10

ACCOUNTS FROM INCOMPLETE RECORDS

Learning Objectives

After studying this chapter, you will be able to:

- Learn how to derive capitals at two different points of time through statement of affairs.
- Learn the technique of determining profit by comparing capital at two different points of time.
- Learn how to adjust fresh capital investment and withdrawals by the proprietors/ partners.
- Learn how to apply standard gross profit ratio to find out cost of sales and purchases.
- Learn how to find out sales using gross profit ratio given purchases and stock.
- Learn how to find out sales, applying gross profit ratio and adjusting for trend.

1. Introduction

Very often the small sole proprietorship and partnership businesses do not maintain double entry book keeping system. Sometimes they keep record only of the cash transactions and credit transactions. Sometimes they maintain no record of many transactions. But at the end of the accounting period they want to know the performance and financial position of their businesses. This creates some special problems to the accountants. This study discusses how to complete the accounts from available incomplete records.

The term **"Single Entry System"** is popularly used to describe the problems of accounts from incomplete records. In fact there is no such system as single entry system. In practice the quack accountants follow some hybrid methods. For some transactions they complete double entries. For some others they just maintain one entry. Still for some others, they even do not pass any entry. This is no system of accounting. Briefly, this may be stated as incomplete records. The task of the accountant is to establish linkage among the available information and to finalise the accounts.

1.1 Features

- It is an inaccurate, unscientific and unsystematic method of recording business transactions.
- There is generally no record of real and personal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.
- Cash book mixes up business and personal transactions of the owners.
- There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.
- Profit under this system is only an estimate and therefore true and correct profits cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

2. Types

A scrutiny of many procedures adopted in maintaining records under single entry system brings forth the existence of following three types:

(i) **Pure single entry**: In this, only personal accounts are maintained with the result that no information is available in respect of cash and bank balances, sales and purchases, etc.. In view of its failure to provide even the basic information regarding cash etc., this method exists only on paper and has no practical application.

(ii) **Simple single entry**: In this, only: (a) personal accounts, and (b) cash book are maintained. Although these accounts are kept on the basis of double entry system, postings from cash book are made only to personal accounts and no other account is to be found in the ledger. Cash received from debtors or cash paid to creditors is simply noted on the bills issued or received as the case may be.

(iii) **Quasi single entry**: In this : (a) personal accounts, (b) cash book, and (c) some subsidiary books are maintained. The main subsidiary books kept under this system are Sales book, Purchases book and Bills book. No separate record is maintained for discounts which are entered into the personal accounts. In addition, some scattered information is also available in respect of few important items of expenses like wages, rent, rates, etc.. In fact, this is the method which is generally adopted as a substitute for double entry system.

3. Ascertainment of Profit by Capital Comparison

This method is also known as **Net Worth method or Statement of Affairs Method**.

Closing Capital - Opening Capital = Profit

If detailed information regarding revenue and expenses is not known, it becomes difficult to prepare profit and loss account. Instead by collecting information about assets and liabilities, it is easier to prepare balance sheet at two different points of time. So, while preparing accounts from incomplete records, if sufficient information is not available, it is better to follow the method of capital comparison to arrive at the profit figure.

3.1 Methods of Capital Comparison

Capital is increased if there is profit, while capital is reduced if there is loss. However, if the proprietor/partners made fresh investments in the business, capital is increased; if they make withdrawal capital is reduced. So while determining the profit by capital comparison, the following rules should be followed.

Capital at the end	₹
Add: Drawings	....
Less: Fresh capital introduced	.....
Capital in the beginning	.....
Profit	.....

It is clear from the above discussion that to follow the capital comparison method one should know the opening capital and closing capital. This should be determined by preparing statement of affairs at the two respective points of time. Capital always equals assets minus liabilities.

Thus preparation of statement of affairs will require listing up of assets and liabilities and their amount. The accountant utilizes the following sources for the purpose of finding out the assets and liabilities of a business enterprise:

(i) Cash book for cash balance

(ii) Bank pass book for bank balance

(iii) Personal ledger for debtors and creditors

(iv) Stock by actual counting and valuation.

(v) As regards fixed assets, he prepares a list of them. The proprietor would help him by disclosing the original cost and date of purchase. After deducting reasonable amount of depreciation, the written down or depreciated value would be included in the Statement of Affairs.

After obtaining all necessary information about assets and liabilities, the next task of the accountants is to prepare statement of affairs at two different points of time.

The design of the statement of affairs is just like balance sheet as given below:

Statement of affairs as on ....

Liabilities	₹	*Assets*	₹
Capital (Bal. Fig.)		Building	
Loans, Bank overdraft		Machinery	
Sundry creditors		Furniture	
Bills payable		Stock	

		Sundry debtors Bills receivable Loans and advances Cash and bank	

Now from the statement of affairs prepared for two different dates, opening and closing capital balances can be obtained.

3.2 Difference between Statement of Affairs and Balance Sheet

Basis	Statement of affairs	Balance sheet
Reliability	It is prepared on the basis of transactions partly recorded on the basis of double entry book keeping and partly on the basis of single basis. Most of the assets are recorded on the basis of estimates, assumptions, information gathered from memory rather than records.	It is based on transactions recorded strictly on the basis of double entry book keeping; each item in the balance sheet can be verified from the relevant subsidiary books and ledger. Hence the balance sheet is not only reliable, but also dependable.
Capital	In this statement, capital is merely a balancing figure being excess of assets over capital. Hence assets need not be equal to liabilities.	Capital is derived from the capital account in the ledger and therefore the total of assets side will always be equal to the total of liabilities side.
Omission	Since this statement is prepared on the basis of incomplete records, it is very difficult, to locate the assets and liabilities, if they are omitted from the books.	There is no possibility of omission of any item of asset and liability since all items are properly recorded. Moreover, it is easy to locate the missing items since the balance sheet will not agree.
Basis of Valuation	The valuation of assets is generally done in an arbitrary manner; therefore no method of valuation is disclosed.	The valuation of assets is done on scientific basis, that is original cost in the case of new assets and depreciated amount on the basis of cost minus depreciation to date for used assets. Any change in the method of valuation is properly disclosed.
Objects	The object of preparing this statement in the calculation of capital figures in the beginning and at the end of the accounting period respectively.	The object of preparing the balance sheet is to ascertain the financial position on a particular date.

3.3 Preparation of Statement of Affairs and Determination of Profit

It has been discussed in Para 3.1 that figures of assets and liabilities should be collected for preparation of statement of affairs. Given below an example:

Illustration 1

Assets and Liabilities of Mr. X as on 31-12-2009 and 31-12-2010 are as follows:

	31-12-2009	*31-12-2010*
	₹	*₹*
Assets		
Building	*1,00,000*	
Furniture	*50,000*	
Stock	*1,20,000*	*2,70,000*
Sundry Debtors	*40,000*	*90,000*
Cash at Bank	*70,000*	*85,000*
Cash in Hand	*1,200*	*3,200*
Liabilities		
Loans	*1,00,000*	*80,000*
Sundry Creditors	*40,000*	*70,000*

Decided to depreciate building by 2.5% and furniture by 10%. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs.

