Accounts from Incomplete Records

11

Learning Objectives

After studying this chapter, you will be able to :

- *state the meaning and features of incomplete records;*
- *calculate profit or loss using the statement of affairs method;*
- *distinguish between balance sheet and statement of affairs;*
- *prepare trading and profit and loss account and balance sheet from incomplete records; and*
- *detect the missing figures/information by preparing relevant accounts.*

We have so far studied accounting records of firms, which follow the double entry system of book keeping. This gives us an impression that all business units follow this system. However, in practice, all firms do not maintain accounting records strictly as per the double entry system. Many small size enterprises keep incomplete records of their transactions. But, they also have to ascertain the profit or loss for the year and the financial position of the firm as at the end of the year. This chapter deals with the ascertainment of profit or loss and financial position of the firm that have not been maintaining records as per double entry book-keeping or whose records are otherwise incomplete.

11.1 Meaning of Incomplete Records

Accounting records, which are not strictly kept according to double entry system are known as incomplete records. Many authors describe it as single entry system. However, single entry system is a misnomer because there is no such system of maintaining accounting records. It is also not a 'short cut' method as an alternative to double entry system. It is rather a mechanism of maintaining records whereby some transactions are recorded with proper debits and credits while in case of others, either one sided or no entry is made. Normally, under this system records of cash and personal accounts of debtors and creditors are properly maintained, while the information relating to assets, liabilities, expenses and revenues is partially recorded. Hence, these are usually referred as incomplete records.

11.1.1 Features of Incomplete Records

In complete records may be due to partial recording of transactions as is the case with small shopkeepers such as grocers and vendors. In case of large sized organisations, the accounting records may be rendered to the state of incompleteness due to natural calamity, theft or fire. The features of incomplete records are as under :

(a) It is an unsystematic method of recording transactions.
(b) Generally, records for cash transactions and personal accounts are properly maintained and there is no information regarding revenue and/or gains, expenses and/or losses, assets and liabilities.
(c) Personal transactions of owners may also be recorded in the cash book.
(d) Different organisations maintain records according to their convenience and needs, and their accounts are not comparable due to lack of uniformity.
(e) To ascertain profit or loss or for obtaining any other information, necessary figures can be collected only from the original vouchers such as sales invoice or purchase invoice, etc. Thus, dependence on original vouchers is inevitable.
(f) The profit or loss for the year cannot be ascertained under this system with high degree of accuracy as only an estimate of the profit earned or loss incurred can be made. The balance sheet also may not reflect the complete and true position of assets and liabilities.

11.2 Reasons of Incompleteness and its Limitations

It is observed, that many businessmen keep incomplete records because of the following reasons :

(a) This system can be adopted by people who do not have the proper knowledge of accounting principles;
(b) It is an inexpensive mode of maintaining records. Cost involved is low as specialised accountants are not appointed by the organisations;
(c) Time consumed in maintaining records is less as only a few books are maintained;
(d) It is a convenient mode of maintaining records as the owner may record only important transactions according to the need of the business.

However, the mechanism of incomplete records suffers from a number of limitations. This is due to the basic nature of this mechanism. Broadly speaking, unless a systematic approach to maintenance of records is followed, reliable financial statements cannot be prepared.

The limitations of incomplete records are as follows :

(a) As double entry system is not followed, a trial balance cannot be prepared and accuracy of accounts cannot be ensured.
(b) Correct ascertainment and evaluation of financial result of business operations can not be made.
(c) Analysis of profitability, liquidity and solvency of the business cannot be done. This may cause a problem in raising funds from outsiders and planning future business activities.
(d) The owners face great difficulty in filing an insurance claim with an insurance company in case of loss of inventory by fire or theft.
(e) It becomes difficult to convince the income tax authorities about the reliability of the computed income.

11.3 Ascertainment of Profit and Loss

Every business firm wishes to ascertain the results of its operations to assess its efficiency and success and failures. This gives rise to the need for preparing the financial statements to disclose:

(a) the profit made or loss sustained by the firm during a given period; and
(b) the amount of assets and liabilities as at the closing date of the accounting period.

Therefore, the problem faced in this situation is how to use the available information in the incomplete records to ascertain the profit or loss for the particular accounting year and to determine the financial position of a entity as at the end of the year. This can be done in two ways :

1. Preparing the Statement of Affairs as at the beginning and as at the end of the accounting period, called statement of affairs or net worth method.
2. Preparing Trading and Profit and Loss Account and the Balance Sheet by putting the accounting records in proper order, called conversion method.

11.3.1 Preparing Statement of Affairs

Under this method, statements of assets and liabilities as at the beginning and at the end of the relevant accounting period are prepared to ascertain the amount of change in the capital during the period. Such a statement is known as statement of affairs, shows assets on one side and the liabilities on the other just as in case of a balance sheet. The difference between the totals of the two sides (balancing figure) is the capital (refer figure 11.1). Though statement of affairs resembles balance sheet, it is not called a balance sheet because the data is not wholly based on ledger balances. The amounts of items like fixed assets, outstanding expenses, bank balances, etc. are ascertained from the relevant documents and physical count.

