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21

ACCOUNTS FROM INCOMPLETE RECORDS

We have studied so far the Double Entry System of accounting. According to this system, both the aspects of a transaction are recorded. Another system of recording transactions called Single Entry System also exists, under which both the aspects of a transaction may not be recorded. Unlike Double Entry System in Single Entry system, no set rules are followed. Even the books of account to be maintained are not certain. Usually, under this system the cash book and personal ledgers are maintained : real and nominal accounts are not. In this system because both the aspects of transactions are not recorded the system is known as 'Accounts from Incomplete ecords' or 'Single Entry System of Accounting'. Sometimes accounts that had been maintained, on double entry system may be rendered incomplete because of the happening of certain events like fire, floods, earthquakes etc. Accounting records that are not maintained according to Double Entry System are known as Accounts from Incomplete Records or Single Entry System of Accounting.

OBJECTIVES

After studying this lesson you will be able to:

- state the meaning of Single Entry System;
- explain uses and limitations of Single Entry System/Accounts from Incomplete Records;
- explain ascertainment of profit/loss by conversation method.
- ascertainment of profit /loss by statement of affairs method;
- ascertain the missing figures of total debtors, total creditors, B/R A/c and Cash Book;

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- ascertain capital with begining by preparing opening statement of affair and
- prepare final accounts.

21.1 DEFINATION

Kohler defines Single Entry System as, "*A system of book keeping in which as a rule only records of cash and of personal accounts are maintained, it is always incomplete double entry varying with the circumstances.*"

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

Features

The features of the Single Entry System are as follows :

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

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

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

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

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

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

21.2 USES OF SINGLE ENTRY SYSTEM

Uses of Single Entry System are as follows :

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

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

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

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

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

Limitations of Single Entry System

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

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

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

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

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

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

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

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

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

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

Notes

INTEXT QUESTIONS 21.1

I. Fill in the blanks with appropriate words :

i. The assets and liabilities are put down by physical and __________.

ii. Single Entry System is a very ___________ method of recording business transactions.

iii. Single Entry System is ____________ expensive as compared to Double Entry System of book keeping.

II. State whether the following statements are true or false :

i. A statement of Affairs prepared from incomplete records provides satisfactory information.

ii. Prepration of incomplete records is scientific system.

iii. Comperative study is difficult in Single Entryf System.

21.3 ASCERTAINING PROFIT FROM INCOMPLETE RECORDS

We know that the main purpose of any business is to earn profit. Every business owner, therefore, is desirous to know whether he has earned profit or incurred loss after a certain period of time generally at the end of a year. In fact, to ascertain profit

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or loss becomes all the more essential if the business happens to be a partnership firm because the partners have to share the profits of the firm at the end of the each accounting period. Then, the question arises as to how to ascertain profits when the accounting records are incomplete. The reason is that Profit and Loss Account cannot be prepared in the absence of Trial Balance. In such a situation, there are two methods used for ascertaining profits of the business. They are :

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

ii. Conversion Method

Net Worth Method or Statement of Affairs Method

To ascertain profit, from incomplete records, it is necessary to prepare a Statement of Affairs at the end of the year and also at the beginning of the year, if not already prepared.

A Statement of Affairs is a statement of all assets and liabilities. The difference between the amount of the two sides is taken as capital.

Like the Balance Sheet, the Statement of Affairs has two sides - the right-hand side for assets and the left-hand side for liabilities. To prepare the statment, information has to be collected from various sources. Information about assets will be available from the Cash Book, the Personal Ledger, etc. The value of the Closing Stock will be ascertained by preparing Stock Sheets and valuing the Stock in Hand, at lower of cost and market value. If the trader has any other assets also, like furniture, machinery, etc., the value will be ascertained and included among the assets. The business is likely to have full knowledge of the amounts owing to outsiders. The difference between the total of assets and liabilities will be capital.

Capital = Total Assets - Total Liabilities

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

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

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

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

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

The above formula may be shown as follows in the form of Statement of Profit or Loss :

Statement of Profit or Loss

for the year ended ....

