Accounts from Incomplete Records

DEFINITION

Kohler defines Single Entry System as, "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 varying with the circumstances."

Sometimes, the term Single Entry System is mistakenly understood that under this system only one aspect of a transaction is recorded in the books. This is not true. The fact remains that under this system, while for certain transactions both the aspects are recorded, for others only one aspect is recorded and some transactions are even ignored.

FEATURES

The features of the Single Entry System are as follows :

i. Suitability : This system is suitable for small businesses such as sole trader or partnership firm. Limited companies due to legal provisions, cannot maintain accounting books on Single Entry System.

ii. Preparation of Cash Book : Generally, a Cash Book is prepared in this system in which business as well as private transactions are mixed up.

iii. Preparation of Personal Accounts : Normally under this system, only personal accounts are prepared and real and nominal accounts are avoided.

iv. No Uniformity : This system may differ from firm to firm, because same principles are not followed by all the enterprises.

v. Requirement of Original Vouchers : Usually under this system, we have to depend on originally vouchers for collecting the necessary information.

vi. Preparation of Final Accounts : In the absence of all nominal and real accounts the final accounts cannot be prepared easily. It is possible after converting the available information into double entry system and missing amounts are determined then Trading & Profit & Loss A/c can be prepared. The amount of all assets and all liabilities can also be computed from incomplete records, but they are based on estimates. That is the reason that the statement of assets and liabilities prepared under this system at the end of an accounting period is called a Statement of Affairs instead of Balance Sheet.

USES OF SINGLE ENTRY SYSTEM

Uses of Single Entry System are as follows :

i. Simple Method : Single entry is a very simple method of recording business transactions.

ii. Less Expensive : It is less expensive when it is compared to Double Entry System of book keeping.

iii. Suitable for Small Concerns : It is mainly suited to small business concerns with limited number of transactions and very few assets and liabilities.

iv. No Need of Knowledge of Principles of Book Keeping : Under Single Entry System, accounting records can be easily maintained as their maintenance does not require knowledge of the principles of book keeping.

v. Easy to Ascertain Profit or Loss : Ascertainment of profit or loss in much easier. To ascertain profit or loss, the proprietor has to compare the financial position of business at the close of the accounting period with that at the beginning.

Limitations of Single Entry System

Single Entry System provides the incompleteness and in sufficiency of information, hence it has the following limitations:

i. Arithmetical Accuracy Cannot be Proved : Trial Balance cannot be prepared and hence, arithmetical accuracy of books cannot be proved or tested. Chances of error, mischief of fraud remaining undetected are high.

ii. No Control on Assets : Since asset accounts are not maintained, it may be difficult to keep full control, in order to avoid misappropriations of assets.

iii. True Profits cannot be Known : Trading and Profit and Loss Account cannot be prepared and hence, the correct profit earned or loss suffered during the accounting period is not known.

iv. Financial Position of the Business cannot be Judged : Balance Sheet, called Statement of Affairs under Single Entry System, is prepared in an unsatisfactory manner. The asets and liabilities are not provided from records but are put down by physical inspection and on estimated basis. Hence, Balance Sheet cannot be drawn up with a view to ascertaining the true financial position of the business on a particular date. Thus, exact position of total net assets cannot be known.

v. No Internal Check : Since internal check is not possible, the method gives enough room for errors and frauds, besides their detection is very difficult.

vi. Difficult to Ascertain the Business Value : The records being inadequate, it is difficult to value the business, especially goodwill.

vii. Inadequate for Planning and Control : Accounting information supplied by the accounting records is inadequate for managerial planning and control.

viii. Incomplete and Unscientific System : This system is incomplete and unscientific as both the aspects fo a transactions are not recorded and no set rules are followed for recording them.

ix. Comparative Study is Difficult : A major defect of this system is that the financial position of the current year cannot be compared with that of the previous year due to incomplete information of transactions of business.

