stock ₹ 1,400.

Additional Information:

- (i) Machinery of ₹ 26,000 and Furniture of ₹ 18,000 (excluding household furniture) were purchased during the year on 1st July, 2019 and on 31st October, 2019 respectively. Depreciation @ 10% p.a. is to be charged on the above assets.
- (ii) A bank loan of ₹ 28,000 was taken on 1st April, 2019 for purchasing various fixed assets. Interest charged by the bank for the said loan amounting to ₹ 980 not yet paid.
- (iii) Out of the debtors ₹ 1,600 is to be written off as bad debt and provision for doubtful debt is to be created @ 5% on debtors.
- (iv) Cash withdrawn from the business for personal use ₹ 20,000.
- (v) Household furniture was purchased for ₹ 4,000 but payment was made through business cash.
- (vi) Life Insurance Policy of the proprietor matured and the amount was brought into business ₹ 25,000.

You are required to prepare a Statement of Profit or Loss for the period ended 31st March, 2020 and a Statement of Affairs as on that date.

Solution:

STATEMENT OF AFFAIRS (*Before Adjustments*)
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital (Balancing Figure) (being the excess of assets over liabilities)	1,89,000	Machinery (₹ 60,000 + ₹ 26,000)	86,000
Creditors	23,000	Furniture (₹ 32,000 + ₹ 18,000)	50,000
Loan from Ganesh	14,000	Debtors	42,000
Bank Loan	28,000	Computer	25,000
		Closing Stock	27,000
		Stationery Stock	1,400
		Cash in Hand	22,600
	2,54,000		2,54,000

STATEMENT OF PROFIT OR LOSS
for the year ended 31st March, 2020

Particulars	₹	₹
Capital as per Statement of Affairs as at 31st March, 2020		1,89,000
<i>Add: Drawings:</i>		
Household Furniture Purchased	4,000	
Cash Withdrawn for Personal Use	20,000	24,000
		2,13,000
<i>Less: Additional Capital (Life Insurance Policy matured and brought that amount into the Business)</i>		25,000
		1,88,000
<i>Less: Opening Capital: (Cash of ₹ 36,000, furniture ₹ 32,000, Stock ₹ 18,000, and Machinery ₹ 60,000 = ₹ 1,46,000)</i>		1,46,000
Trading Profit/Profit before Adjustments/Gross Profit		42,000
<i>Less: Adjustments:</i>		
Interest on Loan	980	
Bad Debts	1,600	
Provision for Doubtful Debt @ 5% of ₹ 40,400 (i.e., ₹ 42,000 – ₹ 1,600)	2,020	
Depreciation on Machinery (WN)	7,950	
Depreciation on Furniture (WN)	3,950	16,500
Net Profit for the year		25,500

STATEMENT OF AFFAIRS (After Adjustments)
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital (Opening)	1,46,000	Machinery	86,000
<i>Add: Additional Capital</i>	25,000	<i>Less: Depreciation</i>	7,950
Net Profit	25,500	Furniture	50,000
	1,96,500	<i>Less: Depreciation</i>	3,950
<i>Less: Drawings</i>	24,000	Computer	25,000
	1,72,500	Debtors	42,000
Loan from Ganesh	14,000	<i>Less: Bad Debts</i>	1,600
Bank Loan	28,000		40,400
Creditors	23,000	<i>Less: Provision for</i>	
<i>Outstanding Expenses:</i>		Doubtful Debts	2,020
Interest on Loan	980	Closing Stock	27,000
		Stationery Stock	1,400
		Cash in Hand	22,600
	2,38,480		2,38,480

Working Note:

	₹	₹
<i>Calculation of Depreciation on Machinery and Furniture:</i>		
<i>Depreciation on Machinery:</i> 10% on ₹ 60,000 for full year	6,000	
10% on ₹ 26,000 for 9 months	1,950	7,950
<i>Depreciation on Furniture:</i> 10% on ₹ 32,000 for full year	3,200	
10% on ₹ 18,000 for 5 months	750	3,950

Illustration 2.

