

Chapter 13

Accounts for Incomplete Records

Learning Objectives:

We can learn following points from this chapter:

- Meaning, Definitions and Specialties of Incomplete Accounts & Reasons thereof.
- Difference between Double Accounting System & Incomplete Accounting.
- Calculation of profits from Statement of Affairs.
- Calculation of profit & preparation of Final Accounts through Conversion Method.

Accounts for Incomplete Records:

In most of the businesses, accounting of business transactions is recorded in double entry system, which is considered as best, complete & scientific method but, small traders like Trolley men, Milk seller, Pan seller, Hawkers etc. do not use double entry accounting method for recording their business transactions. In double entry accounting system, both the aspects of all the transactions are recorded in accounting books, based on certain assumptions & principles, for which an accountant or person with the accounting knowledge is required. For small traders, keeping an accountant is unnecessary and expensive. Thus, these traders neither use double entry system to record their business transactions nor prepare all the accounting books. Despite of that, they keep only necessary books as per their convenience, which provide important & basic information. In these books, cash book is the most important book. In credit transactions, it is very important to know how much money is to be received or to be paid to someone. To know such information, businessmen keep record of all the debtors & creditors. In this method, apart from cash & individual accounts, all other transactions, property and income & expenses related expenditures are usually not kept separately, thus this is called Accounting for Incomplete records.

This incompleteness in records may be more or less as per necessity which is clear in following situations:

- (1) Keeping only personal accounts : Only small traders like Pan vendor, Trolley men, Milk men etc. open personal accounts and they do not need other accounts necessary. All the debit & credit transactions are directly accounted in their accounts. In this situation, even basic information regarding cash, bank, sales-purchase etc. cannot be obtained.
- (2) Keeping personal accounts & cash account: Only small traders who do not have complete knowledge of accounting, keep personal accounts along with cash account & cash book but posting from cash book is done only in personal accounts & not in any other account.
- (3) Keeping Personal accounts, cash book & some subsidiary books: Some businessmen also keep some subsidiary books like purchase book, sales book apart from personal accounts & cash book. These subsidiary books are used to post in personal accounts but the total of these subsidiary books are not computed, thus, no posting is done in sales, purchase account etc. Total is directly mentioned in personal accounts and sometimes labor, rent etc. expenses are separately accounted for.

In brief, we can easily say that in the situation of incomplete records, the decision to keep which kind of books depends on need and convenience of businessmen along with the size of business and number of business transactions. Some authors also describe incomplete records as single entry system, but it is not right to say, so as some incomplete records contain both the aspects of some business transactions, only one aspect of some business transactions and no accounting of some records. In actuality, this is an incomplete, impure, unscientific and unsystematic method of accounting.

1.1 Definition of Incomplete record system

Some scholars have defined incomplete accounting system in these ways:

- (i) According to **J.R. Batliboy**, Incomplete record system is not any special system of book keeping, it is just double accounting system in an incomplete way.
- (ii) According to **Kohler**, Incomplete accounting system and single entry system are such systems in which as per rules only cash account & personal accounts are accounted.
- (iii) According to **William Pickles**, Incomplete accounting system includes, all commonly known methods of book keeping, which are different from each other in description but similar to each other in one aspect that it cannot fulfill double accounting system.

It is clear, based on above definitions, under Incomplete accounting system, cash & personal accounts are kept and this is incomplete form of double accounting system.

1.2 Characteristics of Incomplete Records:

Incomplete records have the following characteristics:

1. **Cash account is the main base:** In the situation of incomplete records, cash book is the main base, in which all cash transactions are recorded. Separate accounts are not opened for expenses incurred in business, like salary, rent, labor etc. Information regarding expenses incurred in all these heads can be obtained from cash book only. Information regarding sale-purchase of goods & sale-purchase of assets is also obtained from cash book. Some businessmen do not record only their business transactions in cash book but personal transactions as well.
2. **Keeping only personal accounts:** In this method, businessmen open only personal accounts like debtors, creditors etc. Mostly, income & expense related accounts are not opened.
3. **Dependence on evidences:** Real & nominal accounts are not opened in this method. Thus, we depend on evidence to obtain information regarding these accounts like sale-purchase of assets, income & expenditures, sale-purchase of goods etc.
4. **Lack of Uniformity:** Structure of Incomplete records is not fixed. Businessman does necessary changes in system as per his convenience. Some businessmen maintain only cash book. Some businessmen open cash account, sales account, purchase account along with debtors & creditors accounts. Some businessmen keep all subsidiary books and, sales account, purchase account, sales

return account, purchase return account, accrued bill, outstanding bill etc. Thus, there is lack of uniformity.

5. **Suitable for small Traders:** This type of system is suitable for sole and traders or small traders related to partnership firms. Corporate can't experiment with this method as they must maintain accounts as per regulatory requirements and Companies Act.
6. **Simple & Inexpensive:** This method is simple & inexpensive for those traders who either do not have knowledge of accounting principles or cannot incur expenses related to keeping an accountant. For small traders, maintaining accounts as per double entry system is expensive & useless.

1.3 Reason of Incompleteness:

Incompleteness in records may be due to following reasons:

1. **Unawareness of double entry accounting method:** Incomplete accounting method is adopted by those businessmen who do not have complete knowledge of double entry accounting principles. Thus, due to lack of technical knowledge & resources, they cannot maintain complete accounts in their establishments.
2. **Ease & Convenience:** It is convenient & easy to use. In Incomplete accounting method, Businessmen can change it as per their need.
3. **Inexpensive:** Trained personals are not required for maintaining incomplete records. It can be maintained by the businessman himself or by hiring an employee at a lower salary. This method is popular among small traders due to the benefit of low cost.
4. **For Concealing real situation of business:** Sometimes businessman may not keep complete accounts for evading taxes as it is easy to know about the correct financial picture of business from complete accounts.
5. **Due to natural calamities:** If books of business get destructed due to natural calamities (like flood, fire etc.) then businessman can keep incomplete records.

Demerits of Incomplete System of Accounting:

Incomplete accounting system have following demerits:

1. **It is not possible to check arithmetical accuracy:** In incomplete accounting system, both the aspects of some transactions are recorded while only one aspect of some transactions are accounted. Thus, it is not possible to prepare trial balance through incomplete records and thus it is not possible to check the arithmetical accuracy of accounting.
2. **True profit/loss cannot be ascertained:** Incomplete system, only cash book & personal accounts are opened. Real & nominal accounts are not opened. Thus, complete description of income & expenses is not available and thus it is not possible to know true profit/loss and can not prepare trading & profit & loss account. Only estimated profit can be calculated through incomplete accounting.

3. **Incomplete & unscientific:** In this method, only one aspect of few transactions are recorded & both aspects of some transactions are recorded. There are few transactions for which accounting is not possible. Thus, this method is called incomplete & unscientific.
4. **True financial position cannot be ascertained:** In this method, all assets & liabilities are not accounted, thus it is very difficult to prepare balance sheet of the business. Thus, it is not possible to ascertain the true financial position of the business, only estimated position can be ascertained.
5. **Chances of fraud:** Chances of fraud are more in this system, as it is difficult to test the genuineness of accounts. Thus, it is not easy to detect fraud & manipulations done by employees.
6. **Comparative analysis is not possible:** As complete accounting of all transactions is not available, it is not possible to get complete information related to these. In this situation, it is not possible to compare growth of business e.g., comparative analysis of previous year sales & current year sales.
7. **Important information may not be available:** In today's competitive world, many important data & information are required to assess the business. Due to incomplete accounting, it is not possible to gather important information and do comparative study.
8. **Lack of control over Assets:** In this method, assets accounts are not opened, thus it is not possible to exercise complete control over assets. Due to non-preparation of assets accounts, provision of depreciation cannot be made and possibility of misuse & theft of assets are there.
9. **Carelessness of Employees:** Internal control & internal audit is not possible in incomplete records. Thus, it is not possible to detect frauds & manipulations done by employees, making them prone to working carelessly.
10. **Difficult to prove:** In case of any legal issues, it is difficult to prove in incomplete records. Court of law, Income tax authorities and sales tax officials do not recognize incomplete records.
11. **Other demerits:**
 - (i) Difficulty in calculation of goodwill while sale of business.
 - (ii) Difficulty in getting loans & help from Financial Institutions.
 - (iii) Difficulty in getting claim from Insurance Companies for destroyed goods.

2.0 Difference between Double Entry Accounting System and Accounting for Incomplete Record System:

Double entry accounting system and Incomplete Records System have following differences:

Basis of Difference	Double Entry Accounting System	Accounting for Incomplete Record
1. Assumptions & Principles	This system is based on certain assumptions & principles.	There is no certain assumptions & principles in this system.
2. Aspect	In this method accounting of all transactions are recorded in two aspects: Debit & Credit side.	In this method, accounting of a few transactions are recorded in two aspects & a few are recorded in single aspect.
3. Nature of transactions	In this method, all the transactions related to business are accounted.	In this method, all the transactions related to business are not recorded. Some business men may also record personal transactions in this system.
4. Method	This is completely scientific method in which all the transactions are accounted by double entry.	This is not a scientific method and thus not based on any accounting law.
5. Calculation of profit or loss	In this method, true profit or loss can be determined by preparing trading & profit & loss account on a certain date.	It is not possible to calculate true profit or loss; it can only be estimated.
6. Knowledge of Financial position	In this method, true financial position can be known by preparing balance sheet at the end of the year.	In this method, instead of balance sheet, statement of affairs is prepared to know estimated financial position.
7. Arithmetical accuracy	In this method, arithmetical accuracy of the accounts can be checked by preparing trial balance.	In this method, it is not possible to check arithmetical accuracy of the accounts.
8. Detail of accounts	In this method, all types of accounts (Personal, Real & Nominal) are opened.	In this method, only personal accounts (debtors & creditors) and cash account are opened.
9. Adjustments	In this method, various types of adjustments (like outstanding expenses, accrued income, prepaid expenses, depreciation etc.) are done.	No adjustments are done in this method.
10. Utility	This method is used by all type of traders.	This method is used by only small traders & small joint businesses.
11. Recognition	This method is recognized by all the segments of government & society.	This method is not recognized by all the segments of government & society.

3.0 Ascertainment of Profit from Incomplete Records:

Irrespective of the method of book keeping, it is important for all the businessmen to know about the profit/loss made by him during a particular period, financial position of his business on a particular date and form of capital invested in the business. In double entry accounting system, this information may be known by preparation of profit & loss account and balance sheet. In the case of incomplete records, it is difficult to know true profit/loss. At the end of particular period, estimated profit/loss can be ascertained from incomplete records. There are two methods for calculation of profit/loss under Incomplete Accounting System:

- (1) Statement of Affairs Method.
- (2) Conversion Method or preparing Final Accounts.

3.1 Statement of Affairs Method:

In this method, profit/loss are calculated by comparing opening capital at the beginning of year and closing capital at the end of the year. If closing capital is more than opening capital, that means business has earned profit and otherwise loss. In this method, it is assumed that usually if closing capital is more than opening capital, it is due to profit earned during the year and if closing capital is less than opening capital, it is due to loss incurred during the year. For example, an establishment has capital of ₹1,00,000 at the beginning of the year and if its capital at the end of the year it is ₹1,25,000 then, it is assumed that increase of ₹25,000 in capital is due to profit earned by the business during the year. If the closing capital is ₹80,00 as compared to same opening capital, then the reduction in capital of ₹20,000 (₹1,00,000 - ₹80,000) is due to loss incurred during the year.