Solution

Statement of Affairs
as on 31-12-2009 & 31-12-2010

Liabilities	*31-12-2009*	*31-12-2010*	*Assets*	*31-12-2009*	*31-12-2010*
	₹	*₹*		*₹*	*₹*
Capital	2,41,200	4,40,700	Building	1,00,000	97,500
(Balancing Figures)			Furniture	50,000	45,000
Loans	1,00,000	80,000	Stock	1,20,000	2,70,000
Sundry Creditors	40,000	70,000	Sundry Debtors	40,000	90,000
			Cash at Bank	70,000	85,000
			Cash in Hand	1,200	3,200
	3,81,200	5,90,700		3,81,200	5,90,700

Illustration 2

Take figures given in Illustration 1. Find out profit of Mr. X.

Solution

Determination of Profit by applying the method of the capital comparison.

	₹
Capital Balance as on 31-12-2010	4,40,700
Less : Fresh capital introduced	40,000
	4,00,700
Add : Drawings (₹ 2000 × 12)	24,000
	4,24,700
Less : Capital Balance as on 31-12-2009	2,41,200
Profit	1,83,500

Note :

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

Illustration 3

A and B are in Partnership having Profit sharing ratio 2:1 The following information is available about their assets and liabilities :

	31-3-2010	*31-3-2011*
	₹	₹
Furniture	*1,20,000*	
Advances	*70,000*	*50,000*
Creditors	*32,000*	*30,000*
Debtors	*40,000*	*45,000*
Stock	*60,000*	*74,750*
Loan	*80,000*	—
Cash at Bank	*50,000*	*1,40,000*

The partners are entitled to salary @ ₹ 2,000 p.m. They contributed proportionate capital. Interest is paid @ 6% on capital and charged @ 10% on drawings.

Drawings of A and B

	A	*B*
	₹	₹
April 30	*2,000*	—
May 31	—	*2000*
June 30	*4,000*	—
Sept. 30	—	*6,000*
Dec. 31	*2,000*	—
Feb. 28	—	*8,000*

On 30th June, they took C as 1/3rd partner who contributed ₹ 75,000. C is entitled to share of 9 months' profit. The new profit ratio becomes 1:1:1. A withdrew his proportionate share. Depreciate furniture @ 10% p.a., new purchases ₹ 10,000 may be depreciated for 1/4th of a year.

Current account as on 31-3-2010: A ₹ 5,000 (Cr.), B ₹ 2,000 (Dr.)

Prepare Statement of Profit, Current Accounts of partners and Statement of Affairs as on 31-3-2011.

Solution

Statement of Affairs
As on 31-3-2010 and 31-3-2011

Liabilities	*31-3-2010* ₹	*31-3-2011* ₹	*Assets*	*31-3-2010* ₹	*31-3-2011* ₹
Capital A/cs					
A	1,50,000	75,000	Furniture	1,20,000	1,17,750
B	75,000	75,000	Advances	70,000	50,000
C	—	75,000	Stock	60,000	74,750
Loan	80,000	—	Debtors	40,000	45,000
			Cash at Bank	50,000	1,40,000
Creditors	32,000	30,000	Current A/c		
			B	2,000	—
Current A/cs					
A	5,000	74,036*			
B	—	48,322*			
C	—	50,142*			
	3,42,000	4,27,500		3,42,000	4,27,500

**See* current A/cs.

Notes:

(*i*) *Depreciation on Furniture*

10% on ₹ 1,20,000	₹ 12,000
10% on ₹ 10,000 for 1/4 year	₹ 250
	₹ 12,250

(*ii*) *Furniture as on 31-3-2011*

Balance as on 31-3-2010	₹ 1,20,000
Add: new purchase	₹ 10,000
	₹ 1,30,000
Less: Depreciation	₹ 12,250
	₹ 1,17,750

(*iii*) Total of Current Accounts as on 31-3-2011

Total of Assets	₹ 4,27,500
Less : Fixed Capital + Liabilities	₹ 2,55,000
	₹ 1,72,500

This is after adding salary, interest on capital and deducting drawings and interest on drawings.

(*iv*) *Interest on Capital* :

A :	on	₹ 1,50,000	@ 6% for 3 months	₹ 2,250
	on	₹ 75,000	@ 6% for 9 months	₹ 3,375
				₹ 5,625
B :	on	₹ 75,000	@ 6% for 1 year	₹ 4,500
C :	on	₹ 75,000	@ 6% for 9 months	₹ 3,375
				₹ 7,875

(*v*) *Interest on Drawings* :

A	: on	₹ 2,000	@ 10% for 11 months	₹ 183
	: on	₹ 4,000	@ 10% for 9 months	₹ 300
	: on	₹ 2,000	@ 10% for 3 months	₹ 50
				533
B	: on	₹ 2,000	@ 10% for 10 months	167
	: on	₹ 6,000	@ 10% for 6 months	300
	: on	₹ 8,000	@ 10% for 1 month	67
				534

Allocation of Profit	₹ 1,15,067	
3 months Profit	₹ 28,767	
9 months Profit	₹ 86,300	
A : 2/3 × ₹ 28,767 + 1/3 × ₹ 86,300		= ₹ 47,944
B : 1/3 × ₹ 1,15,067		= ₹ 38,356
C: 1/3 × ₹ 86,300		= ₹ 28,767
		₹ 1,15,067

Current Accounts

	A	*B*	*C*		*A*	*B*	*C*
To Balance b/d	—	2,000	—	By Balance b/d	5,000	—	—
" Drawings	8,000	16,000	—	" Salary	24,000	24,000	18,000
" Interest on drawings	533	534	—	" Interest on capital	5,625	4,500	3,375
" Balance c/d	74,036	48,322	50,142	" Share of Profit	47,944	38,356	28,767
	82,569	66,856	50,142		82,569	66,856	50,142

Statement of Profit

				₹
Current Account Balances as on 31-3-2011				1,72,500
Less: Salary	A ₹ 2,000 × 12	= ₹	24,000	
	B ₹ 2,000 × 12	= ₹	24,000	
	C ₹ 2,000 × 9	= ₹	18,000	(66,000)
Less: Interest on Capital		A ₹	5,625	
		B ₹	4,500	
		C ₹	3,375	(13,500)
Add: Drawings		A ₹	8,000	
		B ₹	16,000	24,000
" Interest on Drawings		A	533	
		B	534	1,067
				1,18,067
Less: Current A/c Balances as on 31-3-2010 ₹ 5,000 – ₹ 2,000				3,000
				1,15,067

Illustration 4

The Income Tax Officer, assuming the income of Shri Moti for the financial years 2009-2010 and 2010-2011 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti on 1st April 2009 and 1st April, 2011.