ASCERTAINING PROFIT FROM INCOMPLETE RECORDS

We know that the main purpose of any business is to earn profit. Every business owner, therefore, is desirous to know whether he has earned profit or incurred loss after a certain period of time generally at the end of a year. In fact, to ascertain profit or loss becomes all the more essential if the business happens to be a partnership firm because the partners have to share the profits of the firm at the end of the each accounting period. Then, the question arises as to how to ascertain profits when the accounting records are incomplete. The reason is that Profit and Loss Account cannot be prepared in the absence of Trial Balance. In such a situation, there are two methods used for ascertaining profits of the business. They are :

i. Net Worth Method or Statement of Affairs Method, and

ii. Conversion Method

Net Worth Method or Statement of Affairs Method

To ascertain profit, from incomplete records, it is necessary to prepare a Statement of Affairs at the end of the year and also at the beginning of the year, if not already prepared. Like the Balance Sheet, the Statement of Affairs has two sides - the right-hand side for assets and the left-hand side for liabilities. To prepare the statment, information has to be collected from various sources. Information about assets will be available from the Cash Book, the Personal Ledger, etc. The value of the Closing Stock will be ascertained by preparing Stock Sheets and valuing the Stock in Hand, at lower of cost and market value. If the trader has any other assets also, like furniture, machinery, etc., the value will be ascertained and included among the assets. The business is likely to have full knowledge of the amounts owing to outsiders. The difference between the total of assets and liabilities will be capital.

Capital = Total Assets - Total Liabilities

For ascertaining profit the capital in the beginning of the year must also be ascertained, if necessary, by preparing a Statement of Affairs as at the beginning of the year. If the capital at the end of the year exceeds that at the beginning, we can say that there has been a profit. If, on the other hand, the capital in the beginning was more than that at the end, there must have been a loss. However, two adjustments must be borne in mind for ascertaining profit :

i. Adjustments for Capital Introduced : If the proprietor broght in some additional capital during the year, it should be deducted from the capital at the end (since this increase is not due to profit but is due to fresh introduction of capital); and

ii. Adjustement for Drawings : The drawings of the proprietor should be added to the capital at the end. Had the drawings not been made, the capital at the close of the year would have been higher.

Formula : Formula for determining the profit is put as follows :

Profit = (Capital at the end + Drawing - Additional Capital Introduced - Capital at the beginning)

Statement of Profit or Loss
for the year ended ....

Particulars	₹
Capital at the end	....
Add : Drawings during the year	....
Less : Additional Capital introduced during the year	....
Adjusted Capital at the end	....
Less : Capital in the beginning	....
Profit or Loss for the year	....

Now the procedure explained above can be simply summarized as follows :

i. First, prepare Statement of Affairs at the beginning for calculating capital in the beginning.

ii. Then, prepare Statement of Affairs at the end in order to calculate capital at the end.

iii. Adjust the capital at the end by adding drawings, and deducting therefrom capital introduced during the year.

iv. From the adjusted capital at the end deduct capital in the beginning. This difference is either a profit or a loss.

Look at the following illustration and study how opening and closing capital are determined by preparing Statement of Affairs and then how profit is ascertained after making the necessary adjustments for additional capital and drawings.

Illustration 1

Ram maintains books on Single Entry System. He gives you the following information:

	₹
Capital on April 1, 2013	60,800
Capital on April 1, 2014	67,600
Drawings made during the Period : April 2013 to March 2014	19,200
Capital introduced on August 1, 2013	8,000

You are required to calculate profit or loss made by Ram.

Solution :

Statement of Profit or Loss
for the year ended March 31, 2014

Particulars	₹
Capital as on April 1, 2013	67,600
Add: Drawings made during the period : April 2013 to March 2014	19,200
	86,800
Less : Capital introduced on August 1, 2013	8,000
Adjusted Capital on April 1, 2014	78,800
Less: Capital on April 1, 2013	60,800
Profit made during the period	18,000

Illustration : 2

Rani who keeps her books on Single Entry System, tells you that her capital on 31st March, 2014 was ₹ 18,700 and her capital on 1st April, 2013 ₹ 19,200. She has withdrawn ₹ 8,420 for household purposes 8,420. She once sold her investment of ₹ 2,000 at 2% premium and brought that money into the business.