In the situation of incomplete accounting, financial position of the business may be known by preparing special statement of capital, which is also called Statement of Affairs. This statement of affairs is a document, like Balance Sheet, where estimated value of assets is shown on right side and liabilities on left side. Difference in both the side shows Capital of the business on a particular date. Information required to prepare Statement of affairs are obtained from incomplete accounts, memory power of the businessman, inspection and many other different sources. The amount which is mentioned on asset side is obtained from cash book or by counting, bank pass book, and amount of debtors from personal accounts. Amount of stock and other assets can be taken by inspection, invoice, files etc. Amount mentioned on liability side can be obtained from personal accounts for creditors, bank amount from pass book and outstanding expenses from asking around. Thus, after describing all the assets & liabilities in the way, mentioned above, the difference of both side of statement of affairs is the capital of the owner of the business on that particular date. The format of Statement of Affairs is as follows.

Statement of affairs as on.....

Liabilities	₹	Assets	₹
Capital	---	Fixed Assets	---
Reserves & Surplus	---	Land & Building	---
Long Term	---	Plant & Machinery	---
Liabilities	---	Investment	---
Debentures	---	Furniture	---
Long term Loan	---	Current Assets	---
Current Liabilities	---	Stock	---
Trade Creditors	---	Debtors	---
Bills Payable	---	Cash & Bank	---
Outstanding	---	Prepaid Expenses	---
Expenses		Accrued Income	---
Unearned Income			

3.1.1 Difference between Statement of Affairs and Balance Sheet:**(i) Source of information:**

In statement of affairs, some information is taken from the books of ledger, some from memory of businessman and some are estimated. In balance sheet is prepared from the information taken from the balances of different ledger accounts opened in the books of businessman.

(ii) Purpose:

Purpose of preparing statement of affairs is to ascertain the capital, through which profit/loss can be calculated, while balance sheet is prepared to know the financial position of the business.

(iii) Accuracy:

While preparing statement of affairs from incomplete records, any information might be omitted, thus its accuracy is doubtful. On the other hand, Balance sheet is prepared from books of accounts, prepared through double entry accounting system, thus there is no possibility of any omission of information ensuring the accuracy of balance sheet.

(iv) Information regarding Capital:

In statement of affairs, the capital is calculated through the difference between assets & liabilities. In balance sheet, the amount of capital is known through the preparation of separate capital account.

(v) Trust:

- Even if any information is omitted (assets or liabilities), while preparing statement of affairs, then also total of both sides can be matched as capital is calculated through the balancing figure (asset - liabilities). In balance sheet, if any information is missing (assets or liabilities), then total of both the sides will not be matched and error can be identified.

(vi) Trial Balance:

Trial balance is not prepared before preparing statement of affairs, while trial balance is prepared before making balance sheet to check the arithmetical accuracy of the accounts.

3.1.2 Following process is followed to know profit/loss in Statement of Affairs method:

- (i) **Calculation of capital at the beginning of the year (opening capital):** To calculate the opening capital at the beginning of the year, the statement of affairs at the beginning of year is prepared through information regarding assets & liabilities at the beginning of the year. For this, following formula can be used:

Capital (Opening or Initial) = Assets at the beginning of the year - Liabilities at the beginning of the year

- (ii) **Calculation of capital at the end of the year (closing capital):**

To calculate the closing capital at the end of the year, the statement of affairs at the end of the year is prepared through information regarding assets & liabilities at the end of year. For this following formula, can be used:

Capital (Closing) = Assets at the end of the year - Liabilities at the end of the year.

- (iii) **Preparing statement of profit or loss:**

If the businessman has not invested any additional capital during the year, and he has not taken any amount in the form of drawings, then by comparing the opening & closing capital, profit/loss can be derived. If businessman has invested any additional capital, or has made any drawings, then to derive profit/loss, adjustments regarding drawings & additional capital in the closing capital, and by comparing it with opening capital, profit/loss can be calculated. Amount of drawing reduce the closing capital, thus it is added back to closing capital and additional capital increases the closing capital, thus it is to be reduced from closing capital. By this method, adjusted closing capital is calculated, based on which profit/loss can be derived. Calculation of profit/loss of the business is done by preparing statement of profit/loss in following way:

Statement of Profit or Loss

Particulars	Amount
Capital at the end of the year (Closing Capital)	---
Add- Drawings during the year	---
Add- Capital withdrawn	---

Less Additional Capital Introduced during the year	---

Adjusted closing Capital	---
Less-Capital at the beginning of the year	---
Profit (+) or Loss (-) for the year	---

Profit = Adjusted Closing Capital – Initial Capital

Loss = Initial Capital – Adjusted Closing Capital

In Statement of Affairs method, following adjustments are made while calculating profit/loss:

(i) **Adjustment for interest on capital, interest on drawings and salary:** Salary & interest given to partner or owner will be deducted from the profit calculated by the above method and interest earned during the year on the drawings made by partner or owner of the business, will be added. Profit calculated through above method is profit before the interest on capital, salary and interest on drawings. Thus, in this profit, above mentioned adjustments are to be made.

(ii) **Adjustments regarding assets & Liabilities:** In some questions, information regarding depreciation on assets, recovery of bad debts, provision for discount, provision for doubtful liabilities are also mentioned. While making final statement of affairs, depreciation on related assets, recovery of bad debts from debtors and provision for discount are to be deducted and after adjusting doubtful liabilities, closing capital is calculated and based on this, adjusted closing capital, profit/loss is to be calculated.

(iii) **Adjustments regarding profit/loss on sale of fixed assets:** Sometimes information regarding profit/loss, on sale of fixed assets is also mentioned. Profit on sale of fixed assets is capital gain and loss on sale is capital loss. Whereas, profit/loss from business is profit/loss in the nature of revenue. Thus, while calculating profit/loss, capital gain from sale of fixed assets is deducted from true and fair profit & capital loss is added in such profit.

Illustration 1: Ganesh started business with a capital of ₹ 48,000 on 1st January, 2016. The particulars of his assets and liabilities as on 31st December, 2016 are given below:

	(₹)		(₹)
Cash in hand	3,900	Investment	10,000
Cash at Bank	10,680	Debtors	18,500
Stock in trade	23,120	Creditors	7,400
Furniture	3,200		
Bills Receivable	2,000	Bills Payable	2,800

Ascertain the Profit or Loss of Ganesh for the year 2016.

Solution:

Capital at the beginning of the year is provided in the question, thus capital at the end of the year is calculated by preparing Statement of Affairs:

Statement of Affairs as on 31st December 2016

Liabilities	₹	Assets	₹
Bills Payable	2,800	Cash in hand	3,900
Creditors	7,400	Cash at Bank	10,680
Capital (Balancing Figure)	61,200	Bills Receivable	2,000
		Debtors	18,500
		Stock in Trade	23,120
		Furnitures	3,200
		Investment	10,000
	71,400		71,400

Statement of Profit and Loss for the year ending 31st December 2016

Capital at the end of the year	61,200
Less: Capital at the beginning of the year	48,000
Profit for 2016	13,200

Illustration 2: Raghav gives you the following information. Ascertain the Profit or Loss of for the year 2016-17 from the following information:

	1 st April, 2016 (₹)	31 March, 2017 (₹)
Bank Balance	12,000 (Cr)	6,000 (Dr)
Sundry Debtors	48,000	1,20,000
Sundry Creditors	24,000	30,000
Stock	18,000	24,000
Plant	30,000	30,000
Furniture	12,000	12,000

Raghav had withdrawn ₹ 36,000 during the year and he introduced fresh capital of ₹ 7,200 on 1st October, 2016. A provision of 5% on sundry debtors is necessary. Write off depreciation on plant and furniture at 5%. Interest on Capital is to be allowed at 5% per annum.

Statement of Affairs as on 1st April 2016

Liabilities	₹	Assets	₹
Bank Overdraft	12,000	Sundry Debtors	48,000
Sundry Creditors	24,000	Stock	18,000
Capital	72,000	Furniture	12,000
(Balancing Figure)		Plant	30,000
	1,08,000		1,08,000

Statement of Affairs as on 31st March 2017

Liabilities	₹	Assets	₹
Sundry Creditors	30,000	Cash at Bank	6,000
Capital	1,53,900	Sundry Debtors	<u>1,20,000</u>
(Balancing Figure)		Less: Provision for	1,14,000
		Bad Debts	<u>6,000</u>
		Stock	24,000
		Furniture	12,000
			11,400
		Less: Depreciation	<u>600</u>
		Plant	<u>30,000</u>
			28,500
		Less: Depreciation	<u>1,500</u>
	1,83,900		1,83,900

**Statement Showing Profit
for the Year ending 31st March, 2017**

Particulars	₹
Capital at the end of the year as per Statement of Affairs	1,53,900
Add: Drawings during the year 2016-17	36,000
	1,89,900
Less: Fresh Capital Introduced on 1 st October 2016	7,200
Adjusted Capital	1,82,700
Less: Capital at the beginning of the year as per Statement of Affairs	72,000
Profit before Charging Interest on Capital	1,10,700
Less: Interest on Capital	3,780
Net Profit	1,06,920

Working Note: Interest on capital has been calculated as follows:

	₹
On ₹72,000 @ 5% for one year	3,600
On ₹72,000 @ 5% for half year	<u>180</u>
(1 st Oct, 2016 to 31 st March, 2017)	<u>3,780</u>

Points to remember:

- Interest on capital is always calculated on opening balance of the capital.
- Interest rate on capital, is given at the per annum, thus interest will be provided only for the time, for which capital was invested in the business. Thus, interest is provided for 6 months only on the additional capital introduced on October 01, 2016.

3.1.3 Calculation of Profit/loss for Partnership firm:

In the statement of affairs method, to calculate the profit/loss of a partnership firm, joint capital of all the partners is to be taken as base. For this purpose, first of all, statement of affairs is made for the calculation of the joint capital of partners at the end of the business period. On this capital, adjustments, regarding drawings made by partners & additional capital introduced by the partners are made. From this adjusted capital, opening capital at the beginning of the business period is to be deducted to know profit before adjustment of salaries of partners & interest on capital. From this profit, salary payable to partners & interest on capital is deducted to arrive at true/ fair profit.

Illustration 3:

A, B and C are in partnership, sharing profit and losses in the proportion of 3:2:1 respectively.

Their Statement of Affairs on 31st March, 2016 stood as follows:

Statement of Affairs as on 31st March 2016

Liabilities	₹	Assets	₹
Sundry Creditors	24,000	Cash in hand	1,500
Capital:		Cash at Bank	4,500
As Capital 84,000		Sundry Debtors	24,000
Bs Capital 72,000		Stock in Trade	78,000
Cs Capital <u>60,000</u>	2,16,000	Furniture	9,000
		Machinery	51,000
		Building	72,000
	2,40,000		2,40,000

On 31st March, 2017 their sundry Creditors amounted to ₹ 30,000 and their Book Debts at ₹46,800. Cash in hand at that date was ₹1,170. Cash at Bank was ₹6,000. Stock was ₹81,000. Other assets are as they were. An examination of Cash Book showed that during the year A, B and C had withdrawn ₹9,000, ₹7,200 and ₹6,000 respectively.