Sooraj started business with capital of ₹ 90,000 on 1st April, 2019. He keeps his books of account on Single Entry System.

The following data is available from his Cash Book for the year ended 31st March, 2020:

	₹
Purchase of Furniture (on 1st May, 2019)	21,000
Purchase of Machinery (on 30th June, 2019)	65,000
Cash Sales	36,000
Cash Purchases	19,600
Cash Received from Customers	42,000
Paid to Suppliers	37,800
Sundry Expenses	11,200
Drawings	17,000
Sale of Personal Land	39,000
Cashed Personal FDR	10,000
Deposit in SBI Fixed Deposit Account	25,000
Received Interest from SBI Fixed Deposit Account	2,400
<i>His position on 31st March, 2020 was as under:</i>	
Debtors	34,900
Creditors	12,400
Closing Stock	11,700
Outstanding Expenses	3,000
Prepaid Expenses	1,400
Computer (Purchased on 1st September, 2019 from M/s Star Computers)	27,000

Following adjustments are to be made:

- (i) All fixed assets are to be depreciated @ 10% p.a.
- (ii) Provision for doubtful debt is to be created @ 5% on debtors.

From the above information, ascertain his profit or loss for the year ended 31st March, 2020 and prepare his statement of affairs as on that date.

Solution: As the closing cash in hand is not given, a Cash Account is prepared for calculating the closing Cash Balance.

In the Books of Sooraj			
Dr.	CASH ACCOUNT/CASH BOOK		Cr.
Particulars	₹	Particulars	₹
To Capital A/c	90,000	By Purchases	19,600
To Sales	36,000	By Furniture	21,000
To Debtors (Received from Customers)	42,000	By Machinery	65,000
To Capital (Sale of Personal Land)	39,000	By Creditors (Paid to Suppliers)	37,800
To Capital (Cashed Personal FDR)	10,000	By Sundry Expenses	11,200
To Interest (Received from Bank)	2,400	By Drawings	17,000
		By Investment (SBI Fixed Deposit Account)	25,000
		By Balance <i>c/d</i>	22,800
	2,19,400		2,19,400

STATEMENT OF AFFAIRS (Before Adjustment)
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital (Being the excess of Assets over Liabilities)	1,66,400	Machinery	65,000
Creditors	12,400	Furniture	21,000
Outstanding Expenses	3,000	Computer	27,000
M/s Star Computers	27,000	Debtors	34,900
		Investments	25,000
		Closing Stock	11,700
		Prepaid Expenses	1,400
		Cash in Hand	22,800
	2,08,800		2,08,800

STATEMENT OF PROFIT OR LOSS
for the year ended 31st March, 2020

Particulars	₹	₹
Capital as per Statement of Affairs at 31st March, 2020		1,66,400
Add: Drawings:		17,000
		1,83,400
Less: Additional Capital:		
Sale of Personal Land	39,000	
Cashed Personal FDR	10,000	49,000
		1,34,400
Less: Opening Capital		90,000
Gross Profit/Profit before Adjustments		44,400
Less: Adjustments:		
Depreciation on Machinery (30th June, 2019 to 31st March, 2020, i.e., for 9 months)	4,875	
Depreciation on Furniture (1st May, 2019 to 31st March, 2020, i.e., for 11 months)	1,925	
Depreciation on Computer (1st September, 2019 to 31st March, 2020, i.e., for 7 months)	1,575	
Provision for Doubtful Debts (5% of ₹ 34,900)	1,745	10,120
Net Profit for the year		34,280

FINAL OR REVISED STATEMENT OF AFFAIRS
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital (Opening):	90,000	Machinery	65,000
Add: Additional Capital	49,000	Less: Depreciation	4,875
Net Profit	34,280	Furniture	21,000
	1,73,280	Less: Depreciation	1,925
Less: Drawings	17,000	Computer	27,000
	1,56,280	Less: Depreciation	1,575
Creditors	12,400	Investment	25,000
Outstanding Expenses	3,000	Debtors	34,900
M/s Star Computers	27,000	Less: Provision for Doubtful Debts	1,745
		Closing Stock	11,700
		Prepaid Expenses	1,400
		Cash in Hand	22,800
	1,98,680		1,98,680

Illustration 3.

