

CHAPTER 20

ACCOUNTS FROM INCOMPLETE RECORDS: SINGLE ENTRY SYSTEM

❖ **Meaning of Accounts from Incomplete Records**

- Those accounts in which rules of debit and credit are not strictly followed are known as accounts from incomplete records.

Generally, this accounting is followed by small businesses, where double entry system is not compulsory by law like, sole proprietorship, partnership accounts, etc.

❖ **Features**

- Suitable for small businesses where maintenance of all accounts is not compulsory by any law.
- There exists no set of defined and universal rules for maintaining books of accounts.
- The small businesses mainly maintain books for personal accounts (like, Debtors Account, Creditors Account, etc.) and Cash Book.

❖ **Advantages**

- Maintenance of accounts is comparatively easier under accounts from incomplete records than under double entry system.
- Less need of proper knowledge to maintain books, so there is no need of trained personnel. Less expensive, as there is **no** need to appoint specialised accountant or purchase accounting softwares.
- Less time consuming as only few books are to be maintained.

❖ Disadvantages

- Difficulty in detection of errors and manipulations. The preparation of financial statements is neither easy nor effective as it is under double entry system.
- As arithmetical accuracy **cannot** be determined, so this may provoke fraud.
- As profit or loss **cannot** be ascertained easily and consequently balance sheet cannot be prepared, so it is difficult to analyse the true financial position of the business. Due to the incomplete records and inconsistency, comparisons are less feasible.
- It does **not** reflect the true and acceptable presentation of expenses and revenues.
- Since analysis of solvency, profitability and liquidity of business **cannot** be done, so it is difficult to assess the viability of the business and to raise fund from external sources.

❖ Difference between Double Entry System and Accounts from Incomplete Records

Basis of Difference	Double Entry system	Accounts from Incomplete Records
Rules of debit and credit	Strictly followed	Not strictly followed
Preparation of account	Real, nominal and personal accounts are prepared	Generally, Cash Book and personal accounts are prepared
Trial balance	Trial Balance can be prepared	Trial Balance cannot be prepared easily
Measurement of performance	Trading Account, Profit and Loss Account and Balance Sheet are prepared for measuring performance.	Statement of Affairs and Statement of Profit and Loss are prepared for measuring performance.
Suitable	For all organisations either small or large	For all small scale and single handled organisations.

❖ **Determination of Profit or Loss**

There are two methods of determining profit.

- Statement of Affairs Method
- Conversion Method

❖ **Statement of Affairs Method:** It refers to the statement of all assets and liabilities prepared for ascertaining capital balances (opening and closing), when capital balances are not mentioned in the question. After ascertaining the balances of capital, Statement of Profit or Loss is prepared to ascertain the profit earned/loss suffered during an accounting period.

- *Performa of Statement of Affairs*

Statement of Affairs as on

Liabilities	Amount Rs	Assets	Amount Rs
All Individual liabilities		All Individual Assets	
Capital			
(Balancing figure)			

NOTE: Separate Statement of Affairs is prepared for finding out capital in the beginning and capital at the end.

Capital = Total Assets – Total Liabilities

Statement of Profit or Loss	Amount Rs
Capital at the end	
<i>Add:</i> Drawings made during the year	
<i>Less:</i> Additional capital introduced during the year	
<i>Less:</i> Capital in the beginning	
Profit earned (Loss made) during the year	

❖ Conversion Method

In order to find out profit or loss through profit and loss account and to prepare balance sheet, accounts from incomplete records is converted into double entry system by the help of following steps.

- *Step 1:* Record all the relevant transactions in their respective accounts. In this manner, mainly Cash Account, Debtors Account, Bills Receivable Account, Creditors Account, Bills Payable Accounts and other available personal and real accounts.
- *Step 2:* Ascertain the balancing figure of all the above accounts.
- *Step 3:* With the help of the balancing figure ascertained in step 2, Trading Account and Profit and Loss Account and Balance Sheet can be prepared.

❖ Difference between Balance Sheet and Statement of Affairs

Basis of Difference	Balance Sheet	Statement of Affairs
Purpose	To reflect the financial position of the business	To find out capital balances
Need of Trial Balance	Balance Sheet is prepared through Trial Balance	It is not prepared through Trial Balance
Detection of errors and omission	Errors can be easily detected, if balance sheet is not matched.	Errors and omissions cannot be easily detected while preparing statement of affairs.
Reliability	It is more reliable.	It is less reliable, as the books are estimate-based.
Authenticity	The authenticity of the Balance Sheet is guaranteed as items in the Balance Sheet are backed by evidences.	The authenticity of the Statement of Affairs is skeptical as the items in the Statement of Affairs lack evidences and source documents.