You are required to prepare a Statement of Profit or Loss.

Solution :

Statement of Profit or Loss
for the year ended March 31, 2014

Particulars	₹
Capital at the end (as given)	18,700
Add: Drawings made during the year	8,420
	27,120
Less: Capital introduced during the year : 102/100 x ₹ 2,000	2,040
Adjusted Capital at the end	25,080
Less: Capital in the beginning	19,200
Net Profit for the year	5,880

Illustration : 3

Following was the position of Arvind as on 31.3.2013 and 31.3.2014

	31.3.2013 ₹	*31.3.2014* ₹
Cash	2,000	1,800
Sundry Debtors	78,000	90,000
Stock	68,000	64,000
Plant and Machinery	1,20,000	1,60,000
Sundry Creditors	30,000	29,800
Bills Payable	-----	10,000

During 2013-14 he introduced ₹ 20,000 as new capital. He withdrew ₹ 6,000 every month for his household expenses. Ascertain his Profit for the year ending March 31, 2014.

Solution :

Statement of Affairs
as at 31st March, 2013

Liabilities	₹	*Assets*	₹
Sundry Creditors	30,000	Cash	2,000
Capital (Balancing Figure)	2,38,000	Sundry Debtors	78,000
		Stock	68,000
		Plant and Machinery	1,20,000
	2,68,000		2,68,000

Statement of Affaris
as at 31st March, 2014

Liabilities	₹	*Assets*	₹
Sundry Creditors	29,800	Cash	1,800

Bills Payable	10,000	Sundry Debtors	90,000
Capital (Balancing Figure)	2,76,000	Stock	64,000
		Plant and Machinery	1,60,000
	3,15,800		3,15,800

Statement of Profit/Loss for the year ending March 31, 2014

Particulars	₹
Capital on March 31, 2014	2,76,000
Add : Drawings during 2013-14 (₹ 6,000 x 12)	72,000
	3,48,000
Less : Fresh Capital introduced	20,000
Adjusted Capital on March 31, 2014	3,28,000
Less : Capital on March 31, 2013	2,38,000
Profit earned during 2013-14	90,000

Illustration : 4

M.S. Dhoni, a trader, does not keep proper books of account. However, he furnishes you the following particulars :

	March 31, 2013 ₹	*March 31, 2014* ₹
Cash at Bank	4,500	3,000
Cash in Hand	300	4,000
Stock-in Trade	40,000	45,000
Debtors	12,000	20,000
Office Equipment	5,000	5,000
Sundry Creditors	30,000	20,000
Furniture	4,000	4,000

During the year he introducd ₹ 6,000 as further capital and withdrew ₹ 4,000 as drawings. Write off Depreciation on furniture at 10% and on office equipment at 5%.

Prepare a statement showing the Profit or Loss made by him for the year ended 31st March, 2014.

CONVERSION METHOD

Preparation of Final Accounts from Incomplete Records

You have learnt Net Worth Method for ascertaining business results, i.e., profits. But, under this method certain vital information (e.g., sales, purchases and operating expenses) is not available from incomplete records, We can get such information by adopting Conversion Method. Conversion Method means converting the accounts from incomplete records to complete records.

The steps involved in conversion are :

i. Prepare Cash and Bank Summary (if not available in proper form with both sides tallied) to ascertain the missing information (figures) (such as opening and closing balances of cash or bank, cash purchases/cash sales, drawings, etc.)

ii. Prepare Total Debtors Account to ascertain the missing information (e.g., opening/closing balances, Bills Receivable received, Credit Sales, Payment Received from Debtors).

iii. Prepare Bills Receivable Account to ascertain the missing information (such as opening/closing blances, Bills Receivable, Bills Receivable collected, Bills Receivable endorsed).

iv. Prepare Total Creditors Account to ascertain the missing information (such as opening/closing creditors, credit purchases, Bills Payable accepted, Bills Receivable endorsed, payment made to creditors)

v. Prepare Bills Payable Account to ascertain the missing information (such as opening/closing balances, Bills Payable accepted, Bills Payable discharged).

vi. Prepare Opening Statement of Affairs to find out capital in the beginning.

vii. Now, prepare Trading Account, Profit and Loss Account and Balance Sheet from the various information given in the question and from the computation made as above. Before preparing the Financial Statements, Trial Balance may also be prepared to check the arithmetical accuracy.