				₹
1-4-2009	*Assets*	:	*Cash in hand*	*25,500*
			Stock	*56,000*
			Sundry Debtors	*41,500*
			Land and Building	*1,98,000*
			Wife's Jewellery	*75,000*
	Liabilities	:	*Owing to Moti's Brother*	*40,000*
			Sundry Creditors	*35,000*
1-4-2011	*Assets*	:	*Cash in hand*	*16,000*
			Stock	*91,500*
			Sundry Debtors	*52,500*
			Land and Building	*1,90,000*
			Motor Car	*1,25,000*
			Wife's Jewellery	*1,25,000*
			Loan to Moti's Brother	*20,000*
	Liabilities	:	*Sundry Creditors*	*55,000*

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared income of the financial years were ₹ 1,05,000 for 2009-2010 and ₹ 1,23,000 for 2010-2011 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Solution

Capital A/c of Shri Moti

		1-4-2009		*1-4-2011*
Assets	₹	₹	₹	₹
Cash in hand		25,500		16,000
Stock		56,000		91,500
Sundry Debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		—		1,25,000
Loan to Moti's Brother		—		20,000
		3,88,000		6,20,000
Liabilities:				
Owing to Moti's Brother	40,000		—	
Sundry Creditors	35,000	75,000	55,000	55,000
Capital		3,13,000		5,65,000

Income during the two years:

Capital as on 1-4-2011	5,65,000
Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24)	96,000
	6,61,000
Less: Capital as on 1-4-2009	3,13,000
Income earned in 2009-2010 & 2010-2011	3,48,000
Income declared (₹ 1,05,000 + ₹ 1,23,000)	2,28,000
Suppressed Income	1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by ₹ 1,20,000.

Illustration 5

Suresh does not maintain his books of accounts under the double entry system but keeps slips of papers from which he makes up his annual accounts. He has borrowed moneys from a bank to whom he has to render figures of profits every year. He has given the bank the following profit figures:

Year ending 31st December	*Profits ₹*
2006	*20,000*
2007	*32,000*
2008	*35,000*
2009	*48,000*
2010	*55,000*

The bank appoints you to audit the statements and verify whether the figures of profits report is corrected or not; for this purpose, the following figures are made available to you:

(a) Position as on 31st December, 2005: Sundry debtors ₹ 20,000; Stock in trade (at 95% of the cost) ₹ 47,500; Cash in hand and at bank ₹ 12,600; Trade creditors ₹ 6,000; Expenses due ₹ 1,600.

(b) He had borrowed ₹ 5,000 from his wife on 30th September, 2005 on which he had agreed to pay simple interest at 12% p.a. The loan was repaid alongwith interest on 31st December, 2007.

(c) In December, 2006, he had advanced ₹ 8,000 to A for purchase of a vacant land. The property was registered in March, 2008 after payment of balance consideration of ₹ 32,000. Costs of registration incurred for this were ₹ 7,500.

(d) Suresh purchased jewellery for ₹ 15,000 for his daughter in October, 2008. Marriage expenses incurred in January were ₹ 24,000.

(e) A new VCR was purchased by him in March 2010 for ₹ 18,000 and presented by him to his friend in November, 2010.

(f) His annual household expenses amounted to a minimum of ₹ 24,000.

(g) The position of assets and liabilities as on 31st December 2010 was found to be Overdraft with bank (secured against property) ₹ 12,000; Trade creditors ₹ 10,000. Expenses payable ₹ 600; Sundry debtors (including ₹ 600 due from a peon declared insolvent by Court) ₹ 28,800; Stock in trade (at 125% of cost to reflect market value) ₹ 60,000 and Cash in hand ₹ 250.

It is found that the rate of profit has been uniform throughout the period and the proportion of sales during the years to total sales for the period was in the ratio of 3:4:4:6:8.

Ascertain the annual profits and indicate differences, if any, with those reported by Suresh to the bank earlier.

All workings are to form part of your answer.

Solution

Statement of Affairs as on 31-12-2005

Liabilities		₹	*Assets*	₹
Loan from	₹		Sundry Debtors	20,000
Mrs. Suresh	5,000		Stock on trade-at cost	
Add: Interest Outstanding	150	5,150	$\left(47{,}500 \times \frac{100}{95}\right)$	50,000
Trade Creditors		6,000	Cash in hand & at bank	12,600
Outstanding expenses		1,600		
Capital (Bal. fig.)		69,850		
		82,600		82,600

Statement of Affairs as on 31-12-2010

Liabilities	₹	*Assets*	₹
Bank overdraft-secured		Sundry Debtors	28,800
against property	12,000	Stock in trade	
Trade Creditors	10,000	at cost (₹ 60,000 × 100/125)	48,000
Outstanding expenses	600	Cash in hand	250
Capital Balancing figure	54,450		
	77,050		77,050

Statement of Profit for the period 1-1-2006 to 31-12-2010

		₹
Capital as on 31-12-2010 as per statement		54,450
Add:	Drawings during the period (₹ 24,000 × 5)	1,20,000
	Purchase of property	47,500
	Purchase of jewellery & marriage expenses of Mr. Suresh's daughter	39,000
	Purchase of new VCR for presentation to the proprietor's friend	18,000
		278,950
Less:	Capital as on 31-12-2005 as per statement	69,850
	Profit for the five-year period	2,09,100
Less:	Bad debts not accounted for in the Statement of Affairs as on 31-12-2010	600
	Net profit over the five-year period	2,08,500

Statement showing annual profits and their differences with reported profits: 2006–2010

Year ended	*Apportionment Ratio*	*Annual profit*	*Profit reported*		*Difference to bank*
		₹	₹		₹
31-12-2006	3	25,020	20,000	(+)	5020
31-12-2007	4	33,360	32,000	(+)	1360
31-12-2008	4	33,360	35,000	(–)	1640
31-12-2009	6	50,040	48,000	(+)	2040
31-12-2010	8	66,720	55,000	(+)	11,720
		2,08,500	1,90,000	(+)	18500

4. Techniques of Obtaining Complete Accounting Information

When books of accounts are incomplete, it is essential in the first instance to complete double entry in respect of all transactions. The whole accounting process should be carefully followed and Trial Balance should be drawn up.

4.1 General Techniques

Where the accounts of a business are incomplete, it is advisable to convert them first to the double entry system and then to draw up the Profit and Loss Account and the Balance Sheet, instead of determining the amount of profit/loss by preparing the statement of affairs. As books of accounts of different firms being incomplete in varying degrees, it is not possible to suggest a formula which could uniformly be applied for preparing final accounts therefrom. As a general rule, it is essential first to start the ledger accounts with the opening balances of assets, liabilities and the capital. Afterwards, each book of original entry should be separately dealt with, so as to complete the double entry by posting into the ledger such entries as have not been posted. For example, If only personal accounts have been posted from the Cash Book, debits and credits pertaining to nominal accounts and real accounts that are not posted, should be posted into the ledger. If there are Discount Columns in the Cash Book, the totals of discounts paid and received should be posted to Discounts Allowed and Discounts Received Accounts respectively, for completing the double entry.