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

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

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

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

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

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

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

Illustration 1

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

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

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

Solution :

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

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

Illustration : 2

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

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

Solution :

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

Particulars	₹
Capital at the end (as given)	18,700
Add: Drawings made during the year	8,420
	27,120

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Less: Capital introduced during the year : 102/100 x ₹ 2,000	2,040
Adjusted Capital at the end	25,080
Less: Capital in the beginning	19,200
Net Profit for the year	5,880

Illustration : 3

Following was the position of Arvind as on 31.3.2013 and 31.3.2014

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

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

Solution :

Statement of Affairs
as at 31st March, 2013

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

Statement of Affaris
as at 31st March, 2014

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

Notes

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

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

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

Illustration : 4

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

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

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

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

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Solution :

Statement of Affairs
as at 31.3.2013

Liabilities	₹	*Assets*	₹
Sundry creditors	30,000	Cash in hand	4,500
Capital	35,800	Cash at Bank	300
		Stock in Trade	40,000
		Debtors	12,000
		Office Equipment	5,000
		Furnitures	4,000
	65,800		65,800

Statement of Affairs
as at 31.3.2014

Liabilities	₹	*Assets*	₹
Sundry Creditors	20,000	Cash in Hand	3,000
Capital	61,000	Cash at Bank	4,000
		Stock in Trade	45,000
		Debtors	20,000
		Office Equipments	5,000
		Furniture	4,000
	81,000		81,000

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

Particulars		₹
Capital on March 31, 2014 before making adjustment of depreciation		61,000
Add : Drawings		4,000
		65,000
Less : Capital introduced during the year		6,000
Profit before adjustment		59,000
Less : Capital on 31 March 2013		35,800
Less : Depreciation on Office Furniture	400	23,200
Depreciation on Equipment	250	650,
Net Profit		22,550

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Statement of Affairs (Revised)
as at March 31, 2014

Liabilities		₹	*Assets*		₹
Sundry Creditors		20,000	Cash at Bank		3,000
Capital (Opening)	35,800		Cash in Hand		4,000
Add: Capital introduced	6,000		Stock-in-Trade		45,000
Profit	25,000		Debtors		20,000
	64,350		Office Equipment	5,000	
Less: Drawings	4,000	60,350	*Less:* Depreciation	250	4,750
			Furniture	4,000	
			Less: Depreciation	400	3,600
		80,350			80,350

INTEXT QUESTIONS 21.2

State whether the following are True or False :

i. Capital = Total Assets + Liabilities

ii. Total Assets = Capital + Liabilities

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

21.4 CONVERSION METHOD

Preparation of Final Accounts from Incomplete Records

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

The steps involved in conversion are :

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

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

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

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

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

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

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

Hints for Tracing the Missing Figures

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

7. Net Credit Purchases	a) Prepare Total Creditors Account b) Total Purchases - Cash Purchases - Purchases Return
8. Net Purchases	a) Cash Purchases + Credit Purchases - Purchases Returns b) Cost of Goods Sold + Closing Stock - Opening Stock
9. Payment to Creditors	a) Total Creditors Account b) Cash and Bank Account Summary
10. Collection from Debtors	a) Total Debtors Account b) Cash and Bank Summary

INTEXT QUESTIONS 21.3

State Whether the following statements are true or false :

(i) Net Credit Sales = Total Sales + Cash Sales - Sales Return

(ii) Net Sales = Cost of goods sold + Gross Profit

(iii) Net Purchases = Cost of goods sold + Closing stock - Opening stock

(iv) Gross Profit = Net ales - Cost of Goods Sold.

21.5 CALCULATION OF MISSING FIGURES

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

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

*(a) **Total Creditors Account :*** For ascertaining the amount of credit purchases, the Total Creditors Account should be prepared. The available information

should first be entered - opening balance on the credit side, cash paid on debit side, any discount received on debit side, and the closing balance on the debit side. Bills issued to them should also be shown on debit side. The difference between the totals of the two sides will be credit purchases.

The specimen of Total Creditors Account is given below :

Total Creditors Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Cash/Bank A/c	....	By Balance b/d	....
To Discount Received	....	By Bills Payable (Bills Payable dishonoured)	....
To Bills Payable	....	By Total Debtors A/c (Endorsed Bills Receivable dishonoured)	....
To Purchases Returns	....	By Credit Purchase (Balancing Figure)	....
To Balance c/d	....		