Hints for Tracing the Missing Figures

Missing Figure	*Hints*
1. Net Credit Sales	a) Prepare Total Debtors Account b) Total Sales - Cash Sales - Sales Returns
2. Cash Sales	a) Cash and Bank Account Summary b) Total Sales - Net Credit Sales
3. Net Sales	a) Cash Sales + Credit Sales - Sales Returns b) Cost of Goods Sold + Gross Profit
4. Cost of Goods Sold	a) Opening Stock + Net Purchases + Direct Expenses - Closing Stock b) Net Sales - Gross Profit
5. Gross Profit	a) Net Sales - Cost of Goods Sold b) Net Sales x Rate of Gross Profit/100
6. Cash Purchases	a) Prepare Cash and Bank Account Summary b) Total Purchases - Net Credit Purchases
7. Net Credit Purchases	a) Prepare Total Creditors Account b) Total Purchases - Cash Purchases - Purchases Return
8. Net Purchases	a) Cash Purchases + Credit Purchases - Purchases Returns b) Cost of Goods Sold + Closing Stock - Opening Stock
9. Payment to Creditors	a) Total Creditors Account b) Cash and Bank Account Summary
10. Collection from Debtors	a) Total Debtors Account b) Cash and Bank Summary

CALCULATION OF MISSING FIGURES

The information required for preparing the Final Accounts is not directly available from incomplete records. In other words, certain figures are missing from the accounts. Hence, we need to find out such missing figures by preparing relevant accounts. The important ones are discussed below :

i. Ascertaining Total Purchases : Total purchases are calculated by combining cash and credit purchases. Cash purchases, if not given in the question, can be ascertained by balancing Cash Book. Credit purchases are calculated by preparing - (a) Total Creditors Account, or (b) Total Creditors Account and Bills Payable Account.

(a) Total Creditors Account : For ascertaining the amount of credit purchases, the Total Creditors Account should be prepared. The available information should first be entered - opening balance on the credit side, cash paid on debit side, any discount received on debit side, and the closing balance on the debit side. Bills issued to them should also be shown on debit side. The difference between the totals of the two sides will be credit purchases.

(b) Calculation of Bills Payable Accepted : Just like total Creditors Account, a Bills Payable Account is drawn-up. All known figures (such as opening and closing balances of bills payable, bills payable honoured during the year) are inserted in the account and the missing figure is derived

ii. Ascertaining Total Sales : Total sales are calculated by combining cash and credit sales. Cash sales are given in the Cash Book. Credit sales are ascertained by preparing : (a) Total Debtors Account, or (b) Total Debtors Account and Bills Receivable Account.

(a) Total Debtors Account : The amount of credit sales is ascertained by preparing the Debtors Account. The available information is first entered - opening balance on the debit side, cash received on the credit side, any discount allowed or bad debt written off on the credit side and the closing balance on the credit side. Bills received from them is shown on the credit side, the amount of bills dishonoured is entered on the debit side. The difference between the totals of the two sides will be credit sales.

(b) Calculation of Bills Receivable Received from Customers : Just like Total Debtors Account, a Bills Receivable Account is drawn-up. All known figures (such as opening and closing balances of bills receivable, bill honoured during the year, bill dishonoured, renewed during the year) are inserted in the account and the missing figure is derived as Balancing Figure.

iii. Ascertaining Balance of Sundry Debtors and Sundry Creditors : If credit sales and credit purchases are given, the opening or closing balances of debtors and/or creditors can be ascertained by preparing Total Debtors Account and Total Creditors Account.

iv. Ascertaining Balancing of Bills receivable and Bills Payable : If the opening or closing balances of these items are not given, the missing figures can be ascertained by preparing Bills Receivable Account and Bills Payable Account.