It was agreed that each Partner capital was to be credited with interest at 5% p.a. and the capital account of A & B, who were working partners were to be further credited with ₹10,800 and for ₹7,200 respectively for salary. Furniture was to be depreciated at 5% and Machinery at 10% p.a. Prepare the statement of Profit and Loss for the year 2016-17 and the Balance Sheet as on 31st March, 2017.

Solution:

Statement of affairs to calculate the closing capital at the end of year:

**Statement of Affairs
as on 31st March 2017**

Liabilities	₹	Assets	₹
Sundry Creditors	30,000	Cash in hand Cash at	1,170
Capital:		Bank	6,000
(Balancing Figure)	2,31,420	Sundry Debtors	46,800
		Stock in Trade	81,000
		Furniture 9,000	
		Less: Depreciation <u>450</u>	8,550
		Machinery 51,000	
		Less: Depreciation <u>5,100</u>	45,900
		Building	72,000
	2,61,420		2,61,420

**Statement of Profit or Loss
for the year 2016-17**

Particulars	₹
Capital at the end of the year	2,31,420
Add: Drawings during the year (total of all the partners)	22,200
Adjusted Capital	2,53,620
Less: Capital at the beginning of the year as (all Partners)	2,16,000
Profit before Charging Interest & Partner's salaries	37,620

**Statement showing distribution
of Profit amongst Partners**

	₹
Profit (before charging interest and Partners Salaries)	37,620
Less: salary to partners 1 (A ₹10,800 + B ₹7,200)	18,000
Less: Interest on Capital (A ₹4,200+ B ₹3,600+ C ₹3,000)	19,620
Net Profit	10,800
Profit to be distributed among partners in ratio of 3:2:1 (A ₹ 4,410, B ₹ 2,940, C ₹1,470)	8,820

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Sundry Creditors	1,430,000	Cash in hand	1170
Capital		Cash at Bank	6000
As Capital- 94,410		Sundry Debtors	46800
Bs Capital- 78,540		Stock in Trade	81000
Cs Capital- <u>58,470</u>	2,320	Furnitures	9,000
		Less: Depreciation	<u>450</u>
		Machinery	51,000
		Less: Depreciation	<u>5,100</u>
		Building	72,000
	2,61,420		2,61,420

Note: Partner's capital on 31st March 2017, is calculated by preparing Partner's Capital Account as follows:

Date	Particulars	A	B	C	Date	Particulars	A	B	C
2015 March 31	To Drawings	₹ 9,000	₹ 7,200	₹ 6,000	2014 April	By Balance b/d	₹ 84,000	₹ 72,000	₹ 60,000
March 31	To Balance c/d	94,410	78,540	58,470	2015 March 31	By Interest On Capital	4,200	3,600	3,000
						By Salary	10,800	7,200	-
						By profit & Loss	4,410	2,940	1,470
		1,03,410	85,740	64,470			1,03,410	85,740	64,470

Conversion Method or Preparing Final Accounts :-

In incomplete Records, all the required information are not available with the businessman. So all the business transactions are not recorded in this method. Normally, only cash book and personal accounts are prepared and due to this reason accuracy of profit may be doubtful under Statement of Affairs method. Information regarding all assets and liabilities are also not based on opened accounts, in addition to that balances of some assets and liabilities are not available and/or based on estimate. All accounts, related to income and expenses are not available to determine true Profit/Loss for the year ending.

Just to determine true profit/loss and financial position, we can convert the incomplete record into Double entry system. For this purpose information, which are not available or unknown may be traced with the help of available information. Two methods may be used for the purpose.

A) Detailed Conversion Method:

Under this method, with the help of opening balances of Assets and Liabilities, we can prepare the Opening Balance sheet and doing opening entries, open the Accounts of the assets and liabilities in the books of accounts. Transactions of the business are recorded as per Double Entry System with the opening of related accounts in the books. At the end of the accounting year, Trail balance may be prepared with the help of the account balances and then Trading, Profit and Loss Account and Balance sheet. In this we are to do work from the beginning, so many things are repeated and there is a lot of wastage of time and resources.

B) Abridged Conversion Method

Under this method it is not required to do accounting as per double entry system for the purpose of calculation of fair profit and financial position of the business. In this method, it is not necessary to do double entry for all transactions and does not require ledger accounts. Items which are not known, but require for Trading Profit and Loss account and Balance sheet, may be traced out by the preparation of various accounts and statements and directly carried to Trail balance and/or Final accounts.

Under this method, what are to be traced out, will depend on available information. On the basis of given information it will be decided that which information necessary for final accounts are available and what are to be traced out. Finding out, the information which are not available.

Under double entry system, with the help of the format of any account and various transactions shown any one item (debit or credit) can be found out as a balancing figure. Two items of an account cannot be found out from one account. Generally following items may be traced out at the time of final accounts:

1) To find out Opening balance of Capital:

If a business started as a new business, the capital introduced initially, by the businessman will be the opening capital but if it is running from past year/years, then opening capital will be found out by preparation opening balance sheet. Difference between Assets and Liabilities will be Capital: Formula for finding opening Capital:

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

2) Cash and Bank Balances:

Generally cash and bank balances are known/available. But if opening or closing balances of cash and bank are not available, we can find out such balances with the preparation of cash book (two/three Column). With the help of cash book, opening/closing balances of cash/bank, payment to creditors/bills payable, received from debtors/bills receivables, cash purchases, cash sales etc. can be found out. Sometimes totals of both sides of cash book do not equal or there is difference, then difference may be sundry expenses/incomes, drawings, extra capital etc. If the total of debit side is more than credit side, difference will be treated as sundry expenses or drawings and shown on credit side. If it is otherwise the difference will be treated as sundry incomes/additional capital and the same are shown on debit side of the cash book. Opening balance

of cash/ bank and all cash/ bank receipts are shown on debit side of the cash/ bank account and all payments , closing balance of cash/ bank are shown on credit side.

(3). Amount of Credit sales and Debtors Amount:

If in the given question information regarding opening / closing balance debtors , credit sales receipts from debtors or any other information are not available /unknown , that information may be found out with the help of total debtors account as under.

Total Debtors Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	-	By Cash Received	-
To Sales (Credit)	-	By Bank (Cheque Received)	-
To B/R dishonored	-	By Bills Receivable	-
To Noting Charge	-	By Discount allowed	-
To Cash Refund	-	By Bad Debts	-
To Interest Charges	-	By Allowances	-
To Sundry Expense	-	By Sales Return	-
To Carriage Charge	-	By Transfer	-
To Bank(Chq. disho.)	-	By Balance C/d	-
To Total Creditor A/c (Endorsed B/R Dishonoured)	-		

(1) Amount of Credit Purchases and Creditors :-

If the opening / closing balance of creditors , credit purchases , payment to creditors or any other information related to creditors are not available / unknown, that can be found out with help of Total Creditor Account as under .

Total Creditors Account

Particulars	(₹)	Particulars	(₹)
To Purchases Return	-	By Balance b/d	-
To Bank(Cheque issued)	-	By Credit Purchases	-
To Cash Paid	-	By B/P Withdrawn	-
To B/P Accepted	-	By Interest on Renewals	-
To Discount Rec.	-	By Carriages	-
To Allowances	-	By Sundry Expense	-
To B/R (Endorsed)	-	By Noting Charges	-
To Transfer	-	By Cash Refund	-
To Balance C/d	-	By Total Debtors (Endorsed B/R Dishonoured)	-
	-		-

(5) Amount of Bill Receivables :-

If information regarding B/R is not available / unknown, that can be found out with the help of Bills Receivables Account as under .

Bills Receivable Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	-	By Debtors a/c (B/R dishonored)	-
To Debtors a/c (B/R received)	-	By Bank a/c (discounted)	-
		By Discount a/c	-
		By Cash (Cash received)	-
		By Creditors a/c (B/R Endorsed)	-
		By Balance c/d	-
	-		-

(6) Amount of Bills Payable:

The opening balance or closing balance of bills payable account, amount payable to creditors on accepted bills and amount paid on bills payable, can be calculated by preparing Bills payable Account. Its format is as follows:

Bills Payable Account

Particulars	(₹)	Particulars	(₹)
To Cash (Payment)	-	By Balance b/d	-
To Creditors a/c (B/P withdrawn)	-	By Creditors a/c (B/P Accepted)	-
To Balance c/d	-		-

Illustration 4:

Shivam did not keep his books as double entry system. His Assets and Liabilities as on 1st April, 2016 consisted of the following:

Furniture ₹40,000; Stock ₹2,00,000; Sundry debtors ₹60,000; Cash ₹1,60,000; Sundry creditors ₹60,000.

The following are the transactions for the year ending 31st March 2017:

	(₹)
Collection from Debtors	2,00,000
Cash Sales	1,60,000
Cash Purchases	60,000
Salaries	48,000
Office Expenses	20,000
Interest Received on investment at 10% for the half year ending 31 st March, 2017	4,000
Bills Receivable realized	20,000
Bills Payable Paid	16,000
Drawings	24,000
Sale of a Scooter belonging to his son and the proceeds introduced in the business	16,000

The following are the balances on 31st March, 2017:

Stock ₹2,00,000; Sundry debtors ₹1,20,000; Sundry Creditors ₹1,00,000; Bills receivable ₹24,000; Cash ₹24,000.

You are required to prepare Profit and Loss Account for the year ending 31st March 2017 and a Balance Sheet as on that date.

Solution:

Trading and Profit and Loss Account for the year ending 31st March, 2017

Particulars	(₹)	Particulars	(₹)
To Opening Stock	2,00,000	By Sales:	
To Purchases:		Cash 1,60,000	
Cash 60,000		Credit <u>3,04,000</u>	4,64,000
Credit <u>3,44,000</u>	4,04,000		
To Gross Profit c/d	60,000	By Closing Stock	2,00,000
	<u>6,64,000</u>		<u>6,64,000</u>
To Salaries	48,000	By Gross Profit b/d	60,000
To Office Expenses	20,000	By Interest	4,000
		By Net Loss	4,000
		(Transferred to Capital)	
	<u>68,000</u>		<u>68,000</u>

Balance Sheet as on 31st March 2017

Liabilities		Amount ₹	Assets		Amount ₹
Creditors		1,00,000	Cash in hand		24,000
Capital:			Stock		2,00,000
Balance	4,00,000		Sundry debtors		1,20,000
Add: Addition	<u>16,000</u>		Bills Receivable		24,000
	4,16,000		Investment $(\frac{4,000 * 100 * 12}{10 * 1 * 6})$		80,000
Less: Drawings	<u>24,000</u>		Furniture		40,000
	3,92,000	3,88,000			
Less: Net Loss	<u>4,000</u>				
		4,88,000			4,88,000

Working Notes:

- (i) Credit sales has been calculated by making Total Debtors account. For Total Debtors account, amount of Bills Receivable is calculated by first preparing Bills Receivable account:

Bills Receivable Account

Particulars	Amount ₹	Particulars	Amount ₹
To Sundry Debtors	44,000	By Cash	20,000
(Balancing Figure)		By Balance c/d	24,000
	44,000		44,000

Total Debtors Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	60,000	By Cash	2,00,000
To Sales (Balancing Figure)	3,04,000	By Bills Receivable (as per B/R A/c)	44,000
		By Balance c/d	1,20,000
	3,64,000		3,64,000

- (i) Credit Purchase is calculated by making Total Creditors account. For Total Creditors account, amount paid to creditors is calculated through cash book and amount of accepted bill is calculated through bills payable account

Bills Payable Account

Particulars	Amount ₹	Particulars	Amount ₹
To Cash (B/P Paid) a/c	16,000	By Sundry Creditors a/c (Balancing Figure)	16,000
	16,000		16,000

Cash Book

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	1,60,000	By Purchase a/c	60,000
To Debtors a/c	2,00,000	By Salaries a/c	48,000
To Sales a/c	1,60,000	By Office Expenses a/c	20,000
To Interest a/c	4,000	By Bills Payable a/c	16,000
To Bills receivable a/c	20,000	By Investment a/c	80,000
To Capital a/c	16,000	By Drawings a/c	24,000
		By Creditors a/c	2,88,000
		By Balance c/d	24,000
	5,60,000		5,60,000

Total Creditors Account

Particulars	Amount ₹	Particulars	Amount ₹
To Bills Payable	16,000	By Balance b/d	60,000
To Cash Paid	2,88,000	By Purchases a/c (Balancing Figure)	3,44,000
To Balance c/d	1,00,000		
	4,04,000		4,04,000

Statement of affairs at the beginning of the year to calculate opening capital:

Statement of Affairs as on 01.04.2016

Liabilities	Amount ₹	Assets	Amount ₹
Sundry Creditors	60,000	Cash in hand	1,60,000
Capital (Balancing Figure)	4,00,000	Debtors	60,000
		Stock	2,00,000
		Furniture	40,000
	4,60,000		4,60,000

- (iv) Value of assets is calculated interest and its percentage.

