

UNIT:10

ACCOUNTS FOR INCOMPLETE RECORDS

“A system of book-keeping in which, as a rule, only records of cash and of personal accounts are maintained, it is always incomplete double entry system, varying with circumstances”

Unit at a Glance:

- Introduction
- Salient features
- Uses
- Limitations
- Difference between double entry system and incomplete records
- Ascertainment of profit or loss from incomplete records
- Conversion into double entry method
- numerical exercises

Introduction:

Accounting records which are not prepared in accordance with double entry system method are described as accounts for incomplete records.

SALIENT FEATURES

1. Apply of personal accounts only (ignores nominal and real accounts)
2. Maintenance of cash book.(Cash book is prepared)
3. Based on original vouchers. (Collection of data is made with original vouchers)
4. Lack of Similarity. (Method of preparation of books differs from firm to firm, it prepared as per the need of the business.
5. Preparation of final accounts. (After converting the information into double entry system final accounts are prepared. Due to this Statement of affairs is prepared instead of Balance sheet)

Uses

1. Easy method (Not requires any specific knowledge)
2. Economical(Can be prepared by without having more staff)
3. Suitable for small concerns (Few assets and liabilities are to be recorded)
4. Not – rigid (Can be modified/changed as per requirement of business)
5. Easy finding of profit & losses. (Only opening and Closing capital is required)

Limitations

1. Impossible to find fraud (As Trial balance is ignored)
2. Incomplete system (No set rules are followed)
3. Unable to find adequate profit & losses. (Ignorance of nominal accounts)
4. Difficulty in preparation of balance sheet.(Lack of valuation of goodwill)
5. Unable to retain full control on asserts. (Real accounts are ignored, it is difficult to make full control on assets)
6. Unsuitable for planning in control(Lack of reliable figure)
7. Lack of internal checking(Fails to adopt double entry system)
8. Improper evaluation of asserts (Ignorance of certain information like depreciation etc.)

DIFFERENCE BETWEEN DOUBLE ENTRY SYSTEM & INCOMPLETE RECORDS

Basis of difference

Recording of both aspects (Double entry records every transaction and incomplete records few transactions)

1. Type of accounts (All accounts are considered in double entry only personal account are considered in incomplete records)
2. Trial balance (Trial balance is prepared in double entry system, Trial balance is not prepared in incomplete records)
3. Net profit/ loss (Profit/Loss is calculated by preparing trading and profit & loss a/c in double entry system, Statement of profit is prepared in incomplete records to find the same.)
4. Financial position (Balance sheet is prepared in double entry and statement of affairs is prepared in incomplete records)
5. Adjustment (Adjustment are considered in double entry, while adjustments are not considered in incomplete records)

ASCERTAINMENT OF PROFIT OR LOSS FROM INCOMPLETE RECORDS

1. Statements of affairs method
2. Conversion into double entry method

Statement of affairs method: Under this method Opening and Closing capital is calculated. Then statement of profit is prepared to find profit/loss during the year.

Format of Statement of affairs

Statement of affairs (As on -----)

Liabilities	Amount	Assets	Amount
Bank overdraft		Cash in hand	
Bills payable		Cash in bank	
Sundry creditors		Bills receivable	
Outstanding expenses		Sundry debtors	
Incomes received in advance		Stock	
Capital (being, balance figure)		Prepaid expenses	
		Accrued income	
		Furniture	
		Plant & machinery	
		etc.	
			

Format of Statement of Profit

Closing capital	-----
Add: Drawings	-----
Less:	
1. Opening capital	
2. Additional capital introduced	
Profit during the year	

Example:

Mr. Ramesh, the owner of a mobile shop maintains incomplete records of his business. He wants to know the result of the business in 31st Dec. 1998 and for that following information are available:

	1 st Jan, 1998	31 st Dec, 1998
Cash in hand	300	350
Bank balance	1500	1600
Furniture	200	200
Stock	1000	1300
Creditors	700	800
Debtors	500	600

During the year he had withdrawn Rs.1000 for his personal use and invested Rs.500 as additional capital. Calculate his profit on 31st Dec, 1998.

SOLUTION:

Statement of affairs As on 1st January, 1998

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Creditors	700	Cash in hand	300
Capital(balance figure) (Opening capital)	2,800	Bank balance	1500
		debtors	500
		Stock	1000
		Furniture	200
	<u>3,500</u>		<u>3,500</u>

Statement of affairs As on 31st December, 1998

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Creditors	800	Cash in hand	350
Capital(balance figure) (Closing capital)	3,250	Bank balance	1600
		debtors	600
		Stock	1300
		Furniture	200
	<u>4,050</u>		<u>4,050</u>

Statement of profit
For the year ending 31st December, 1998

	Rs.
Closing capital as on 31-12-1998	3,250
Add: drawings	<u>1,000</u>
	4,250
Less: further capital introduced	<u>500</u>
	3,750
Less: opening capital as on 1-1-1998	<u>2,800</u>
Profit for the year	<u><u>950</u></u>

Points to be remembered: If opening capital is given but closing capital is not given, only one statement of affairs will be prepared to find closing capital.