Afterwards, the other subsidiary books, *i.e.,* Purchases Day Book, Sales Day Book, Return Book and Bills Receivable and Payable, etc. should be totalled up and their totals posted into the ledger to the debit or credit of the appropriate nominal or real accounts, the personal aspect of the transactions having been posted already.

When an Accountant is engaged in posting the unposted items from the Cash Book and other subsidiary books, he may be confronted with a number of problems. The manner in which some of them may be dealt with is described below:

(1) In the Cash Book, there might be entered several receipts which have no connection with the business but which belong to the proprietor, e.g., interest collected on his private investment, legacies received by him, amount contributed by the proprietor from his private resources, etc. All those amounts should be credited to his capital account. Also the Cash Book may contain entries in respect of payments for proprietor's purchases made by the business. All such items should be debited to his capital account.

(2) Amounts belonging to the business after collection may have been directly utilised for acquiring business assets or for meeting certain expenses instead of being deposited into the Cash Book. On the other hand, the proprietor may have met some of the business expenses from his private resources. In that case, the appropriate asset or expense account should be debited and the source which had provided funds credited.

(3) If cash is short, because the proprietor had withdrawn amount without any entry having been made in the cash book the proprietor's capital account should be debited. In fact, it will be necessary to debit or credit the proprietor's capital account in respect of all unidentified amounts which cannot be adjusted otherwise.

(4) Where the benefit of an item of an expense is received both by the proprietor and business, then it should be allocated between them on some equitable basis e.g. rent of

premises when the proprietor lives in the same premises, should be allocated on the basis of the area occupied by him for residence.

(5) The schedules of sundry debtors and creditors, extracted from respective ledgers maintained for the purpose should be examined to find out if, by mistake, an item of revenue or expense has found its way therein. Having done so and, if necessary after eliminating such amounts, the schedules should be totalled and the total debited to Sundry Debtors Account in the ledger. Similarly, the total of schedules of sundry creditors should be credited to Sundry Creditors Account. One should note that since Sales Account, Purchase Account and other nominal accounts having already been written up on the basis of Day Books, it is not necessary to adjust them further. It is expected that the opening balances in these accounts would have been adjusted by recovery or payment and the receipt from debtors and the payment to creditors correctly posted to the accounts instead of having been recorded as Sales or Purchases. If however, it has been done, these balances would require to be adjusted by transfer to Sales or Purchases Accounts or to Bad Debts or Discount Account, as the case may be.

In the end, it will be possible to extract a Trial Balance. Students are advised always to do so as it will disclose any mistakes committed in making adjustments.

4.2 Derivation of Information from Cash Book

The analysis of cash as well as bank receipts and payments, should be extensive but under significant heads, so that various items of income and expenditure can be posted therefrom into the ledger. However before posting the information into the ledger the same should be collected in the form of an account, the specimen whereof is shown below:

Cash and Bank Summary Account for the year ended

	Cash	*Bank*		*Cash*	*Bank*
	₹	₹		₹	₹
To Balance in hand (opening)	590	7,400	By Expenses (Sundry Payments)	3,000	-
To Sales	6,500	-	By Purchases	100	6,000
To Collection from Debtors	-	10,000	By Sundry Creditors	-	5,000
			By Drawings	1,500	-
			By Petty Expenses	800	-
			By Rent	-	1,000
			By Electricity and water	350	-
			By Repairs	350	-
			By Wages	-	1,000
			By Balance in Hand	990	4,400
	7,090	17,400		7,090	17,400

The important point about incomplete records is that much of the information may not be readily available and that the relevant information has to be ascertained. A good point is to prepare Cash and Bank Summary (if not available in proper form with both sides tallied). The cash and bank balance at the end should be reconciled with the cash and bank books. Having done so, the various items detailed on the Summary Statements, should be posted into the ledger.

It is quite likely that some of the missing information will then be available. Consider the following about a firm relating to 2010.

	₹
Cash Balance on 1st Jan., 2010	250
Bank overdraft on 1st Jan., 2010	5,400
Cash purchases	3,000
Collection from Sundry Debtors	45,600
Sale of old furniture	750
Purchase of Machinery	12,000
Payment of Sundry Creditors	26,370
Expenses	8,450
Fresh Capital brought in	5,000
Drawings	3,230
Cash Balance on 31st Dec., 2010	310
Bank balance on 31st Dec., 2010	1,180

Now prepare the cash and Bank Summary.

Cash and Bank Summary

Dr.			*Cr.*
	₹		₹
Cash Balance as on 1-1-2010	250	Bank Overdraft	5,400
Collection from S. Debtors	45,600	Cash Purchases	3,000
		Purchase of Machinery	12,000
Sale of old furniture	750	Payment to S. Creditors	26,370
Fresh Capital brought in	5,000	Expenses	8,450
Balancing figure	8,340	Drawings	3,230
		Cash balance on 31-12-2010	310
		Bank balance on 31-12-2010	1,180
	59,940		59,940

See that debit side is short by ₹ 8,340. What may be the possible source of cash inflow?

May be cash sales.

4.3 Analysis of Sales Ledger and Purchase Ledger

***Sales Ledger*:** It would disclose information pertaining to the opening balance of the debtors, the goods sold to them on credit during the year, bills receivable dishonoured, if any; cash received from them in the accounting period, discount, rebate or any other concession allowed to them, receipts of bills receivable, returns inwards, bad debts written off and transfers. Journal entries must be made by debiting or crediting the impersonal accounts concerned with contra credit or debit given to total debtors account.

Analysis of Sales Ledger of the year

Opg. Customer Balance	Sales	Bills Disho-noured	Total Debits	Cash Recd.	Dis-counts Alld.	Bills Recd.	Sales Returns	Bad Debts	Total Credit	Balance (clg.)

From the aforementioned, it will be possible to build up information about sales and other accounts which can then be posted in totals, if so desired. It would also be possible to prepare Total Debtors Account in the following form:

Total Debtors Account (assumed figures)

	₹		₹
Opening Balance	5,000	Cash/Bank	10,000
Sales	38,000	Discount	500
Bills dishonored	280	Bills Receivable	20,000
Interest	100	Bad Debts	280
		Closing Balance	12,600
	43,380		43,380

It is evident that any single amount comprised in the total Debtors Account can be ascertained if the other figures are provided. For instance, if the information about sales is not available it could be ascertained as a balancing figure, *i.e.,* in the total Debtors Account given above, if all other figures are given sales would be ₹ 38,000.

Purchases Ledger: Generally speaking, a Purchases Ledger is not as commonly in existence as the Debtors Ledger for it is convenient to make entries in respect of outstanding liabilities at the time they are paid rather than when they are incurred. The information is available in respect of opening balance of the creditors, goods purchased on credit, bills payable dishonored; cash paid to the creditors during the year, discount and other concessions obtained, returns outwards and transfers. Here also, journal entries must be made by debiting or crediting the respective impersonal accounts. Contra credit or debit being given to total creditor's account.