7 To calculate opening & closing stock

If amount of opening or closing stock is not given in the question, then it is to be calculated by preparing Memorandum Trading A/c. If any of the four heads from the main heads of trading account opening stock, closing stock, sales, purchase and gross profit are known, then one unknown head can be calculated. Format of this account is as follows:

Memorandum Trading Account

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock (Bal. Fig.)	-	By Sales	-
To Purchases	-	By Closing Stock	-
To Carriage & Expense on purchases		(Balancing Figure)	
To Direct Wages	-		
To Manufacturing Expenses	-		
To Gross Profit (Given)	-		
	-		
	-		-

If the amount of opening stock is given in the question, then writing it to debit side of memorandum trading account, total of debit side will be more than credit side, this excess will be value of closing stock. Similarly, if the closing stock is given, credit it to the credit side of the account, now the excess of the credit side will be the amount of opening stock. Normally rate of gross profit is given in the question, if it is not given then it may be calculated on the basis of previous year sales and profit as:

$$\text{Rate of Gross Profit} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

If the rate of gross profit is given on sales, then gross profit will be as under-

$$\text{Gross Profit} = \text{Sales} \times \frac{\text{Rate of gross profit}}{100}$$

If rate of gross profit is given on Cost of goods and cost of goods is not given in the question, gross profit may be calculated on the basis of sales as :

$$\text{Gross Profit} = \text{Sales} \times \frac{\text{Rate of gross profit}}{100 + \text{Rate of gross profit}}$$

Alternative Method :

Calculation of value of opening and closing stock may be done on the basis of Cost of Goods Sold

rather than memorandum trading account as:

Calculation of Opening Stock --	-Cost of goods sold	-----
	Add-Closing stock.	-----
	Less : Purchases.	-----
	Less-Opening Stock	-----
Calculation of Closing Stock --	Opening Stock	-----
	Add- Purchases-	-----
	Less-Cost of goods sold	-----
	Closing Stock	-----

If cost of goods sold is not given, we can find out it as under:

a) If rate of gross profit is, on Cost of Sales :

$$\text{Cost of goods sold} = \frac{\text{Total Sales}}{100 + \text{Rate of Gross profit}} \times 100$$

b) If rate of gross profit is on Sale -

$$\text{Cost of goods sold} = \frac{\text{Total sales} \times (100 - \text{Rate of G. P.})}{100}$$

8) Calculation of Cash Sales and Cash Purchases:

$$\text{Cash Sales} = \text{Total Sales} - \text{Credit Sales.}$$

$$\text{Cash Purchases} = \text{Total Purchases} - \text{Credit purchases.}$$

9) Calculation of amount of Sales:

If cash and credit sales are not given in the question ,we can find out

With the help of cost of goods sold as under:

Opening Stock-	-----
Add- Purchases-	-----

Less-Closing stock-	-----

Cost of Goods sold-	-----
Add- Gross profit-	-----

Amount of total Sales-	-----

For example, closing stock of a unit is ₹. 2250, Total sales ₹.21900, Total Purchases ₹.16200 and goods sold on- Cost + 1/3 profit on cost.

Amount of Opening will be-

Cost of sales = (Total sales x 100) ÷ 100 + rate of Gross profit.

Now Cost of sale = (21,900 x 100) ÷ 100 + 33.33%

Or say --- (21,900 x 3 x 100) ÷ 400 Or say it is ₹.16, 425.

Opening Stock = Cost of sales + Closing stock – Total Purchases.

Or say – (16,425 + 2,250) – 16,200 = ₹.2,475.

If in the same question Opening stock is given (₹.2475), value of Opening stock will be -

Closing Stock = (Opening stock + Total purchases) – Cost of Sales.

Or say – (2,475 + 16,200) – 16,425 = ₹. 2,250 .

(10) Calculation of unknown information regarding Fixed Assets:

If any figure regarding Fixed Assets is not available, it may be found out with the help of Fixed Assets Account. Its format is given below-

Fixed Assets Account

Particulars	Amount	Particulars	Amount
To Balance b/d	—	By Cash (sale of asset)	—
To Cash (purchase }	—	By Depreciation on assets	—
To Bank (purchase)	—	By P & I A/c (Loss on sale of	—
To Vender (credit purchase)	—	fixed assets)	—
To P & L A/C (profit on sale of fixed assets)	—	By Balance b/d	—

Illustration 5:

While preparing Final Accounts from incomplete records, it was found that cash account is out of balance and the record of sales is wholly unreliable. Therefore it was decided to ignore the sales figures as recorded and arrive at sales on the basis of purchases as shown and the gross profit percentage which is 25% on sales. From the information given below, you are required to prepare P & L Account for the year ending 31/ 03/ 2017 and Balance Sheet as on the date.

Balances as on 1/ 04/ 2016: Cash balance ₹.37,500, Stock ₹.4,000. Plant ₹.15,000, Building ₹.35,000, Furniture ₹.2,500, Creditors ₹.18,000 and Capital ₹.76,000. Cash abstracts for the year—

Sales of plant (cost Rs. 6,000) – ₹. 5,000, Additional Capital ₹.30,000, Loans ₹.10,000, Unexplained receipts ₹.4,400, Salaries ₹. 25,200, Drawings ₹.10,400, Paid to Creditors ₹.1,15,000, General Expenses ₹. 7,500, Plant purchased (01/07/2016) ₹. 20,000. During the year Goods purchased ₹ 1,00,000 and returns ₹. 3,000. Stock at the end was at ₹.32,600. All sales were in cash. Depreciation on plant @ 10% p. a.

During the year goods worth ₹ 1,00,000 were purchased and goods worth ₹ 3,000 were returned to the suppliers .Stock in hand on 31st March 2017 was valued at ₹ 32,600.All sales for cash. Provide depreciation on plant at 10% per annum .

		(₹)
Opening Stock		4000
Add: Purchases	1,00,000	
Less – Returns	3,000	97,000
		1,01,000
Less – Closing Stock		32,600
Cost. Of Goods Sold		68,400
Add- Gross Profit @25% on sales		
i.e.33.33% on cost		22,800
Total Sales		91,200

Trading & Profit and Loss Account
for the year ending 31st March,2017

Dr.		for the year ending 31 st March,2017		Cr.	
Particulars		Amount ₹	Particulars	Amount ₹	
To Opening Stock		4,000	By Sales	91,200	
To Purchases	1,00,000		By Closing Stock	32,600	
Less P. Returns	3,000	97,000			
To Gross Profit c/d		22,800			
		<u>1,23,800</u>		<u>1,23,800</u>	
To General Charges		7,500	By Gross Profit b/d	22,800	
To Salaries		25,200	By net Loss	13,300	
To Depreciation		2,850	(Transfer to Capital a/c)		
To Loss on sale of Plant		550			
		36,100		36,100	

Working Notes :-

- (i) Calculation of depreciation @ 10% p.a. ₹
- | | |
|--|--------------|
| Plant sold on 1-1-2017 for cost of 6,000 there for depreciation for 9month | 450 |
| Balance of plant cost ₹.9,000 .on this cost for one year. | 900 |
| Plant, cost ₹.20,000 purchased on 01-07-2016 , on this for 9 month | 1500 |
| Total Depreciation | <u>2,850</u> |
- (ii) Calculation of loss on sale of plant
- | | |
|---|------------|
| Cost of plant sold as on 01-04-2016 | 6,000 |
| Less – depreciation up to date of sale , for 9 months | 450 |
| Written down value on the date of sale | 5,550 |
| Receipts on the sale of plant | 5,000 |
| Loss of sale on plant | <u>500</u> |

Balance Sheet as on 31st March, 2017.

Liabilities	Amount ₹	Assets	Amount ₹
Loans	10,000	Stock	32,600
Suspense Accounts (unexplained Receipts)	4,400	Furnitures	2,500
Capital:		Plant & Machinery	
Balance on 1.4.16	76,000	Balance on 1.4.16	15,000
Additional capital	<u>30,000</u>	Purchased	<u>20,000</u>
	1,06,000		35,000
Less Drawings	<u>1,0,400</u>	Less : Sales on plant	<u>5,550</u>
	95,600	W.D.V 31.12.2016	29,450
Less: Net Loss	<u>13,300</u>	Less : Depreciation	<u>2,850</u>
	82,300	Building	26,600
	96,700		35,000
			96,700

Working Notes:- There is no cash balance , it can be seen by preparing cash Account.

Particulars	Amount ₹	Particulars	Amount ₹
To balance b/d	37,500	By salaries	25,200
To capital (Additional)	30,000	By drawings	10,400
To Loans	10,000	By creditors	1,15,000
To Sale of Plant	5,000	By general charges	7,500
To Unexplained Receipts	4,400	By plant purchase	20,000
To cash sales	91,200		
	1,78,100		1,78,100

Typical Illustrations

Illustration 6:

"A" is a small trader, and he keeps incomplete records. His position of affairs were as follows on 1st April, 2016.

Statement of Affairs

as on 01.04.2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	36,000	Cash in hand	6,000
Bills payable	3,000	Bank balance	15,000
Capital	1,02,000	Debtors	57,000
(balancing figure)		Stock	45,000
		Furniture (cost)	18,000
	1,41,000		1,41,000

As a result of operations, during the year ended 31st March, 2017

- His cash position has improved by ₹. 3,000.
- Stock had decreased to ₹. 39,000 and debtors by ₹. 6,000.
- Creditors appeared at the same figure as on 1st April, 2016.
- There were no bills payables outstanding.
- Furniture (at cost less sale proceeds of old furniture which has cost ₹.7, 500) stood as ₹. 12,000.

The sale of furniture took place on 31.03.2017. It is estimated that furniture depreciated during the period at the rate of 5% per annum of the original cost. Calculate the profit / loss made by "A" during the year ended 31st march, 2017 and prepare a statement of affairs as on the date.