Conversion into double entry method: Under this method following steps are made :

1. Opening of statement of affairs
2. Preparation of subsidiary.
3. Opening of others account like debtors account.

Format of debtor's A/c
Total debtors account

Dr.	Rs.	Cr.	Rs
To balance b/d (opening balance of debtors)		By cash received from debtors	.....
To B/R Dishonored		By B/R received	.....
To cash refund to debtors		By sales returns	.....
To credit sales, if given (if not given balancing figures is credit sales)		By discount allowed	.....
		By bad-debts	.....
		By balance c/d (closing balance of debtors, either given or balancing figures)	.....

Format of creditor's A/c**Total Creditors account**

	Rs.		Rs
To cash paid to creditors		By balance b/d (opening balance of creditors)	.....
To B/P accepted			
To B/R endorsed		By B/P Dishonored	
To Purchase returns		By B/R endorsed	.....
To discount received		dishonored	.....
To balance c/d (closing balance of creditors, either given or balancing figures)		By Credit Purchase, if given (if not given balancing figures is Credit Purchase)	.....

Example:

Find out credit and total purchases from the following particulars:

	Rs.
Balance of creditors on 1 st Jan, 2003	60,000
Balance of creditors on 31 st Dec, 2003	48,000
Cash paid to creditors	2,40,000
Cheques issued to creditors	80,000
Returns outwards	10,000
Discount received from creditors	7,200
B/P given to creditors	17,000
B/P dishonored	4,000
B/R endorsed to creditors	6,000
B/R endorsed to creditors dishonored	2,400
Cash purchases	
1,00,000	

Solution:**Creditor's Account**

	Rs.		Rs
To cash paid	2,40,000	By balance b/d	60,000
To Bank	80,000	By B/P Dishonored	4,000
To Purchase returns	10,000	By B/R endorsed	2,400
To discount received	7,200	dishonored	
To B/P accepted	17,000	By Credit Purchase	3,41,800
To B/R endorsed	6,000		
To balance c/d (closing creditors)	48,000		

Generally commits these mistakes ,please avoid:

1. Do not forget to find opening/closing capital
2. Creditors has credit balance
3. Debtors has debit balance
4. Deduct additional capital from statement of profit while finding profit or loss.

Numerical question:

Q.1 AB Company keeps incomplete records. During 2000 the analysis of his cash book was as under:

Receipts from debtors	Rs. 8,000	Bank overdraft(1-1-2000)	Rs. 1,200
Additional capital introduced on 1-9-2000	600	Payments to creditors	5,400
Loan from C on 1-7-2000 @ 6% interest p.a.	3,000	General expanses	1,800
		Salaries	600
		Drawing	800
		Bank balance(31-12-2000)	1,800
	<u>11,600</u>		<u>11,600</u>

On 1st Jan, 2000, The Following Balances were Recorded: Building Rs.5,000; Stock Rs. 3,600; Debtors Rs.10,600 And Creditors Rs.3,000.

The Balances On 31st Dec, 2000were: Debtors Rs.12,000; Building Rs.5,000; Creditors Rs.3,800 And Stock Rs.5,200.

Allow 5% Depreciation On Building. Provide Interest in C'S Loan for Six Months. Prepare Trading,

Profit And Loss Accounts and Balance Sheet on 31-12-2000

Answer:

1. Credit sales Rs.9,400
2. Credit purchase Rs.6,200
3. Opening Capital Rs.15,000
4. Gross profit Rs.4,800
5. Net profit Rs.2060
6. Balance sheet Rs.23,750

Q.2 Dr. Man Mohan maintains incomplete records. His accounts on 31st December 2005 were as follows:

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Bills payable	20,000	Stock	3,00,000
Sundry Creditors	2,40,000	Cash	40,000
Capital	6,80,000	Bank balance	1,00,000
		Bills received	1,40,000
		Sundry debtors	2,40,000
		Furniture	1,20,000
			<u>9,40,000</u>
	<u>9,40,000</u>		

During the six months ended 30th June, 2006 his position was as follows:

- His cash position improved by Rs.20,000 the bank balance was as Rs.1,00,000.
- Stock decreased to Rs. 2,60,000 and debtors reduced by Rs.40,000.
- Sundry creditors were the same as on 31st Dec, 2005.
- There was no bills payable outstanding.
- The balance of the furniture was Rs.70,000 (Furniture costing Rs.50,000 was sold for Rs. 40,000)
- There was no change in bills receivable.

The furniture was sold on 30th June, 2006. It was estimated that furniture depreciated during the period @10%p.a. of the original cost.

From the above information calculate Profit or Loss of Dr. Man Mohan` and also prepare his final statement of affairs.

Answer: Closing capital Rs.5,90,000, Net loss Rs.93,500. Total of final statement of affairs Rs.8,26,500

Q.3. From the following information are given of an accounting year:

- Opening creditor Rs.10,000
- Cash paid to creditors Rs.30,000
- Return out ward Rs.2,000
- Closing creditors Rs.24,000

Calculate credit purchase during the year.

Answer: Credit purchase Rs.46,000