Nikita after retirement from service started on 1st July, 2019 a business of fancy goods with a capital of 1,15,000 out of her gratuity receipts. She keeps her books under the single entry system. She submits following particulars of her business as on 31st March, 2020:

	₹
Furniture	18,000
Machinery	24,000
10% Investments	21,000
Debtors	34,000
Creditors	19,000
Closing Stock	20,600
Cash in Hand	11,700
Balance as per the Bank Pass Book	20,400

The following adjustments are to be made:

- (i) An advance of ₹ 700 paid to an employee against his salary that will be due in April, 2020 has now been identified.
- (ii) Investment was made on 1st August, 2019 and interest not yet received.
- (iii) Business travelling included the proprietor's personal travelling for which she is to be charged ₹ 1,750.
- (iv) Stationery of ₹ 1,480 was consumed by the family members of Nikita.
- (v) Cheques amounting to ₹ 1,900 drawn in favour of suppliers, but not yet presented for payment.
- (vi) An amount of ₹ 28,000 was withdrawn by Nikita from the business for her personal use, but out of the said fund she purchased a computer at ₹ 15,000 for her business use.
- (vii) Depreciate machinery and furniture by ₹ 2,500 and ₹ 1,400 respectively.
- (viii) Out of the debtors, ₹ 900 is to be written off as bad debts and provision for doubtful debts is to be created @ 5% on debtors.

You are required to show the Statement of Profit or Loss for the year ended 31st March, 2020 and the final Statement of Affairs as on that date.

Solution:

STATEMENT OF AFFAIRS (Before Adjustment)
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital (Balancing Figure) (Being the excess of Assets over Liabilities)	1,45,000	Machinery	24,000
Creditors	19,000	Furniture	18,000
		Computer	15,000
		10% Investments	21,000
		Debtors (₹ 34,000 – ₹ 900)	33,100
		Closing Stock	20,600
		Accrued interest on Investment	1,400
		Prepaid Salaries	700
		Cash at Bank (₹ 20,400 – ₹ 1,900)	18,500
		Cash in Hand	11,700
	1,64,000		1,64,000

STATEMENT OF PROFIT OR LOSS
for the year ended 31st March, 2020

Particulars	₹	₹
Capital as per Statement of Affairs as on 31st March, 2020		1,45,000
<i>Add: Drawings:</i>		
Cash Withdrawn	28,000	
<i>Less: Computer Purchases for Business</i>	15,000	13,000
Proprietor's Personal Travelling		1,750
Stationery Consumed by the Family Members of the Proprietor		1,480
		16,230
<i>Less: Opening Capital</i>		1,61,230
Trading Profit/Profit before Adjustments (Gross Profit)		1,15,000
		46,230
<i>Less: Adjustments:</i>		
Depreciation on Machinery	2,500	
Depreciation on Furniture	1,400	
Provision for Doubtful debts @ 5% on debtors	1,655	5,555
Net Profit for the year		40,675

REVISED STATEMENT OF AFFAIRS (AFTER ADJUSTMENT)
as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital (Opening)	1,15,000	Machinery	24,000
<i>Add: Net Profit</i>	40,675	<i>Less: Depreciation</i>	2,500
	1,55,675	Furniture	18,000
<i>Less: Drawings</i>	16,230	<i>Less: Depreciation</i>	1,400
	1,39,445	Computer	15,000
Creditors	19,000	10% Investment	21,000
		Debtors	33,100
		<i>Less: Provision for</i>	
		Doubtful Debts	1,655
			31,445
		Closing Stock	20,600
		Accrued Interest on	
		Investments (WN 1)	1,400
		Prepaid Salaries	700
		Cash at Bank (WN 2)	18,500
		Cash in Hand	11,700
	1,58,445		1,58,445

Working Notes:

1. Interest on Investment is due but not received for 8 months (August to March)

$$= ₹ 21,000 \times \frac{10}{100} \times \frac{8}{12} = ₹ 1,400.$$

2. Balance as per Bank Pass Book is given and as such Bank Balance as per Cash Book has been calculated by adjusting the unrepresented cheques amounted to ₹ 1,900 as under:

	₹
Balance as per Bank Pass Book	20,400
<i>Less: Unrepresented Cheques</i>	1,900
Balance as per Cash Book	18,500

Unsolved Questions

1. Sanjay does not maintain his books of account on complete double entry system. He started his business with ₹ 1,65,000. He submits the following particulars of his business as on 31st March, 2020:

	₹			₹
Machinery	65,000		Prepaid Expenses	1,600
Furniture	22,000		Outstanding Expenses	800
Debtors	21,800		Cash in Hand	23,700
Creditors	16,400		Cash at Bank	21,000
Closing Stock	30,700		Investments	20,000

Following adjustments are to be made:

- (i) Sanjay cashed his FDR amounting to ₹ 10,000 and brought the money into business on 1st May, 2019.
- (ii) He withdrew ₹ 8,000 from his business, cash for his personal expenses.
- (iii) Depreciate machinery and furniture @ 10% p.a.
- (iv) His house rent and school fees of his son amounting to ₹ 2,400 p.m. were paid from the business cash.
- (v) Make provision for doubtful debts @ 5% on debtors.

From the above information, ascertain his profit or loss for the year ended 31st March, 2020 and prepare his statement of affairs as on that date.

2. Samuel keeps his books under Single Entry System. His financial position on 1st April, 2019 and 31st March, 2020 was as given below:

	1st April, 2019	31st March, 2020
	₹	₹
Cash in Hand	12,800	31,400
Cash at Bank	26,000	19,500
Prepaid Expenses	900	1,200
Debtors	43,800	56,300
Creditors	16,300	19,700
Investments	30,000	30,000
Outstanding Expenses	500	800
Closing Stock	15,900	23,100
Land and Building	1,25,000	1,05,000
Machinery	55,000	75,000
Furniture	24,000	34,000

Additional Information:

- (i) Machinery and Furniture are to be depreciated @ 10% p.a.
- (ii) Cash withdrawn by Samuel ₹ 900 p.m. from the business cash regularly.
- (iii) Make a provision for doubtful debts @ 5% on debtors.
- (iv) Proprietor's house rent ₹ 1,000 p.m. was paid from the business cash regularly.
- (v) Accrued interest on investment ₹ 700.
- (vi) He sold his personal jewellery and brought that money into the business ₹ 18,000.

You are required to prepare a Statement of Profit or Loss for the period ended 31st March, 2020 and draw a Statement of Affairs as on that date.

3. Ramesh owns a general store in Delhi and does not maintain his accounts as per Double Entry System. His assets and liabilities on 1st April, 2019 were as follows:

Bills Payable ₹ 2,000; Creditors ₹ 3,310; Stock and Debtors ₹ 18,600; Bank and Cash ₹ 6,710 and Machine ₹ 15,000.

His position on 31st March, 2020 was as follows:

Machine ₹ 15,000; Debtors ₹ 9,320; Motor Cycle ₹ 12,000; Cash in Hand ₹ 3,000; Bank balance as per bank statement ₹ 5,930; Stock ₹ 13,400 and Creditors ₹ 8,700.

During the year he had withdrawn ₹ 4,500 for household needs and a motor cycle was purchased for business use. A cheque of ₹ 700 issued in March, 2020 was not presented up to 31st March, 2020. Ascertain the amount of profit of the trader for the year ended 31st March, 2020 after making the following adjustments:

- (i) Write off ₹ 400 as bad debts and provide 5% provision for doubtful debts.
- (ii) Provide 8% depreciation on machine and 10% on motor cycle.
- (iii) Capital introduced during the year ₹ 5,000.

Also, prepare the Statement of Affairs as on 31st March, 2020 after incorporating all adjustments.