If a proper record of return to creditors, discount allowed by them etc., has not been kept, it will not be possible to write up the Total Creditors A/c. In such a case, net credit purchase will be ascertained as follows:

Cash paid to Creditors including on account of Bills	
Payable during the period	....
Closing balance of Creditors and Bills Payable	....
Total	___________
Less: Opening balance of Creditors and Bills Payable	....
Net credit purchase during the period	....
Alternatively	
Cash paid to creditors during the period	....
Add: Bills Payable issued to them	....
Total	__________
Closing balance of Creditors	
Less: Opening balance of creditors	....
Credit Purchases during the period	....

The information may also be put in the form of an account, just like the Total Debtors Account.

Nominal Accounts: It is quite likely that the total expenditure shown by balance of nominal account may contain items of expenditure which do not relate to the year for which accounts are being prepared and, also, there may exist certain items of expenditure incurred but not paid, which have not been included therein. On that account, each and every account should be adjusted in the manner shown below (figures assumed):

	Cash and Particulars	*Amount Bank Pay-ment*	*Paid out of Accrued*	*Total Private Fund*	*Pre Payment*	*Expenses for the period*
1	*2*	*3*	*4*	*5*	*6*	*7*
	₹	₹	₹	₹	₹	₹
Rent & Rates	2,200	300	100	2,600	150	2,450
Salaries	4,500	500	1,000	6,000	250	5,750

Only the amount entered as "expenses for the period" should be posted to the respective nominal accounts. A similar adjustment of nominal accounts in respect of revenue receipt should be made.

Let us continue with the example given in para 2.2. Given some other information, how to compute credit purchase and credit sale is discussed below:

Opening Balance (1-1-2010)	₹
Stock	20,000
Sundry Creditors	12,300

Sundry Debtors	15,000
Closing Balance (31-12-2010)	
Stock	15,000
Sundry Creditors	13,800
Sundry Debtors	25,600
Discount received during 2010	1,130
Discount allowed	1,870

What are the purchases for 2010? Let us prepare the Sundry Creditors Account.

Sundry Creditors A/c

	₹		₹
To Cash	26,370	By Balance b/d	
To Discount	1,130	(opening)	12,300
To Balance c/d (closing)	13,800	By Purchases (balancing figure)	29,000
	41,300		41,300

The credit purchases are ₹ 29,000; cash purchases are ₹ 3,000: hence total purchases are ₹ 32,000.

Likewise prepare the Sundry Debtors Account:

Sundry Debtors Account

	₹		₹
To Balance b/d (balancing figure)	15,000	By Cash	45,600
To Credit Sales	58,070	By Discount	1,870
		By Balance c/d	25,600
	73,070		73,070

So total sales = credit sales + cash sales

= ₹ 58,070 + ₹ 8,340 = ₹ 66,410

4.4 Distinction between Business Expenses and Drawings

It has been already stated that often the distinction is not made between business expenses and drawings. While completing accounts from incomplete records, it is necessary to scan the business transactions carefully to identify the existence of drawings.

The main items of drawings are:

- rent of premises commonly used for residential as well as business purposes ;
- common electricity and telephone bills ;
- life insurance premiums of proprietor/partners paid from business cash ;

- household expenses met from business cash ;
- private loan paid to friends and relatives out of business cash ;
- personal gifts made to any friends and relatives out of business cash ;
- goods or services taken from the business for personal consumption ;
- cash withdrawals to meet family expenses.

So it is necessary to scan the summary of cash transactions, business resources and their utilisation to assess the nature of drawings and its amount.

4.5 Fresh Investment by proprietors / partners: Like drawings, often fresh investments made by proprietors' partners are not readily identifiable. It becomes necessary to scan the business transactions carefully. Apart from direct cash investment, fresh investments may take the following shape:

- Money collected and put in the business on maturity of Life Insurance Policy of the proprietors;
- Interest and dividend collected and put in the business of personal investment of the proprietors;
- Income from non-business property collected and put in the business.

Unless these items are properly identified and segregated, business income will be inflated and proper statement of affairs cannot be prepared.

Illustration 6

The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2011 and a Balance Sheet as on that date:

(a)		*Balance as on 31st March, 2010* ₹	*Balance as on 31st March, 2011* ₹
	Building	*3,20,000*	*3,60,000*
	Furniture	*60,000*	*68,000*
	Motorcar	*80,000*	*80,000*
	Stocks	*–*	*40,000*
	Bills payable	*28,000*	*16,000*
	Cash and Bank balances	*1,80,000*	*1,04,000*
	Sundry Debtors	*1,60,000*	*–*
	Bills receivable	*32,000*	*28,000*
	Sundry Creditors	*1,20,000*	*–*

(b) Cash transactions during the year included the following besides certain other items:

	₹		₹
Sale of old papers and miscellaneous income	*20,000*	*Cash purchases*	*48,000*
		Payment to creditors	*1,84,000*
Miscellaneous Trade expenses (including salaries etc.)	*80,000*	*Cash sales*	*80,000*
Collection from debtors	*2,00,000*		

(c) Other information:

- *Bills receivable drawn during the year amount to ₹ 20,000 and Bills payable accepted ₹ 16,000.*
- *Some items of old furniture, whose written down value on 31st March, 2010 was ₹ 20,000 was sold on 30th September, 2010 for ₹ 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.*
- *Of the Debtors, a sum of ₹ 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.*
- *Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.*
- *Outstanding salary on 31st March, 2010 was ₹ 8,000 and on 31st March, 2011 was ₹ 10,000 on 31st March, 2010. Profit and Loss Account had a credit balance of ₹ 40,000.*
- *20% of total sales and total purchases are to be treated as for cash.*
- *Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.*

Solution

Trading and Profit and Loss Account of Mr. Shiv Kumar
for the year ended 31st March, 2011

		₹			₹
To	Opening stock (balancing figure)	80,000	By	Sales	4,00,000
			By	Closing stock	40,000
To	Purchases	2,40,000			
To	Gross profit c/d @ 30% on sales	1,20,000			
		4,40,000			4,40,000
To	Miscellaneous expenses (₹ 80,000 – ₹ 8,000 + ₹ 10,000)	82,000	By	Gross profit b/d	1,20,000
			By	Miscellaneous receipts	20,000
			By	Net loss transferred to Capital A/c	25,840

To	Depreciation: Building ₹ 36,000 Furniture ₹ 7,800 (₹ 6,800 + ₹ 1,000) Motor Car ₹ 16,000	59,800			
To	Loss on sale of furniture	11,000			
To	Bad debts	8,000			
To	Provision for doubtful debts	5,040			
		1,65,840			1,65,840

Balance Sheet of Mr. Shivkumar
as on 31st March, 2011

Liabilities	₹	₹	*Assets*	₹	₹
Capital as on 1st April, 2010		7,16,000	Building	3,20,000	
			Add: Addition during the year	40,000	
Profit and Loss A/c			*Less:* Provision for	3,60,000	
Opening balance	40,000				
Less: Loss for the			depreciation	36,000	3,24,000
year	25,840	14,160	Furniture	60,000	
Sundry creditors		1,12,000	*Less:* Sold during the year	20,000	
Bills payable		16,000		40,000	
Outstanding salary		10,000	*Add:* Addition during the year	28,000	
				68,000	
			Less: Depreciation	6,800	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	16,000	64,000
			Stock in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	5,040	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		1,04,000
		8,68,160			8,68,160