Solution:

Statement of affairs as on 31st March, 2017

Liabilities	₹	Assets	₹
Creditors	36,000	Cash in hand	9,000
Capital	87,975	Cash at Bank	15,000
(balancing figure)		Debtors	51,000
		Stock	39,000
		Furniture	9,975
	1,23,975		1,23,975

Statement of Profit/ Loss during the year 2016-17

Particular	Amount (₹.)
Capital at the beginning of the year 01.04.2016	1,02,000
Less: capital at the end of the year 31.03.2017	87,975
Net loss (opening capital –closing capital)	14,025

Working notes-

	(₹)
I. Depreciation on furniture	
On, cost of furniture 18,000@ 5% p.a.	900
II. Calculation of loss on sale of furniture	
Cost of furniture sold	7,500
Less: depreciation up to 31.03.2017	375
	<u>7,125</u>
Less- sales of furniture	6,000
	<u>1,125</u>
Loss on sale of furniture	
Calculation of sale value of furniture	
Opening balance of furniture	18,000
Less-Closing balance of furniture	12,000
Amount of sales	6,000

III Calculation of closing balance of furniture by preparing Furniture Account

Furniture account

To balance b/d	18,000	By cash (sale of furniture)	6,000
		By depreciation (5% On 18,000)	900
		By loss on sale of furniture	1,125
		By balance b/d	9,975
	18,000		18,000

Illustration 7:

Kapil keeps incomplete records and following information are disclosed from his record.

	31 st Dec. 2015	31 st Dec. 2016
Balance at bank	8,400 (Cr)	22,400 (Dr.)
Furniture	20,000	20,000
Investment	20,000	20,000
Cash in hand	400	1600
Stock	60,000	80,000
Debtors	1,20,000	1,14,000
Creditors	1,00,000	1,08,000
Bills payable	4,000	2,000
Loan from Mr. Salu	--	12,000

Kapil Transferred Rs. 1000 per month during first half year and Rs. 800 per month for the remaining period from the business to his private bank account by way of drawings. In addition to that , he withdrew Rs. 20,000 for his daughter's marriage and Rs.4000 for charitable purposes. He also withdrew goods worth Rs. 4,000 for domestic purposes.

In September, 2016 he has received a lottery prize of Rs. 20,000 of which he invested into the business Rs. 16,000. He sold his private car for Rs. 12,000 and proceeds were utilised for business. He wants his furniture to be depreciated at 10% per annum and provisions for doubtful debts are to be created at 5%. Prepare a statement of profit or loss for the year ending 31st Dec. 2016.

Statement of affairs

Liabilities	31.12.2015 (₹.)	31.12.2016 (₹.)	Assets	31.12.2015 (₹.)	31.12.2016 (₹.)
Bank overdraft	8,400	---	Cash in hand	400	1600
Creditors	1,00,000	1,08,000	Cash at bank	---	22,400
Bills payable	4,000	2,000	Stock	60,000	80,000
Loan from Salu	----	12,000	Debtors	1,20,000	1,14,000
Capital	1,08,000	1,36,000	Investment	20,000	20,000
(balancing figure)			Furnitures	20,000	20,000
	2,20,400	2,58,000		2,20,400	2,58,000

Note- Statement of Affairs can be prepared in columnar form, to calculate opening and closing capital.

Statement of profit/ loss for the year ending,31 /12/2016

Particular	Details	Amount ₹
Capital as at end of the year 31.12.2016		1,36,000
Add- Drawing during the year-		
Deposit in personal A/c	10,800	
For daughter's marriage	20,000	
For charitable purpose	4,000	
Goods withdrawn	4,000	38,800
		1,74,800
Less: additional capital	16,000	
Out of lottery prize	12,000	28,000
Out of sale of old car		
		1,46,800
Adjusted capital-		1,08,000
Less : Capital as at beginning of the year 31.12.2015		38,800
Profit before adjustment		
Less : depreciation on furniture	2,000	7,700
Provision for bad debts-	5,700	
		31,100
Net profit for the year		

Note: In above question, all adjustments are in statement of profit. Depreciation and adjustments are not shown in statement for calculation of Closing capital.

Illustration 8 –

Vimal carries on business as a retail merchant. He does not maintain regular account books. His position as on 1st April, 2016 was as follows: Cash in hand Rs. 1,500 ; Stock in trade Rs. 3,750; Furniture Rs. 900; Sundry debtors Rs. 7,500; Sundry creditors Rs. 1,875.

His cash transactions during the year were:-

Receipts	₹.	Payments	₹.
Cash sales	9,000	Cash purchase	6,000
Receipts from debtors	33,750	Payment to creditors	28,500
Commission	150	Salaries	1,875
Rent	450		
Furniture purchased	600		
Sundry expenses	600		

On 31st March, 2017 his position was as follows:

Sundry debtors ₹. 9,000 ; Stock in trade ₹. 5,625; Sundry creditors ₹. 2,400 Provide 6% interest on capital and 10% depreciation on furniture. Prepare final accounts from the above information.

Solution**Trading and profit/ loss Account For the year ending 31st March, 2017**

Particular	Amount (₹)	Particular	Amount (₹)
To opening stock	3,750	By sales: cash- 9,000	
To Purchase: cash-6,000		- Credit <u>35,250</u>	44,250
- Credit <u>29,025</u>		By Closing Stock	5,625
	35,025		
To Gross Profit c/d	11,100		
	49,875		49,875
			11,100
To salaries	1,875	By Gross Profit b/d	150
To rent	450	By commission	
To sundry expenses	600		
To interest on capital	707		
To depreciation	150		
To Net profit (Transferred to Capital a/c)	7,468		
	11,250		11,250

Balance sheet as on 31st March, 2017

Liabilities	(₹)	Assets	(₹)
Sundry creditors	2,400	Cash in hand	6,375
Capital :		Stock in trade	5,625
Balance 11,775		Sundry Debtors	9,000
Add interest 707		Furnitures 900	
Net profit <u>7,468</u>	19,950	Add- purchase 600	
		<u>1,500</u>	
		Less – depreciation 150	1,350
	22,350		22,350

Working Note : Credit sales, Credit purchase, Opening capital and Cash balance are calculated by opening different accounts as follows :

1) Calculation of credit sales :

Dr.

Total Debtors Account

Cr.

To balance b/d	7,500	By cash a/c	33,750
To sales a/c (balancing figure)	35,250	By balance c/d	9,000
	42,750		42,750

2) Calculation of credit purchases:

Total Creditors Account

To cash a/c	28,500	By balance b/d	1,875
To balance c/d	2,400	By purchase a/c (bal. Figure)	29,025
	30,900		30,900

3) Calculation of cash balance :

Cash Account

To balance b/d	1,500	By purchase a/c	6,000
To sales a/c	9,000	By sundry creditors a/c	28500
To sundry debtors a/c	33,750	By Salaries a/c	1875
To commission a/c	150	By Rent a/c	450
		By Furniture a/c	600
		By Sundry Expenses	600
		By Balance c/d	6375
	44,400		44,400

4) Calculation of opening Capital

Statement of Affairs as on 01/04/2016

Sundry Creditors	1,875	Cash in had	1,500
Capital (balancing figure)	11,775	Stock in trade	3,750
		Sundry Debtors	7,500
		Furniture	900
	13,650		13,650

Illustration 9

Mr X does not keep his books according to Double Entry System. From cash sales effected by him he conducts business and other payments. He always retain cash in hand of ₹ 3,000 and deposits the balance in the bank account. The stock records for the year ended 31st march 2017 are lost. However, he inform that he has sold goods invariably at a price which added a profit of 33.33% on cost. From the following information prepare final accounts for the year ended 31st march 2017.

Assets and Liabilities	1st April 2016	31st March 2017
Cash in hand	3,000	3,000
Sundry creditors	12,000	27,000
Cash at bank	?	24,000
Sundry debtors	30,000	1,05,000
Stock	84,000	?

Following information is available from bank pass book :

Payments to creditors	2,10,000
Payments for business expenses	36,000
Receipts from debtors	2,25,000
Loan from A taken on 1st April @ 10 % pa	30,000
Cash deposit in the bank	30,000

In addition he paid to the creditors for goods ₹ 6,000 in cash and salaries ₹ 12,000 in cash. He also with drew ₹ 24,000 cash for his personal expenses.

Solution:

Trading and P&L Account For the year ending 31st March 2017

Particulars	₹	Particulars	₹
To opening stock	84,000	By sales: cash 72,000	
To purchase	2,31,000	Credit 3,00,000	3,72,000
To gross profit c/d (33.33% on cost or 25% on sale)	93,000	By closing stock (balancing figure)	36,000
	4,08,000		4,08,000
To salaries	12,000	By gross profit	93,000
To Business Expenses	36,000		
To Interest on A's Loan	3,000		
To Net Profit	42,000		
	93,000		93,000

Liabilities	₹	Assets	₹
Sundry creditors	27,000	Cash in hand	3,000
A's loan 30,000		Cash at bank	24,000
Add- interest 3,000	33,000	Sundry debtors	1,05,000
Capital a/c balance 90,000		Stock	36,000
Add- net profit 42,000			
1,32,000			
Less- drawings 24,000	1,08,000		
	1,68,000		1,68,000

Working Note:

Profit on cost to profit on sales: rate= rate of profit/100+rate of profit so on sales, it will be : (100/3) / 100+(100/3) X 100 = 25%)

Calculation of cash sales and opening balance of bank a/c-

Cash Book With Bank Colum.

Particulars	Cash(₹)	Bank(₹)	Particulars	Cash(₹)	Bank(₹)
To balance b/d	3,000		By balance b/d (bal fig)		15,000
To Sales (bal fig)	72,000		Over draft.		
To cash (Contra entry)		30,000	By Bank (Contra entry)	30,000	
To Debtors		2,25,000	By Salaries	12,000	2,10,000
To as Loan		30,000	By Payment to creditors	6,000	
			By Drawings	24,000	
			By Business expenses		36,000
			By balance c/d	3,000	24,000
	75,000	2,85,000		75,000	2,85,000

ii) Calculation of Credit sales-

Total Debtors Account

Particulars	₹	Particulars	₹
To balance b/d	30,000	By Bank a/c	2,25,000
To Credit sales (bal fig)	3,00,000	By balance c/d	1,05,000
	3,30,000		3,30,000

iii) Calculation of Credit purchase

Total Creditors Account

Particulars	₹	Particulars	₹
To Bank a/c	2,10,000	By balance b/d	12,000
To Cash a/c	6,000	By Credit purchase (bal fig)	2,31,000
To Balance c/d	27,000		
	2,43,000		2,43,000

(iv) Calculation of Opening Capital-

Statement of Affairs as on 01/04/2016

Liabilities	₹	Assets	₹
Sundry Creditors	12,000	Cash in hand	3,000
Bank Overdraft	15,000	Sundry Debtors	30,000
(see working note 1)		Stock	84,000
Capital (balancing figure)	90,000		
	1,17,000		1,17,000

Illustration 10

Sandeep commenced his business on 1st April, 2016 with a Capital of ₹ 1,70,000. He purchased furniture for ₹ 20,400 and safe for ₹ 6,800 on 1st April 2016. During the year, he borrowed ₹ 34,000 from his friend and introduced further capital of 20,400. His drawings were ₹ 4,080 at the end of every month. From the following particulars, obtained from his books, you are required to prepare the Trading and Profit & Loss Account for the year ending 31st March 2017 and the Balance Sheet as on the date.