4. Suresh had ₹ 3,00,000 in bank on 1st January, 2019 when he started his business. He closed his books of account on 31st March, 2020. His single entry books (in which he did not maintain any account for the bank) showed his position as follows:

	31st March, 2019	31st March, 2020
	₹	₹
Cash in Hand	2,000	3,000
Stock in Trade	19,000	29,000
Debtors	1,000	2,000
Creditors	5,000	3,000

On 1st April, 2019, he began drawing ₹ 700 per month for his personal expenses from the Cash Book of the business. His account in the bank had the following entries:

	Deposits	Withdrawals
	₹	₹
1st January 2019	3,00,000	...
1st January 2019 to 31st March, 2019	...	2,23,000
1st April, 2019 to 31st March, 2020	2,30,000	2,70,000

The above withdrawals included payments by cheques of ₹ 2,00,000 and ₹ 60,000 respectively during the period from 1st January, 2019 to 31st March, 2019 and on 1st March, 2020 for the purchase of machinery for the business. The deposits after 1st January, 2020 consisted wholly of sale price received from customers by cheques.

Draw up Suresh's Statement of Affairs as at 31st March, 2019 and 31st March, 2020 respectively and work out his profit or loss for the year ended 31st March, 2020.

GUIDE TO ANSWERS

1. [Hint: Capital (31st March, 2020) (before Adjustments)—₹ 1,88,600.
Gross Profit (Trading Profit before Adjustments)—₹ 44,960.
Total of Statement of Affairs (After Adjustments)—₹ 2,00,360.]

Note: As the date of purchase of Machinery and Furniture is not given, depreciation is to be charged on average basis, i.e., for 6 months. Depreciation on Machinery—₹ 3,250; Depreciation on Furniture—₹ 1,100.

2. **[Hint:** Opening Capital ₹ 3,16,600; Closing Capital (before Adjustments of Net Profit, Drawings and Additional Capital)—₹ 3,55,700; Trading Profit (Gross Profit)—₹ 43,900; Net Profit—₹ 31,685; Closing Capital (After adjustments of Net Profit, Fresh Capital and Drawings)—₹ 3,43,485; Total of Statement of Affairs (After Adjustments)—₹ 3,63,985.]

Note: Depreciation on Machinery and Furniture:

When the date of Purchase of Fixed Assets is not given, depreciation is to be charged on average basis, i.e., for 6 months.

Depreciation on Machinery = 10% of ₹ 55,000 + 10% of ₹ 20,000 (for 6 months) = ₹ 6,500.

Depreciation on Furniture = 10% of ₹ 24,000 + 10% of ₹ 10,000 (for 6 months) = ₹ 2,900.

3. Net Profit—₹ 10,504; Total of Statement of Affairs (31st March, 2020)—₹ 54,704.

[Hint: Capital (1st April, 2019)—₹ 35,000; Bank Balance as per Cash Book—₹ 5,930 – ₹ 700 = ₹ 5,230.]

4. Opening Capital (31st March, 2019)—₹ 2,94,000

[₹ 77,000 (Bank) + ₹ 2,000 (Cash) + ₹ 19,000 (Stock) + ₹ 1,000 (Debtors) + ₹ 2,00,000 (Machinery) – ₹ 5,000 (Creditors) = ₹ 2,94,000]

Closing Capital (31st March, 2020)—₹ 3,28,000

[₹ 37,000 (Bank) + ₹ 3,000 (Cash) + ₹ 29,000 (Stock) + ₹ 2,000 (Debtors) + ₹ 2,60,000 (Machinery) – ₹ 3,000 (Creditors) = ₹ 3,28,000]

Net Profit for the year—₹ 42,400

[Hint: Cash at Bank (31st March, 2020) = Opening Balance (1st April, 2019) + Deposits – Withdrawals
= ₹ 77,000* + ₹ 2,30,000 – ₹ 2,70,000 = ₹ 37,000.

*₹ 3,00,000 – ₹ 2,23,000 = ₹ 77,000.]