Working Notes:

Sundry Debtors Account

		₹			₹
To	Balance b/d	1,60,000	By	Cash/Bank A/c	2,00,000
To	Sales A/c	3,20,000	By	Bills Receivable A/c	20,000
			By	Bad debts A/c	8,000
			By	Balance c/d (balancing fig.)	2,52,000
		4,80,000			4,80,000

Sundry Creditors Account

		₹			₹
To	Cash/Bank A/c	1,84,000	By	Balance b/d	1,20,000
To	Bills Payable A/c	16,000	By	Purchases A/c	1,92,000
To	Balance c/d (balancing figure)	1,12,000			
		3,12,000			3,12,000

Bills Receivable Account

		₹			₹
To	Balance b/d	32,000	By	Cash/ Bank A/c (balancing figure)	24,000
To	Sundry Debtors A/c	20,000			
			By	Balance c/d	28,000
		52,000			52,000

Bills Payable Account

		₹			₹
To	Cash/Bank A/c (balancing figure)	28,000	By	Balance b/d	28,000
			By	Sundry Creditors A/c	16,000
To	Balance c/d	16,000			
		44,000			44,000

Furniture Account

		₹			₹
To	Balance b/d	60,000	By	Bank/Cash A/c	8,000
To	Bank A/c	28,000	By	Depreciation A/c	1,000
			By	Profit and loss A/c (loss on sale)	11,000
			By	Depreciation A/c	6,800

		88,000	By	Balance c/d	61,200 88,000

Cash/Bank Account

		₹			₹
To	Balance b/d	1,80,000	By	Misc. trade expenses A/c	80,000
To	Miscellaneous receipts A/c	20,000	By	Purchases A/c	48,000
			By	Furniture A/c (balancing figure)	28,000
To	Sundry Debtors A/c	2,00,000	By	Sundry Creditors A/c	1,84,000
To	Sales A/c	80,000	By	Bills Payable A/c	28,000
To	Furniture A/c (sale)	8,000	By	Building A/c	40,000
To	Bills Receivable A/c	24,000	By	Balance c/d	1,04,000
		5,12,000			5,12,000

Opening Balance Sheet of Mr. Shivkumar as on 31st March, 2011

Liabilities	₹	*Assets*	₹
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Stock in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	1,80,000
	9,12,000		9,12,000

Illustration 7

A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st December, 2010 is given below:

Receipts	₹	*Payments*	₹
Bank Balance as on 1st January, 2010	*2,800*	*Payments to Sundry creditors*	*35,000*
Received from Sundry Debtors	*48,000*	*Salaries*	*6,500*
		General expenses	*2,500*
Cash Sales	*11,000*	*Rent and Taxes*	*1,500*
Capital brought during the year	*6,000*	*Drawings*	*3,600*
Interest on Investments	*200*	*Cash purchases*	*12,000*
		Balance at Bank on 31st Dec., 2010	*6,400*
		Cash in hand on 31st Dec., 2010	*500*
	68,000		*68,000*

Particulars of other assets and liabilities are as follows:

	1st January, 2010	*31st December, 2010*
Sundry Debtors	*14,500*	*17,600*
Sundry Creditors	*5,800*	*7,900*
Machinery	*7,500*	*7,500*
Furniture	*1,200*	*1,200*
Stock	*3,900*	*5,700*
Investments	*5,000*	*5,000*

Prepare final accounts for the year ending 31st December, 2010 after providing depreciation at 10 percent on machinery and furniture and ₹ 800 against doubtful debts.

Solution

Statement of Affairs of A. Adamjee as on 1-1-2010

	₹		₹
Sundry Creditors	5,800	Machinery	7,500
A. Adamjee's Capital	29,100	Furniture	1,200
(balancing figure)		Stock	3,900
		Sundry Debtors	14,500
		Investments	5,000
		Bank balance (from Cash Statement)	2,800
	34,900		34,900

Ledger Accounts

A. Adamjee's Capital Account

Dr.	₹			*Cr.* ₹
To Drawings	3,600	Jan. 1	By Balance	29,100
To Balance c/d	31,500	Dec. 31	By Cash	6,000
	35,100			35,100

Sales Account

				₹
Dec. 31	To Trading A/c	62,100	Dec. 31 By Cash	11,000
			Dec. 31 By Total Debtors Account	51,100
		62,100		62,100

Total Debtors Account

		₹			₹
Jan. 1	To Balance b/d	14,500	Dec. 31	By Cash	48,000
Dec. 31	To Credit sales (Balancing figure)	51,100	Dec. 31	By Balance c/d	17,600
		65,600			65,600
Jan. 1	To Balance b/d	17,600			

Total Creditors Account

		₹			₹
Dec. 31	To Cash	35,000	Jan. 1	By Balance b/d	5,800
Dec. 31	To Balance b/d	7,900	Dec. 31	By Credit Purchases (Balancing figure)	37,100
		42,900			42,900

A. Adamjee
Trading and Profit & Loss Account for the year ended 31-12-2010

		₹		₹
To Opening Stock		3,900	By Sales	62,100
To Purchases		49,100	By Closing Stock	5,700
To Gross profit c/d		14,800		
		67,800		67,800
To Salaries		6,500	By Gross Profit b/d	14,800
To Rent and Taxes		1,500	By Interest on Investment	200
To General Expenses		2,500		
To Depreciation :				
Machinery	₹ 750			
Furniture	₹ 120	870		
To Provision for Doubtful Debts		800		
To Balance being profit carried to Capital A/c		2,830		
		15,000		15,000

Balance Sheet as on 31st December, 2010

Liabilities	₹	₹	*Assets*	₹	₹
A. Adamjee's Capital			Machinery	7,500	
on 1st January, 2010	29,100		*Less :* Depreciation	750	6,750
Add : Fresh Capital	6,000		Furniture	1,200	
Add : Profit for the year	2,830		*Less :* Depreciation	120	1,080
	37,930				
Less : Drawings	3,600	34,330	Stock-in-trade		5,700
			Sundry Debtors	17,600	
Sundry Creditors		7,900	*Less :* Provision for		
			Double Debts	800	16,800
			Investment		5,000
			Cash at Bank		6,400
			Cash in Hand		500
		42,230			42,230