Sales (Including cash sales ₹ 2,04,000)	6,80,000
Purchase (Including cash purchase ₹ 34,000)	4,76,0
Drawings (Excluding monthly withdrawals)	6,800
Salaries of staff	16,320
Bad Debts written off	1,360
Trade expenses	5,440

Sandeep has used goods ₹ 6,800 for private purpose and paid ₹ 6,800 to his son, which is not recorded anywhere. On 31st march 2017 his Debtors were ₹ 1,36,000 and Creditors ₹ 1,02,000. Stock in trade on that date was worth ₹ 54,400. Depreciation on furniture & safe at 10%, was charged.

Solution

Trading and P&L Account for the year ending 31st March 2017

Particulars	₹	Particulars	₹
To Purchases :		By Sales :	
Cash- 34,000		Cash 2,04,000	
Credit- 4,42,000		Credit 4,76,000	6,80,000
		By Closing Stock	54,400
	4,69,200		
Less Drawings 6,800	2,65,200		
To Gross Profit c/d	7,34,400		7,34,400
To Salaries	16,320	By Gross Profit b/d	2,65,200
To Bed Debts	1,360		
To Trade Expenses	5,440		
To Depreciation	2,720		
(Furniture 2,040+ Safe 680)			
To Net Profit	2,39,360		
	2,65,200		2,65,200

Balance Sheet as on 31st March 2017

Liabilities	₹	Assets	₹
Creditors	1,02,000	Cash in hand	2,81,520
Loan from friend	34,000	Debtors	1,36,000
Capital 1,70,000		Stock in trade	54,400
Add-Fresh Capital 20,400		Furniture 20,400	
Net profit 2,39,360		Less-Depreciation 2,040	18,360
	4,29,760		
Less- Drawing 69,360	3,60,400	Safe 6,800	
		Less-Depreciation 680	6,120
	4,96,400		4,96,400

Working Note:

As already mentioned in this question, that at the end of each month, Sandeep has withdrawn ₹ 4,080, and withdrawn goods ₹ 6,800 and ₹ 6,800 cash which is given to his son. So total Drawings are $(4,080 \times 12) + 6,800 + 6,800 + 6,800 = ₹ 69,360$. There is no cash balance in this question so it is calculate by cash account. But for cash account we required Debtors Amount and Creditors Amount. So these are calculated by Total Debtors and Total Creditors Account.

Total Debtors Account

To sales	4,76,000	By Cash (Balancing Figure)	3,38,640
		By Bad Debts	1,360
		By Balance c/d	1,36,000
	4,76,000		4,76,000

Total Creditors Account

To Cash (Balancing Figure)	3,40,000	By Purchase	4,42,000
To Balance c/d	1,02,000		
	4,42,000		4,42,000

Cash A/c

To Capital	1,70,000	By Furniture (purchase)	20,400
To Cash Sales	2,04,000	By Safe(purchase)	6,800
To Loan from friend	34,000	By Purchase for cash	34,000
To Further capital	20,400	By Drawings	62,560
To Receipts from debtors	3,38,640	By Salaries	16,320
		By Trade Expenses	5,440
		By Payment to creditors	3,40,000
		By Balance c/d	2,81,520
	7,67,040		7,67,040

Illustration 11-

Vivek is a small trader. He maintains only one account in bank in which all takings are lodged after meeting business expenses and his personal drawings and in which payment for business purchase are passed through. You are required to ascertain his trading result for year ended 31st March 2017 and to prepare a Balance Sheet as on the date from the following details:

- 1) The bank statement shows deposit of ₹ 1,80,450 and withdrawals of ₹ 1,77,750.
- 2) A sum of ₹ 15,000 was placed in fixed deposit on 1st January 2016 at 12% per annum and withdrawn with interest on 30 the June 2016.
- 3) The assets and Liabilities on 31st March, 2017 were :Stock ₹ 31,500 ; Debtors ₹ 47,250; Bank balance ₹ 4,800; Furniture ₹ 60,000; and Creditors ₹ 36,000.
- 4) He estimates that (a) the stock and debtors have each increased by ₹1,500 during the year (b) the creditors were ₹ 33,000 on 31st March, 2016; and (c) during the year his personal expenses amounted to ₹ 15000 and business expenses ₹ 25,500.

Solution :

Trading and profit & loss account for the year ending 31st March ,2017

Dr .		Cr.	
Particulars	(₹)	Particulars	(₹)
To Opening Stock	30,000	By Sales	2,06,550
To Purchases	1,80,750	By Closing Stock	31,500
To Gross Profit c/d	27,300		
	2,38,050		2,38,050
To Business Expenses	25,500	By Gross Profit b/d	27,300
To Net Profit	2,250	By Interest on FD 900	
(transfer to capital a/c)		Less –Interest of Last year received during	
		The current year 450	450
	27,750		27,750

Balance Sheet as on 31st March,2017

Liabilities	(₹)	Assets	(₹)
Creditors	36,000	Cash at Bank	4,800
Capital 1,20,300		Debtors	47,250
Add-Net Profit 2,250		Stock	31,500
1,22,250		Furniture	60,000
Less –Drawing 15,000	1,07,550		
	1,43,550		1,43,550

Working Note : To know the amount of Sales and Purchases Total Debtors And Creditors Account. But receipts from debtors is not known so first we are to prepare cash account :-

(i) Calculation of receipts from debtors

Cash A/C

Particulars	(₹)	Particulars	(₹)
To Fixed Deposit	15,000	By Drawings	15,000
To Interest on F.D.	900	By Business Expenses	25,500
To Debtors (Bal .Fig.)	2,05,050	By Bank Deposit	1,80,450
	2,20,950		2,20,950

(ii) Calculation of credit sales

Total Debtors A/C

Particulars	(₹)	Particulars	(₹)
To Balance b/d	45,750	By Cash Received	205,050
To sales (Bal. Fig.)	2,06,550	By Balance c/d	47,250
	252,300		252,300

(iii) Calculation of credit purchases

Total Creditors A/c

Particulars	(₹)	Particulars	(₹)
To Cash	1,77,750	By Cash Received	33,000
To Balance c/d	36,000	By Balance c/d	1,80,750
	2,13,750		2,13,750

(iv) Calculation of opening Bank Balance

Bank Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d (Bal. Fig.)	2,100	By Withdrawals	1,77,750
To Deposits	1,80,450	By Balance c/d	4,800
	1,82,550		1,82,550

(i) Calculation of opening capital

Balance Sheet as on 1st April ,2016

Particulars	(₹)	Particulars	(₹)
Creditors	33,000	Cash at Bank	2,100
Capital-(Bal. Fig.)	1,20,000	Debtors	45,750
		Fixed Deposit	15,000
		Accrued Interest (on F.D.)	450
		Stock	30,000
		Furniture	60,000
	1,53,300		1,53,300

Illustration– 12 Sanjay keeps his books as double entry system. From the following particulars ascertain the cash defalcated by cashier and prepare Trading and Profit & Loss accounts for the year ended 30th June ,2016 and a Balance Sheet as on that date :

Balance sheet of Sanjay as on 30th June 2015.

Liabilities	(₹)	Assets	(₹)
Creditors	1,92,000	Cash at Bank	1,20,000
General Reserve	61,000	Cash in Hand	24,000
Capital	1,24,000	Debtors	80,000
		Stock	36,000
		Motor Car	68,000
		Furniture	34,000
		Building	15,000
	3,77,000		3,77,000

A fire occurred in the evening of 30th June, 2016 in the business of Sanjay, destroyed all the books and records. The cashier absconded with available cash in safe.

The following information are available :

- (i) His sales for the year were 20% higher than previous year. He sells his goods a cost plus 25% 20% of total sales were made for cash. There were no cash purchases.
- (ii) From 1st July, 2015 stock level was raised to ₹. 1,00,000 and maintained at the level throughout the Year.
- (iii) Collection from debtors amounted to ₹. 5,20,000 of which ₹. 1,20,000 was received in cash. Business Expenses were 84,000 of which ₹. 20,000 was outstanding on 30th June, 2016 and 24,000 was paid by cheque. Creditors were paid by cheque only.
- (iv) Analysis of Pass book - Payment to Creditors ₹. 5,50,000 ; Personal drawings ₹ 30,0000 ; Cash deposited in to Bank ₹.2,67,400,; Cash withdraws for office use ₹.48,000.
- (v) Gross Profit as per last year's audited accounts was ₹. 1,20,000. Provide for depreciation on Building and Furniture 5% and motor Car @ 20%.

Trading and Profit and Loss Account for the year ending 30th June ,2016

Particulars	Amount	Particulars	Amount
To Opening Stock	80,000	By Sales	7,20,000
To Purchases	5,96,000	By Closing Stock	1,00,000
To Gross Profit c/d	1,44,000		
	8,20,000		8,20,000
To Business Expense 64,000		By Gross Profit b/d	1,44,000
Add –outstanding 20,000	84,000		
to Depreciations :			
Building 6,000			
Furniture 1,200			
Motor Car 7,200	14,400		
To Loss of cash Defalcated	19,600		
To net Profit (Transferred to	26,00 ⁰		
Capital a/c)			
	1,44,000		1,44,000

Balance Sheet as on 30th June ,2016

Liabilities	(₹)	Assets	(₹)
Creditors	1,70,000	Cash at Bank	49,400
Outstanding Expense	20,000	Debtors	1,24,000
General Reserve	61,000	Stock	1,00,000
Capital 1,92,000		Motor Car 36,000	
Add-Net Profit 26,000		Less : Depreciation 7,200	28,800
Law Drawings 2,18,000		Furniture 24,000	
Less –Drawings 30,000	1,88,000	Less : Depreciation 1,200	22,800
		Building 1,20,000	
		Less : Depreciation 6,000	1,14,000
	4,39,000		4,39,000

Working Notes:

Total Debtors Account and Total Creditors Account are prepared to know amount of credit sales and credit purchase.

Working Note: 1)

Total Sales

₹

Gross Profit of Last Year 1,20,000

Sales is calculates more than 25% of cost

$$25/125 \times 100 = 20 \% \text{ (rate/100+Rate X 100)}$$

So Sales of last year= Gross Profit/ Rate of Gross Profit X 100

$$1,20,000/20 \times 100 = 6,00,000$$

Sales of this year is 20% more than sales of previous year-

$$6,00,000 + 1,20,000 = ₹ 7,20,000$$

Cash sales 20% means ₹ 1,44,000 ; credit sales – ₹ 5,76,000 (7,20,000-1,44,000)

2) Calculation of Total Purchases

₹

Total Sales for the year- 7,20,000

Add – closing stock 1,00,000

8,20,000

Less-Gross Profit (20% on sales) 1,44,000

6,76,000

Less-Opening Stock 80,000

Total Purchases 5,96,000

3) Calculation of closing Debtors:

Total Debtors A/c

Particulars	(₹)	Particulars	(₹)
To Balance b/d	68,000	By Cash a/c	1,20,000
To Sales (Credit)	5,76,000	By Bank a/c	4,00,000
		By Balance c/d (Bal. Fig)	1,24,000
	6,44,000		6,44,000

4) Calculation of closing Creditors

Total Creditors Account

Particulars	(₹)	Particulars	(₹)
To Bank a/c	550,000	By Balance b/d	1,24,00
To Balance c/d	170,000	By Purchases (Credit)	5,96,000
	7,20,000		7,20,000

(V) Calculation of Embezzlement of cash and bank balance.

Cash Book with Bank Column.