Illustration : 5

From the following information, you are required to calculate total purchases:

	₹
Cash Purchases	1,700
Creditors as on January 1, 2013	800
Cash Paid to Creditors	3,100
Purchases Returns	100
Creditors as on December 31, 2013	1,340

Solution :

Total Creditors Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Cash/Bank A/c	3,100	By Balance b/d	800
To Purchase Returns	100	By Purchases made during the year (Balancing Figure)	3,740
To Balance c/d	1,340		
	4,540		4,540

Total Purchases = Cash Purchases + Credit Purchases
= ₹ 1,700 + ₹ 3,740
= ₹ 5,440

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

A format of Bills Payable Account is given below :

Bills Payable Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Cash/Bank A/c (Bills Payable discharged)	....	By Balance b/d	....
To Creditors (Bills Payable dishonoured)	....	By Total Creditors (Bills Payable accepted)	....
To Balance c/d	....		
	....		....

Illustration : 6

From the following information calculate the total purchases :

	₹
Opening balance of Bills Payable	15,000
Opening balance of creditors	18,000
Closing balance of Bills Payable	21,000
Closing balance of creditors	12,000
Cash paid to creditors during the year	90,600
Bills Payable discharged during the year	26,700
Purchases Returns	3,600
Cash Purchases	77,400

Solution :

Bills Payable Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Cash/Bank A/c	26,700	By Balance b/d	15,000
To Balance c/d	21,000	By Creditors, being bills accepted during the year (Balancing Figure)	32,700
	47,700		47,700

Total Creditors Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Cash/Bank A/c	90,600	By Balance b/d	18,000
To Purchases Returns	3,600	By Purchases (Bal. Fig.)	1,20,900
To Bills Payable (Fig. taken from Bills Payable A/c)	32,700		
To Balance c/d	12,000		
	1,38,900		1,38,900

Total Purchases = Cash Purchases + Creidt Purchases

= ₹ 77,400 + ₹ 1,20,900

= ₹1,98,300

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

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

Total Debtors Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Balance b/d	....	By Cash/Bank	....
To Bills Receivable (Dishonoured)	....	By Discount Allowed	....
To Credit Sales (Balancing Figure)	....	By Sales Returns	....
		By Bad Debts	....
		By Bills Receivable	....
		By Balance c/d	....
	....		....

Illustration : 7

From the following information, calculate the total sales made during the period:

	₹
Debtors as on January 1, 2013	40,800
Cash received from Debtors	1,21,600
Sales Returns	10,800
Bad Debts	4,800
Debtors as on December 31, 2013	55,200
Cash Sales	1,13,600

Solution :

Total Debtors Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Balance b/d	40,800	By Cash/Bank	1,21,600
To Credit Sales	1,51,600	By Sales Returns	10,800
(Balancing Fig.)		By Bed Debts	4,800
		By Balance c/d	55,200
	1,92,400		1,92,400

Total Sales	=	Cash Sales	+	Creidt Sales
	=	₹ 1,13,600	+	₹ 1,51,600
	=	₹ 2,65,200		

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

A format of Bills Receivable Account is given below :

Bills Receivable Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Balance b/d	....	By Cash/Bank (B/R Collected)	....
To Total Debtors	....	By Bank (B/R discounted)	....
(Bill Receivable received)		By Banker's Discount	
		(Discounting charges)	....
		By Total Debots	
		(B/R dishonoured)	....
		By Total Creditors	
		(B/R endorsed)	....
		By Balance c/d	....
	....		....

Illustration : 8

From the following information, calculate the total sales :

	₹
Bills Receivable in the beginning	1,560
Debots in the beginning	6,160
Bills Receivable encashed during the year	4,180
Cash received from Debots	14,000
Bad Debts written off	560

Sales Returns	1,740
Bills Receivable (Dishonoured)	360
Bills Receivable at the end	1,200
Debtors at the end	5,100
Cash Sales	8,180

Solution :

Bills Receivable Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Balance b/d	1,560	By Cash/Bank	4,180
To Debtors, being the bills received during the year (Balancing Figure)	4,180	By Debtors (Bill Receivable dishonoured)	360
		By Balance c/d	1,200
	5,740		5,740

Total Debtors Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Balance b/d	6,160	By Cash/Bank	14,000
To Bills Receivable (Dishonoured)	360	By Bad Debts	560
To Sales (Balancing Figure)	19,060	By Sales Returns	1,740
		By Bills Receivable	4,180
		By Balance c/d	5,100
	25,580		25,580