Illustration 8

From the following data, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2011 and a Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	*As on 1st April 2010*	*As on 31st March 2011*
	₹	₹
Creditors	*15,770*	*12,400*
Sundry expenses outstanding	*600*	*330*
Sundry Assets	*11,610*	*12,040*
Stock in trade	*8,040*	*11,120*
Cash in hand and at bank	*6,960*	*8,080*
Trade debtors	*-*	*17,870*
Details relating to transactions in the year:		
Cash and discount credited to debtors		*64,000*
Sales return		*1,450*
Bad debts		*420*
Sales (cash and credit)		*71,810*
Discount allowed by trade creditors		*700*
Purchase returns		*400*
Additional capital-paid into Bank		*8,500*
Realisations from debtors-paid into Bank		*62,500*
Cash purchases		*1,030*
Cash expenses		*9,570*
Paid by cheque for machinery purchased		*430*
Household expenses drawn from Bank		*3,180*
Cash paid into Bank		*5,000*
Cash drawn from Bank		*9,240*
Cash in hand on 31-3-2011		*1,200*
Cheques issued to trade creditors		*60,270*

Solution

Trading and Profit & Loss Account
for the year ending 31st March, 2011

	₹	₹		₹	₹
To Opening Stock		8,040	By Sales		
			Cash	4,600	
To Purchases	59,030		Credit	67,210	
Less : Returns	400	58,630		71,810	

To Gross Profit c/d	14,810	*Less :* Returns	1,450	70,360
		By Closing Stock		11,120
	81,480			81,480
To Sundry Expenses (W.N.v)	9,300	By Gross Profit		14,810
To Discount	1,500	By Discount		700
To Bad Debts	420			
To Net Profit to Capital	4,290			
	15,510			15,510

Balance Sheet of M/s ....
as on 31st March, 2011

Liabilities	₹	₹	*Assets*	₹
Capital			Sundry Assets	12,040
Opening balance	26,770		Stock in trade	11,120
Add Addition	8,500		Sundry Debtors	17,870
" Net Profit	4,290		Cash in Hand & at Bank	8,080
	39,560			
Less : Drawings	3,180	36,380		
Sundry Creditors		12,400		
Outstanding Expenses		330		
		49,110		49,110

Working Notes:

(i) Cash sales

Combined Cash & Bank Account

	₹		₹
To Balance b/d	6,960	By Sundry Creditors	60,270
To Sundries (Contra)	5,000	By Sundries (Contra)	5,000
To Sundries (Contra)	9,240	By Sundries (Contra)	9,240
To Sundry Debtors	62,500	By Drawings	3,180
To Capital A/c	8,500	By Machinery	430
To Sales (Cash Sales		By Sundry Expenses	9,570
Balancing Figure)	4,600	By Purchases	1,030
		By Balance c/d	8,080
	96,800		96,800

(ii) Total Debtors Account

	₹		₹
To Balance b/d	16,530	By Bank	62,500
(Balancing figure)		By Discount	1,500
To Sales (71,810–4,600)	67,210	By Return Inward	1,450

		By Bad Debts	420
		By Balance c/d	17,870
	83,740		83,740

(iii) Total Creditors Account

	₹		₹
To Bank	60,270	By Balance b/d	15,770
To Discount	700	By Purchases	58,000
To Return Outward	400	(Balancing figure)	
To Balance c/d	12,400		
	73,770		73,770

(iv) Balance Sheet as on 1st April, 2010

Liabilities	₹	*Assets*	₹
Capital (balancing figure)	26,770	Sundry Assets	11,610
Sundry Creditors	15,770	Stock in Trade	8,040
Outstanding Expenses	600	Sundry Debtors	16,530
		Cash in hand & at bank	6,960
	43,140		43,140

(v)	Expenses paid in Cash	9,570
	Add : Outstanding on 31-3-2011	330
		9,900
	Less : Outstanding on 1-4-2010	600
		9,300

(vi) Due to lack of information deprecation has not been provided on fixed assets.

Illustration 9

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31-12-2009	*31-12-2010*
Sundry Debtors	*70,000*	*92,000*
Bills Receivable	*15,000*	*6,000*
Bills Payable	*12,000*	*14,000*
Sundry Creditors	*40,000*	*56,000*
Stock	*1,10,000*	*1,90,000*
Bank	*90,000*	*87,000*
Cash	*5,200*	*5,300*

Summary of cash transactions during 2009-2010:

(i) *Deposited to bank after payment of shop expenses @ ₹ 600 p.m., wages @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.*

(ii) *Withdrawals ₹ 1,21,000.*

(iii) *Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.*

(iv) *Cheques collected from customers but dishonoured ₹ 5,700.*

(v) *Bills accepted by customers ₹ 40,000.*

(vi) *Bills endorsed ₹ 10,000.*

(vii) *Bills discounted ₹ 20,000, discount ₹ 750.*

(viii) *Bills matured and duly collected ₹ 16,000.*

(ix) *Bills accepted ₹ 24,000.*

(x) *Paid suppliers by cheque ₹ 3,20,000.*

(xi) *Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.*

(xii) *Rent received ₹ 14,000 by cheque.*

(xiii) *A building was purchased on 30-11-2007 for opening a branch for ₹ 3,50,000 and some expenses were incurred details of which are not maintained.*

(xiv) *Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200:*

Other transactions:

(i) *Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses ₹ 17,000. The firm anticipates defeat in the suit.*

(ii) *Goods returned to suppliers ₹ 4,200.*

(iii) *Goods returned by customers ₹ 1,200.*

(iv) *Discount offered by suppliers ₹ 2,700.*

(v) *Discount offered to the customers ₹ 2,400.*

(vi) *The business is carried on at the premises owned by the proprietor. 50% of the ground floor space is used for business and remaining 50% is let out for an annual rent of ₹ 20,000.*

Prepare Trading and Profit & Loss A/c of Mr. Anup for the year ended 31-12-2010 and Balance Sheet as on that date.

Solution

Trading and Profit & Loss A/c of Mr. Anup
for the year ended 31-12-2010

	₹	₹		₹	₹
To Opening Stock		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		*Less:* Sales Return	1,200	9,58,550
Less: Purchases Return	4,200	4,49,900	By Closing Stock		1,90,000
To Gross Profit		5,88,650			
		11,48,550			11,48,550
To Wages		1,10,400	By Gross Profit		5,88,650
Electricity & Tel. Charges		20,900	By Discount		2,700
To Legal expenses		17,000			
To Discount		3,150			
To Shop exp.		7,200			
To Provision for claims for damages		1,55,000			
To Shop Rent (Notional)		20,000			
To Net Profit		2,57,700			
		5,91,350			5,91,350

Balance-Sheet as on 31-12-2010

Liabilities	₹	₹	*Assets*	₹
Capital A/c	2,38,200		Building	3,72,000
Add : Fresh capital introduced			Furniture	25,000
Maturity value from LIC	20,000		Stock	1,90,000
Rent	14,000		S. Debtors	92,000
Add : Notional Rent	20,000		Bills Receivable	6,000
Add : Net Profit	2,57,700		Cash at Bank	87,000
	5,49,900		Cash in Hand	5,300
Less : Drawing	16,800	5,33,100		
Sundry Creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity & Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