Particulars	Cash (₹)	Bank (₹)	Particulars	Cash (₹)	Bank (₹)
To Balance b/d			By Business Expenses	40,000	24,000
To Sales	15,000	34,000	By Creditors a/c	--	5,50,000
To Received from Debtors	1,44,000	-	By Bank a/c(Contra Entry)	2,67,000	--
To cash (Contra)	1,20,000	4,00,000	By Cash a/c (Contra)	-	48,000
To Bank (Contra)	48,000	2,67,400	By Drawings	19,600	30,000
			By Cash Defalcated (Bal Fig)		49,400
			By Balance c/d		
	3,27,000	7,01,400		3,27,000	7,01,400

Summary

- Small businessmen, who do not use Dual Entry System, keep incomplete accounts.
- It is easy and less expensive but can not able to calculate true profit.
- There are two methods to calculate profit from incomplete accounts.
 - 1) Statement of Affairs Methods

2) Conversion method or preparing final accounts

- Calculation of Profit or Loss

Particulars	₹
Capital at the end of year	---
Add-drawings during year	----
Add- capital withdrawn	----

Less- additional Capital introduced	----
Adjusted closing capital	
Less- capital at the beginning of year	----

Profit or loss for the year

- Opening stock + Purchases during the year – Closing stock = cost of goods sold(COGS)
- GP Rate = GP/sales X 100
- Cash Sales = total sales – credit sales
- COGS + Gross Profit = Total sales

Important Words:

Incomplete records	Statement of Affairs
Method	Cost of Goods Sold
Conversion Method.	Gross Profit
Initial Capital	Total debtors Account
Total Creditors Account	Profit on Sales
Profit on Cost	

Questions for Exercises

Objective type questions-

- To know capital at the beginning of the year in Incomplete records we prepare ..
 - a) Statement of profit the year
 - b) Cash summary of the year
 - c) Opening Statement of Affairs
 - d) Total Debtors Account
- There is information of Incomplete records of a business man. Total Assets-₹1,80,000 and creditors 20,000; bills payable- ₹ 10,000; short term loan ₹ 10,000. What is the closing capital?
 - a) ₹ 1,80,00
 - b) ₹ 40,00
 - c) ₹ 2,20,00
 - d) ₹ 1,40,000

- What is the formula of calculation of profit in Incomplete Records?
 - a) Net profit = closing capital – drawings+ additional capital –opening capital
 - b) Net profit = closing capital + drawings- additional capital - opening capital
 - c) Net profit = opening capital + additional capital +drawings –closing capital
 - d) Net profit = closing capital + drawings+ additional capital –opening capital
- In a book of business man opening balance of creditor ₹ 30,000 and closing balance is ₹ 50,000. ₹ 70,000 is paid during the year then what will be the amount of credit purchase?
 - a) ₹ 50,000
 - b) ₹ 10,000
 - c) ₹ 90,000
 - d) ₹ 1,50,000
- In a book of business man opening balance of debtors ₹ 2,00,000 and closing balance is ₹ 2,50,000. ₹ 3,00,000 is received during the year. If total sales is ₹ 4,00,000 then what will be amount of credit sale
 - a) ₹ 50,00
 - b) ₹ 60,00
 - c) ₹ 4,00,000
 - d) ₹ 3,50,000
- A business man started business with capital of ₹ 1,00,000 on 1st April 2014. 1st Oct 2014 he added ₹ 60,000 as addition capital and withdrew ₹ 40,000. On 31st march 2015 his capital was ₹ 1,80,000. Profit of during year..
 - a) ₹ 90,000
 - b) ₹ 60,000
 - c) ₹ 80,000
 - d) ₹ 70,000
- Opening stock - ₹ 10,000; purchases - ₹ 85,000; sales - ₹ 1,00,000. Profit on cost 25% then what will be closing stock?
 - (a) ₹ 5,000
 - b) ₹ 15,000
 - c) ₹ 10,000
 - d) ₹ 20,000

Very Short Answer Type Questions

- Express any two significance of Incomplete Records.
- Give any two reasons of in compliancy of Incomplete Records.
- Describe any two limitations of Incomplete Records.
- Describe any two differences between Dual entry System and Incomplete Records.
- What type of accounts are prepared in Incomplete Records?
- Vithal maintains his books by Incomplete Records system. His closing capital is ₹ 2,00,000 and drawings ₹ 25,000. What will be the opening capital?
(Answer : ₹ 2,25,000)
- "A" has Incomplete Records. On 1st April 2016 his cash balance was ₹ 30,000; debtors ₹ 45,000; creditors ₹ 15,000. On 31st march 2017 his cash balance was ₹ 45,000; debtors ₹ 37,500; creditors ₹ 30,000. Calculate profit during the year 2016-17. (Answer: Loss ₹ 7,500)
- 1st jan 2016 Mr. X had debtors of ₹ 60,000. Total sales during the year was ₹ 1,20,000 which include cash

sales ₹15,000. During the year ₹ 90,000 received from the debtors and discount allowed ₹ 3,000. Calculate the debtors amount at end of year. (Answer ₹ 72,000)

- Calculate the amount of Total Purchase from the following information:
Opening balance of creditors ₹ 60,000 and closing balance ₹ 1,00,000. ₹ 1,20,000 paid to creditors during the year and cash purchase was ₹ 20,000.
(Answer : ₹ 2,00,000)
- A businessman books shows following information Purchase ₹ 25,000, sales ₹ 30,000 and closing stock ₹ 5,000. If gross profit is 10% on sales then calculate opening stock.
(Answer: ₹ 7,000)
- What will be the credit sales from the following information-
Debtors opening balance ₹ 50,000, closing balance ₹ 60,000; cash received from debtors ₹ 1,50,000 and discount allowed ₹. 10,000 (Answer: ₹1,70,000)
- From An Incomplete records book of businessman following information received that cash purchase ₹ 24,000 and credit purchase ₹ 60,000. Opening balance of creditors ₹ 21,000 and closing balance ₹ 30,000. What was the paid amount during the year! (Answer : ₹ 51,000)
- Aakash keeps incomplete records for business. Opening Capital was ₹.1,00,000. At the end of the year, excess of Assets over Liabilities was ₹.2,00,000. During the year he introduced extra capital ₹. 50,000 and his drawings were ₹.2,500 per month. Find out profit for the year 2016- 17. Answer (80,000)
- Opening balance debtors ₹ 13,000/- , cash received ₹35,000 discount allowed ₹5,000 B/R ₹ 15, 000 bidets ₹ 2,500 and closing balance debtors ₹25,000. Find out the amount of credit sales. Answer (65,000)
- Opening capital of a businessman ₹ 90,000 and closing balance of capital is was ₹ 1,12,500. Estimated profit for their ₹ 27,000. Find out the amount of drawings.(Answer 4,500)

Short answer type questions:-

1. Mention any four reasons for maintaining incomplete for accounts .
2. State any four deficiencies of incomplete accounts.
3. On 31st , March 2017 some information provided by a businessman –Cash balance ₹3,000, stock ₹ 5,000,debtors ₹6,000, creditors ₹ 4,500 ,drawings during year ₹ 3,500 , extra capital ₹ 4,000 .Find out the adjusted closing capital.

Answer (9,000)

4. Form the following incomplete accounts find out the total purchases and profit for the year . opening stock ₹ 30,000 , closing stock ₹ 24,000 , cash sales ₹ 18,000, credit sales ₹1,08,000 , 20% profit on

purchase prize . Answer (Total Pur. ₹ 99,000 and profit ₹ 21,000)

5. Aakash keeps incomplete record for his business -some particulars are on 1/4/2016- cash balance ₹10,000, debtors ₹ 40,000 , stock ₹ 60,000 , furniture ₹ 20,000 and creditors ₹ 30,000 . On 31 -03-2017 particular were – cash balance ₹ 30,000 , debtors ₹18,000, stock ₹1,00,000 and creditors ₹ 60,000, he purchased furniture ₹ 10,000 during the year and drawings were ₹ 4,000 . description on furniture ₹ 2,000 From the above particular prepare statement of profit for the year 2016-17. Answer 60,000
6. From the following information find out credit purchase and credit sales for the year 2016-17.
Debtors (1-04-2016) ₹30,000, Creditors (1-04-2016) ₹ 75,000 . during the year cash received from the debtors ₹ 2,7000, paid to creditor ₹ 1,35,000 , discount allowed ₹ 12,000 discount received ₹7,500 , B/R ₹ 12,000 , sales return ₹ 6,000 and purchased return 4,500 .closing balance of debtors ₹1,65,000 and creditors ₹90,000. Answer (Credit purchased ₹ 1,62,000 , credit sales ₹4,35,000)
7. From the following information find out the amount received from the debtors.
 - Opening balance debtors ₹ 21,600,
 - Closing balance of debtors ₹ 29,400
 - Credit sales 46,200
 - Sales return 1,200
 - B/R disowner 2,400
 - Discount allowed 600, bed-debts 1,500 Answer (37,500)
8. Dr. Kapli and Dr.Achlesh are partners and keeping their accounts incomplete. From the following information, prepare profit statement of the firm for 2016-17 – Joint capital as on 01-04-2016 ₹ 1,15,000 and as on 31-03-2017 ₹ 2,50,000. Extra capital by kapil ₹ 12,500 and drawings by Achlesh ₹ 25,000 .salary to each partner ₹ 20,000 , profit sharing ratio is 2:3 . Answer (Profit to kapli ₹29,000, Achlesh ₹43,500)
9. Mr. R. Keeps his business record incomplete from the following particulars prepare statement of profit for the year 2016-17 –
Opening capital ₹ 1, 60,000 Balances as on 31-03-2017 were – cash balance ₹ 45,000 debtors ₹1,20,000 , stock ₹ 1,50,000 , furniture ₹ 30,000 ,B/R ₹ 20,000, creditors ₹ 90,000 , B/P ₹ 10,000 . description on furniture ₹ 4,000 , drawings for the year ₹ 13,000 , extra capital ₹ 50,000, interest on capital ₹ 4,500, interest on drawing ₹ 15,000. Answer (₹ 78,000)
10. From the following particulars find out the amount of total purchases of A – Creditors as on 1-1-2016 ₹ 25,000 . During the year payment to creditors ₹ 75,000 , discount received ₹ 1250, purchase return ₹ 3750 , B/P ₹ 2,500 , cash purchase ₹ 30,000 . creditors as on 31-12-2016 ₹ 37,500. Answer (1,25,000)

11. From the following particulars , find out profit for the year 2016-17.

	01-04-2016 ₹	31-03-2017 ₹
Cash balance	3,600	6,000
Debtors	26,400	36,000
Stock	19,200	24,000
Plant	60,000	60,000
Creditors	4,200	6,000

During the year drawings ₹ 9,000 and depreciation on plant 10% .