Total Sales = Cash Sales + Creidt Sales
= ₹ 8,180 + ₹ 19,060
= ₹ 27,240

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

Illustration : 9

From the following information, prepare the Total Debtors Account and Total Creditors Account and find out credit sales and credit purchases :

	₹
Debtors as on 1st January	5,000
Creditors as on 1st January	4,000
Debtors as on 31st December	4,000
Creditors as on 31st December	6,000
Bills receivable received during the year	10,000
Bills Payable issued during the year	8,000
Cash received from customers	30,000
Cash returned to customers	500
Cash paid to suppliers	20,700
Discount allowed by suppliers	270
Discount allowed by customers	150
Bad Debts written off	1,200
Bad Debts recovered	300
Bills Receivable endorsed to creditors	4,000
Bills Receivable dishonoured by customers	1,000
Endorsed Bills Receivable dishonoured	500
Discounted Bills Receivable dishonoured	700
Sales Returns	600
Purchases Returns	200

Solution :

Total Debtors Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Balance b/d	5,000	By Cash/Bank	30,000
To Credit Sales (Balancing Fig.)	38,250	By Discount	150
To Cash Returned	500	By Bad Debts	1,200
To Bills Receivable (Dishonoured)	1,000	By Sales Returns	600
To Creditors	500	By Bills Receivable	10,000

To Bank (Discounted B/R Dishonoured)	700	By Balance c/d	4,000
	45,950		45,950

Notes

Total Creditors Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Cash/Bank	20,700	By Balance b/d	4,000
To Discount	270	By Purchases (Credit) (Balancing Figure)	34,670
To Bills Receivable (Endorsed)	4,000	By Debtors (Bills endorsed dishonoured)	500
To Purchases Returns	200		
To Bills Payable	8,000		
To Balance c/d	6,000		
	39,170		39,170

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

Illustration : 10

From the following particulars, ascertain closing balance of Bills Receivable Account and opening balance of Bills Payable Account :

	₹
Opening balance of Bills Receivable	11,000
Closing balance of Bills Payable	8,000
Bills Payable issued	35,000
Bills Receivable encashed	46,000
Bills Receivable received	49,000
Bills Payable paid in cash	36,000
Bills Receivable dishonoured	1,000

Solution :

Bills Receivable Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Balance b/d	11,000	By Cash/Bank	46,000
To Sundry Debtors	49,000	By sundry Debtors	1,000
		By Balance c/d (Bal. Fig.)	13,000
	60,000		60,000

Bills Payable Account

Dr. Cr.

Particulars	₹	*Particulars*	₹
To Cash/Bank	36,000	By Balance b/d (Bal. Fig.)	9,000
To Balance c/d	8,000	By Sundry Creditors	35,000
	44,000		44,000

Illustration : 11

Ashok does not maintain proper books of account. From the following particulars, prepare the Trading and Profit and Loss Account for the year ended December 31, 2014 and the Balance Sheet as on that date :

	December 31, 2013 ₹	*December 31, 2014* ₹
Debtors	9,000	12,500
Stock	4,900	6,600
Furniture	500	750
Creditors	3,000	2,250

Analysis of other transactions is as follows :

	₹
Cash collected from Debtors	30,400
Cash paid to Creditors	22,000
Salaries	6,000
Rent	750

Notes

Office Expense	900
Drawing	1,500
Additional Capital introduced	1,000
Cash Sales	750
Cash Purchases	2,500
Discount Received	350
Discount Allowed	150
Returns Inwards	500
Returns Outwards	400
Bad ebts	100

He had ₹ 2,500 as Cash Balance at the beginning of the year.

Solution :

Trading and Profit & Loss Account

for the year ended December 31, 2014

Dr. Cr.