Sundry Debtors A/c

Dr.	₹		*Cr.* ₹
To Balance b/d	70,000	By Bill Receivable A/c-	
To Bill Receivable A/c-Bills Dishonoured	3,000	Bills Accepted by customers	40,000
To Bank A/c-Cheque dishonoured	5,700	By Bank A/c -	
To Credit sales (Balancing Figure)	9,59,750	Cheque received	5,700
		By Cash	8,97,150
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

Bills Receivable A/c

	₹		₹
To Balance b/d	15,000	By S. Creditors A/c	
To S. Debtors A/c Bills accepted	40,000	Bills endorsed	10,000
		By Bank A/c	19,250
		By Discount A/c	750
		(Bills discounted)	
		By Bank	
		Bills Collected on Maturity	16,000
		By S. Debtors	
		Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

Sundry Creditors A/c

	₹		₹
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase	
		(Balancing figure)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

Bills Payable A/c

	₹		₹
To Bank A/c Balance figure	22,000	By Balance b/d	12,000
To Balance c/d	14,000	S. Creditors A/c	
		Bills accepted	24,000
	36,000		36,000

Summary Cash Statement

	Cash ₹	Bank ₹		Cash ₹	Bank ₹
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To S. Debtors (Bal. Fig)	8,97,150		By Cash		1,21,000
To Cash		7,62,750	By Shop exp.	7,200	
To Bank	1,21,000		By Wages	1,10,400	
			By Drawing A/c	16,800	
To S. Debtors		5,700	By Bills Payable		22,000
To Bills Receivable		19,250	By S. Creditors	77,200	3,20,000
To Bills Receivable		16,000	By Furniture	25,000	
To Capital (maturity value of LIC policy)		20,000	By S. Debtors		5,700
To Capital (Rent received)		14,000	By Electricity & Tel. Charges	18,700	
			By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

Statement of Affairs as on 31-12-2009

Liabilities	₹	*Assets*	₹
S. Creditors	40,000	Stock	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital: Balancing figure	2,38,200	Bills Receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

Illustration 10

AVL is an unemployed science graduate with typewriting qualification. Being unable to get employment for more than ₹ 500 p.m. he decided to start his own typewriting institute. He approached U.B.C. Bank which sanctioned him a loan of ₹ 20,000 on 1-1-2010. His father gifted him ₹ 5,000 on 1-1-2010. He purchased 6 typewriters worth ₹ 24,000.

Unable to understand the accounts properly, he seeks your help in preparing a Profit and Loss Account and Balance Sheet relating to the year ending 31-12-2010. His Pass Book reveals the following:

		₹
(a)	*Expenses of the Institute*	*8,400*
(b)	*Salary to self*	*4,000*
(c)	*Monthly Fees Collected*	*32,700*
(d)	*Examination Fees Collected*	*4,200*

The following are the additional details available:

(1) During the year AVL purchased a second-hand cycle costing ₹ 400 from a student who owed monthly fees of ₹ 100. The balance was paid. The cycle is used for the institute only.

(2) AVL helped a friend by encashing a cheque for ₹ 1,000 which was dishonoured. The friend has so far repaid only ₹ 400.

(3) AVL has taken ₹ 600 per month for personal expenses in addition to his salary.

(4) AVL runs the institute from his house for which a rent of ₹ 600 p.m. is paid. 50% may reasonably be allocated for his own living.

(5) The following are outstanding as at end of 31-12-2010

		₹
(a)	*Fees Receivable*	*2,200*
(b)	*Expenses Payable*	*1,000*
(c)	*Salary to Self for Nov. and Dec.,*	
(d)	*Stock of stationery on hand*	*200*

(6) Provide Depreciation 20% on typewriters and cycle.

(7) The loan from Bank is repayable at ₹ 500 p.m. from the beginning of July onwards. Interest is payable at 12% per annum in addition to instalments for principal.

(8) Assume that all transactions are routed through Bank and no cash is handled.

Solution

Profit & Loss Account of AVL for the year ending 31st December, 2010

	₹	₹		₹
To Sundry Expenses	8,400		By Fees earned	35,000
Add : Outstanding	1,000	9,400	By Examination fee	4,200
To Rent		3,600	By Stock of Stationery	200
To Depreciation				

Typewriters	4,800			
Cycle	80	4,880		
" Interest on Loan		2,295		
" Net Profit transferred				
to Capital A/c		19,225		--------
		39,400		39,400

Balance Sheet of Mr. AVL as on 31st Dec., 2010

Liabilities	₹	₹	*Assets*	₹	₹
Capital	5,000				
Add : Net Profit	19,225		Typewriters	24,000	
	24,225		*Less :* Dep.	4,800	19,200
Less : Drawings	14,800	9,425	Cycle	400	
			Less : Dep.	80	320
Bank loan		17,000	Stock of stationery		200
Expenses payable		1,000	Fees receivable		2,200
			Loan to friend		600
			Cash at bank		4,905
		27,425			27,425

AVL has made a wise decision in starting the Institute. After starting the Institute AVL's cash position as well as net profit position is better than the earning from employment.

Working Notes :

		₹
(i)	Fees earned	32,700
	Add : Due on the closing date	2,200
	Adjustment in payment for cycle purchased	100
		35,000
(ii)	Interest on Bank Loan @ 12% p.a. on	₹
	₹ 20,000 for Jan. to June	1,200
	₹ 19,500 for July	195
	₹ 19,000 for August	190
	₹ 18,500 for September	185

₹ 18,000 for October	180
₹ 17,500 for November	175
₹ 17,000 for December	170
	2,295

(iii) **Bank Account**

	₹		₹
To Capital A/c (Gift)	5,000	By Typewriters	24,000
" Bank Loan	20,000	" Sundry Expenses	8,400
" Students' fees	32,700	" Drawings (salary)	4,000
" Exam. fees	4,200	" Cycle (Purchase)	300
" Sundries (friend's Cheque)	1,000	" Advance (friend's)	1,000
To Advance (Recovered)	400	" Sundries (friend's cheque dishonoured)	1,000
		" Drawings	7,200
		" Rent Paid	7,200
		" Bank loan (500 × 6)	3,000
		" Bank Interest	2,295
		" Balance c/d	4,905
	63,300		63,300

(iv) **Drawings Accounts**

	₹		₹
To Rent	3,600	By Balance c/d	14,800
To Bank - Cash withdrawal	7,200		
To Bank - Taken as salary	4,000		
	14,800		14,800

(vi) Salaries to proprietor is not considered as an item of expense. Profit is believed to be the product of capital, labour and management.

Summary

- Single entry system is generally found in sole trading concerns or even in partnership firms to some extent but never in case of limited liability companies on account of legal requirements.
- There are basically 3 types of single entry systems:
  - (i) Pure Single Entry
  - (ii) Simple Single Entry
  - (iii) Quasi Single Entry
- Single entry system ignores the concept of duality and therefore, transactions are not recorded in their two-fold aspects.
- Closing Capital = Opening Capital + Additional Capital – Drawings + Profits
- Techniques of obtaining complete accounting information

General techniques

- Derivation of Information from Cash Book