Answer (₹18,000)

12. Mr. Hari shows incomplete books of accounts as follows :-

	01-07-2015 ₹	30-06-2016 ₹
Bank Over Draft	6,000	---
Bank balance	-----	3,000
Trade debtors	45,000	60,000
Trade creditors	24,000	29,400
Stock in trade	9000	18,600
Furniture	6,000	6000
Cash in hand	---	1,200
Outstanding wages	----	600

During the year his drawings were ₹ 6,000 he provided extra capital on 1-1-2016 ₹ 12,000 provision for bad-debts 5% on debtors , depreciation on furniture @ 20% , interest on capital @ 10% ,P.A. from the above particulars find out profit for the year 2015-16. Answer (₹ 23,400)

Theoretical Questions :-

1. What do you mean by accounting for incomplete records ? How is it different from double entry system?
2. Is it not correct to say that incomplete accounting system is single entry system, state demerits of incomplete accounting system.
3. What process you will adopt for the preparation of final accounts for incomplete accounting records . Explain.
4. A small trader keeps only a diary. In this diary all the particulars of assets , Liabilities , and personal expenses are available . For a particular year how you will find out his profit / Loss ? using imaginary figures explain in your answer

Numerical Question :

1. The capital of Sohan on 31st March, 2017 is ₹37,400 and his capital on 1st April, 2016 was ₹ 38,400. He also informs that during the year he gave a loan of ₹ 7,000 to his brother on private account and withdrew ₹ 600 per month for personal expenses. He also used a flat for his personal purpose, The rent of which is ₹200 per month and the electricity charges average amount being ₹20 per month were paid from his business account. He once sold his scooter costing ₹4,000 at a premium of ₹ 400 and brought that money into the

business. Besides this, no other information is available. You are required to prepare a statement of profit.

[Answer : Net profit for the year ₹ 11,400]

2. Rajesh commenced business on 1 July, 2015 with a capital of ₹ 30,000 which is paid into a bank account opened for that purpose. On the same day he bought stock valued at ₹ 19,500 and furniture which costs ₹ 6,000. His books based on incomplete record, included a cash book and a ledger Transactions in connection with the business and his private affairs, were passed through his cash book on 30th June, 2016 stock was valued at ₹ 24,300. There were debtors in the ledger amounting to ₹ 10,350 of which ₹ 2,250 represented debts which were irrecoverable. Creditors as per ledger amounted to ₹ 14,520 and the cash book showed a balance of ₹ 5,040 but according to the passbook the balance at Rajesh's credit was only ₹ 2,040, he lent to his son ₹ 3000 and omitted to enter in the cash book. Rajesh's private expenses during the year amounted to ₹ 4,500 and in addition, he used ₹ 1,500 worth of goods from his shop. The furniture was valued at ₹ 7,500 on 30th June, 2016. Rajesh having expended a further ₹ 1,500 on them during the year. From this information prepare a statement showing Rajesh's Profit or loss in business for the year 2015-16

[Answer : Opening Capital given ₹ 30,000 ; Closing Capital ₹ 28,020 ; Net Profit ₹ 7,020]

3. Ajay does not keep his books according to Double Entry System. On 1st April, 2016 his position was as follows :

	(₹)		(₹)
Creditors	33,000	Cash at Bank	4,800
Capital	39,750	Stock in Trade	30,000
		Debtors	12,750
		Furniture	2,700
		Plant and Machinery	22,500
	<u>72,750</u>		<u>72,750</u>

(On 30th June, 2016 his Position was follow)-

Cash at Bank ₹ 3,750 ; Debtors ₹ 21,000 ; Stock in trade ₹ 28,500 ; Plants & Machinery ₹ 40,500 ; Furniture ₹ 2,250 ; Creditors ₹ 43,500 ;

During the year Ajay introduced additional Capital amounted to ₹ 7,500 and his drawings were ₹ 1,125 per month. From the above particulars ascertain his profit for the year ended 30th June, 2015.

[Answer : Profit ₹ 18,750]

4. Ram Nath keeps incomplete records of his Transactions, His position at 1st April, 2016 was as follow.

Cash in Hand ₹ 15,000, Investment ₹ 30,000, Office premises ₹ 30,000, Plant and Machinery ₹ 40,000, Furniture ₹ 7,000, Stock ₹ 24,000, Debtors ₹ 1,20,000, Bills Payable ₹ 28,000, Creditors ₹ 50,000.

During the year Ram Nath has withdrawn ₹ 20,000 in cash and ₹ 9,000 in goods and introduced ₹ 20,000 as Additional capital. His position as on 31st March, 2015 was as follow :

Cash in Hand ₹ 12,000 ; Investment ₹ 26,000 ; Office premises ₹ 27,000 ; Plant and Machinery ₹ 48,000 ; Furniture ₹ 6,600 ; Stock ₹ 18,000 ; Creditors ₹ 1,01,000 ; Debtors ₹ 1,00,000 ; Bills Payable ₹ 32,000.

During the year investment of the book value of ₹ 4,000 were sold for ₹ 4,800 and a new machine was purchased for ₹ 15,000. A Typewriter was also purchased during the year ₹ 1,500.

You are required to prepare for the year 2014-15

(i) Statement of Affairs at the beginning ; (ii) Statement of Affairs at the end, and (iii) A statement showing the revenue Profit or Loss.

[**Answer** - (i) ₹ 1,88,000 ; (ii) ₹ 1,06,100 ; (iii) Total Loss ₹ 72,900 ; Revenue Loss ₹ 73,700]

5. The position of x on 1st April, 2014 as follow :-

	(₹)		(₹)
Capital	12,000	Goodwill	3,090
Profit undrawn	5,805	Furniture	2,335
Sundry creditors	1,535	Stock in trade	4,000
		Sundry Debtors	7,805
		Cash at Bank	2,110
	<u>19,340</u>		<u>19,340</u>

During the year ending 31st March, 2017 the accounts of the business had been recorded imperfectly but an analysis of his bank transactions disclosed the following :

	(₹)		(₹)
Balance	2,110	Payment to Creditors	15,060
Receipts from Customers	35,400	Payment for Rent	1,575
		Sundry Expenses	640
		Drawings	13,600
		Payment for Salaries	3,050
		Balance	3,585
	<u>37,510</u>		<u>37,510</u>

The closing stock was valued at ₹ 6,000, and a schedule of debtors totaled ₹ 9,450 and that of creditors ₹ 2,675 on 31st March, 2017. Prepare trading and profit and loss Account for the year ending 31st March, 2017 and a balance sheet as on that date. [**Answer** : Gross Profit ₹ 22,845 ; Net Profit ₹ 17,580 ; Balance Sheet Total ₹ 24,460]

6. The following is the statement of Affairs as on 1st April, 2016 of Ram and Shyam who are partnership sharing Profit and Losses in the proportion of 2 : 1

	(₹)		(₹)
Creditors	36,000	Cash in Hand	30
Bills Payable	3,000	Cash at Bank	2,970

Capital : Ram	60,000	Debtors	39,000
Shyam - 24,000	84,000	Stock	21,000
		Bills Receivable	9,000
		Plant and Machinery	12,000
		Building	36,000
		Furniture	3,000
	<u>1,23,000</u>		<u>1,23,000</u>

The position on at 31st March, 2017 was as follows :

Cash ₹ 300 ; Bank Balance ₹ 4,500 ; Creditors ₹ 57,000 ; Bills Payable ₹ 3,600 ; Debtors ₹ 15,000 ; Bills Receivable ₹ 11,400 ; Stock ₹ 25,200.

During the year Ram drew ₹ 9,000 and Shyam drew ₹ 3,600 from the business for their personal use. Ram withdrew the sum of ₹12,000 on 31st December, 2016 from his capital. Depreciate Plant and Machinery by 5% Furniture by 10% and allow interest on partner's capital at the rate 5% p.a. Ignore interest on drawings. From the particulars given above prepare a statement of profit and loss and Statement of Affairs.

[**Answer :** Net Loss ₹ 17,550 ; Closing Balance of Capital A/c After All Adjustment Ram ₹ 3,00,150 ; Shyam ₹ 15,750]

7. The books of Mahesh show the following state of affairs on 1st April 2016

Liabilities	(₹)	Assets	(₹)
Capital	1,42,440	Goodwill	24,720
Sundry creditors	12,280	Machinery	18,680
		Stock	32,000
		Sundry Debtors	62,440
	<u>1,54,720</u>		<u>1,54,720</u>

During the year ending 31st March, 2017 his cash transactions were as follows :

Particulars	(₹)	Particulars	(₹)
Cash Balance	16,880	Payment to Creditors	1,20,480
Receipts from Debtors	2,83,200	Rent Paid	12,600
		Sundry Expenses	5,120
		Drawings	1,08,800

	Salaries Paid	24,400
	Cash Balance	28,680
3,00,080		<u>3,00,080</u>

The Closing stock was valued at ₹ 48,000. Debtors totaled ₹ 75,600 and that of creditors ₹21,400 on 31st March, 2017. Prepare Trading and Profit and Loss Account for the year ending 31st March, 2017 and a Balance Sheet as on that date.

[**Answer :** Gross profit ₹ 1,82,760 ; Net Profit ₹ 1,40,640 ; Balance Sheet Total ₹1,95,680]

8. Ravi does not keep his books as Double Entry Systems. From the following information, prepare Trading A/c and P&L A/c for the year ending 30th June, 2016 and Balance Sheet as on the date.

His position on 1st July, 2015 was as follow :

Stock ₹ 25,000 ; building ₹ 40,000 ; Furniture ₹10,000 ; Debtors ₹ 55,000 and Creditors ₹ 19,000.

Cash book analysis revealed the following facts :

Cash Book			
Particulars	(₹)	Particulars	(₹)
To Receipts from Debtors	70,000	By Bank Overdraft (1.7.15)	11,000
To Cash Sales	25,000	By Interest on Bank O.D.	750
		By Creditors (Payment)	40,000
		By Cash Purchases	16,500
		By Salary	3,000
		By Sundry Expenses	6,500
		By Rent & Rates	1,200
		By Drawings	3,000
		By Balance at Bank (30.6.16)	13,050
	<u>95,000</u>		<u>95,000</u>

From the analysis of personal accounts it was found that the trader allowed discount to debtors amounted to ₹ 3,500 and received discount from creditors amounted to ₹ 2,000. Mohan, (a debtor) from whom ₹ 600 were due, paid ₹ 300 only balance being treated as bad debts.

On 30th June, 2016 he had stock valued at ₹ 40,000, Debtors ₹ 66,000, Bills Receivable ₹ 3,000, Creditors ₹19,000 and Bills Payable ₹ 4,000. Provide depreciation on Building at 10%, interest on capital at 5% and create provision for doubtful debts of ₹ 2,400.

[**Answer :** Gross Profit ₹ 64,000 ; Net Profit ₹ 40,750 ; Balance Sheet Total ₹ 1,65,750]

9. The Books of Rahim showed the following figures :

Particulars	June30, 2015	June30, 2016
	(₹)	(₹)
Cash at Bank	14,000	34,000
Cash in Hand	1,640	3,400
Stock in Trade	90,000	1,02,000
Sundry Debtors	72,000	?
Sundry creditors	24,000	29,200
Bills Payable	80,000	72,000
Furniture	20,000	?
Outstanding Salary	800	-

The Cash Book analysis showed the following figures :

	(₹)		(₹)
Receipts from Customers	4,20,000	Furniture Purchased on 30.9.15	4,000
Discount allowed to them	5,200	Drawings	24,000
Salaries up to 30th June, 16	10,400	Payment to Creditors	76,000
Rent	14,400	Discount received from them	10,400
Sundry Trade Expenses	34,000	Payment of Bills Payable	3,20,000

Depreciation is provided on furniture @ 10% per annum. No ready figures are available for total sales. However, Rahim informs you that he maintains a steady gross profit rate of 25% on sales. Prepare Rahim's Trading and Profit & Loss Account for the year ended 30th June, 2016 and the Balance Sheet as on that date.

[**Answer :** Gross Profit ₹ 1,27,868 ; Net profit ₹ 72,868 ; Total of Balance Sheet ₹ 2,34,908]