Particulars		₹	*Particulars*		₹
To Opening Stock		4,900	By Sales :		
To Purchases :			Cash	750	
Cash	2,500		Credit (Note 3)	34,650	
Credit (Note 4)	22,000			35,400	
	24,500		*Less:* Returns	500	34,900
Less: Return	400	24,100	By Closing Stock		6,600
To Gross Profit c/d		12,500			
		41,500			41,500
To Salaries		6,000	By Gross Profit b/d		12,500
To Rent		750	By Discount Received		350
To Office Expenses		900			
To Discount Allowed		150			
To Bad Debts		100			
To Net Profit transferred to Capital A/c		4,950			
		12,850			12,850

Balance Sheet
as at December 31, 2014

Liabilities		₹	*Assets*	₹
Creditors		2,250	Cash (Note 2)	1,000
Creditors for Furniture			Debtors	12,500
(Rs. 750 - Rs. 500)	13,900		Stock	6,600
Add: Capital introduced	1,000		Furniture	750
Net Profit	4,950			
	19,850			
Less: Drawings	1,500	18,350		
		20,850		20,850

Working Notes :

1. Balance Sheet as at December 31, 2013

Liabilities	₹	*Assets*	₹
Creditors	3,000	Cash and Bank Balance	2,500
Capital (Balancing Fig.)	13,900	Debtors	9,000
		Stock	4,900
		Furniture	500
	16,900		16,900

2. Cash Book

Particulars	₹	*Particulars*	₹
To Balance b/d	2,500	By Sundry Creditors	22,000
To Sundry Debtors	30,400	By Salaries	6,000
To Capital	1,000	By Rent	750
To Cash Sales	750	By Office Expenses	900
		By Drawings	1,500
		By Purchases	2,500
		By Balance c/d	1,000
	34,650		34,650

Notes

3. Total Debtors Account

Particulars	₹	*Particulars*	₹
To Balance b/d	9,000	By Cash/Bank	30,400
To Credit Sales (Balancing Fig.)		34,650 By Discount	
150			
		By Returns Inward	500
		By Bad Debts	100
		By Balance c/d	12,500
	43,650		43,650

4. Total Creditors Account

Liabilities	₹	*Assets*	₹
To Cash/Bank	22,000	By Balance b/d	3,000
To Discount	350	By Credit Purchase	
To Return Outward	400	(Balancing Figure)	22,000
To Balance c/d	2,250		
	25,000		25,000

WHAT YOU HAVE LEARNT

- Single entry system is a system in which accounting records are not according to double entry principle of book keeping.
- Usually under this system, only personal accounts are maintained and real and nominal accounts are avoided.
- A Statement of Affairs is a statement of all assets and liabilities. The difference between the amount of the two sides is taken as capital.
- There are two methods used for ascertaining profits of the business from incomplete records are :

  i. Net Worth Method or Statement of Affairs Method

  ii. Conversion Method

- Under Statement of Affairs Method, Statement of Affairs at close and at opening are prepared to determine opening and closing capital. The capital is adjusted with respect to capital introduced and drawings made, to determine profit earned during the year.
- Under Conversion method, in complete records are converted into Double Entry System and Profit is determined.

TERMINAL EXERCISE

1. Define Single Entry System and explain its features.
2. List any three circumstances under which records may be rendered as incomplete.
3. How is profit calculated under statement of Affairs Method?
4. What do you mean by Single Entry System? Also explain the uses of Single Entry System.
5. What steps are taken to convert a set of books not maintained under Double Entry System into the same?
6. Arvind does not keep proper records of his business, he gives you the following information :

	₹
Opening Capital	2,00,000
Closing Capital	2,50,000
Drawings during the year	60,000
Capital added during the year	75,000

Calculate profit or loss for the year.

7. The following information is supplied to you by a shopkeeper :

	1 April 2013	*31 March 2014*
	₹	₹
Cash	6,000	7,000
Sundry Debtors	68,000	64,000
Stock	59,000	87,000

Notes

Furniture	15,000	13,500
Sundry Creditors	20,000	18,000
B/p	15,000	11,000

During the year the shopkeeper withdrew ₹ 2,500 per month for domestic purposes. He also borrowed from a friend at 9% a sum of ₹ 20,000 on 1st October 2013. He has not yet paid the interest. A provision of 5% on debtors for doubtful debts was to be made.

Ascertain the profit or loss made by him during the period.

ANSWERS TO INTEXT QUESTIONS

21.1 I. (i) estimated (ii) simple (iii) less

II. (i) False (ii) False (iii) True

21.2 (i) False (ii) True (iii) True

ANSWERS TO TERMINAL EXERCISE

6. Profit = ₹ 35,000
7. Profit = ₹ 35,400