Statement of Affairs as at —

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Bills payable	----	Land and Building	----
Creditors	----	Machinery	----
Outstanding expenses	----	Furniture	----
Capital (balancing figure)*	----	Stock	----
		Debtors	----
		Cash and Bank	----
		Prepaid expenses	----
		Capital (balancing figure)*	----
	xxx x		xxxx

*Note: * where the total of liabilities side is more than total of assets side, capital would be shown in assets side and it represents debit balance of capital.*

Fig. 11.1 : *Format of statement of affairs*

Once the amount of capital, both at the beginning and at the end is computed with the help of statement of affairs, a *statement of profit and loss* is prepared to ascertain the exact amount of profit or loss made during the year. The difference between the opening and closing capital represents its increase or decrease which is to be adjusted for withdrawals made by the owner or any fresh capital introduced by him during the accounting period in order to arrive at the amount of profit or loss made during the period. The statement of profit and loss is prepared as shown in figure 11.2.

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

	Particulars	*Amount Rs.*
	Capital as at the end of year (computed from statement of affairs as at the end of year)	.....
Add	Drawings during the year	.....
Less	Additional capital introduced during the year	(.....)
	Adjusted capital at the end of year	.....
Less	Capital as at the beginning of year (computed from statement of affairs as at the beginning of year)	(.....)
	Profit or Loss made during the year	.....

Fig. 11.2 : *Format of statement of profit or loss*

If the net result of above computation is a positive amount, it represents the profit earned during the year. In case the net result is a negative amount, it would represent the loss sustained during the year. The same computation can be done in the form of an equation as follows :

Profit or Loss = Capital at end – Capital at beginning + Drawings during the year – Capital introduced during the year.

For example, consider the following information extracted from the records of Ms. Sheetu :

	Rs.
Capital at the beginning of year, i.e. April 01,2004	1,20,000
Capital at the end of year, i.e. on March 31,2005	2,00,000
Capital brought in by the proprietor during the year	50,000
Withdrawals by the proprietor during the year	30,000

The profit for the year will be calculated as follows :

The profit earned or loss incurred during a given period will be computed as follows :

	Particulars	*Amount Rs.*
	Capital as on March 31, 2005	2,00,000
Add	Drawings during the year	30,000
		2,30,000
Less	Additional capital introduced during the year	(50,000)
	Adjusted capital at the end, i.e. March 31, 2005	1,80,000
Less	Capital in the beginning, i.e. April 01, 2004	(1,20,000)
	Profit made during the year	60,000

Illustration 1

Mr. Mehta started his readymade garments business on April 1, 2004 with a capital of Rs. 50,000. He did not maintain his books according to double entry system. During the year he introduced fresh capital of Rs. 15,000. He withdrew Rs. 10,000 for personal use. On March 31, 2005, his assets and liabilities were as follows :

Total creditors Rs. 90,000 ; Total debtors Rs. 1,25,600 ; Stock Rs. 24,750 ; Cash at bank Rs. 24,980.

Calculate profit or loss made by Mr. Mehta during the first year of his business using the statement of affairs method.

Solution

Books of Mr. Mehta
Statement of Affairs as on March 31, 2005

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Creditors	90,000	Cash at bank	24,980
Capital	85,330	Debtors	1,25,600
(balancing figure)		Stock	24,750
	1,75,330		1,75,330

Statement of Profit or Loss for the year ended March 31,2005

	Particulars	*Amount Rs.*
	Capital as March 31, 2005	85,330
Add	Drawings during the year	10,000
		95,330
Less	Additional capital introduced during the year	(15,000)
	Adjusted capital at end of the year, i.e. March 31,2005	80,330
Less	Actual capital at the beginning of year, i.e. April 01, 2004	(50,000)
	Profit made during the year	30,330

Illustration 2

Mrs. Vandana runs a small printing firm. She was maintaining only some records, which she thought, were sufficient to run the business. On April 01, 2004, available information from her records indicated that she had the following assets and liabilities: Printing Press Rs. 5,00,000, Buildings Rs. 2,00,000, Stock Rs. 50,000, Cash at bank Rs. 65,600, Cash in hand Rs. 7,980, Dues from customers Rs. 20,350, Dues to creditors Rs. 75,340 and Outstanding wages Rs. 5,000. She withdrew Rs. 8,000 every month for meeting her personal expenses. She had also introduced Rs. 15,000 during the year as additional capital. On March 31, 2005 her position was as follows :

Press Rs. 5, 25,000, Buildings Rs. 2,00,000, Stock Rs. 55,000, Cash at bank Rs. 40,380, Cash in hand Rs. 15,340, Dues from customers Rs. 17,210, Dues to creditors Rs. 65,680.

Calculate the profit made by Mrs. Vandana during the year using statement of affairs method.

Solution

Books of Mrs. Vandana
Statement of Affairs as on April 1, 2004
and as on March 31,2005

Liabilities	*Apr. 01, 04 Rs.*	*Amount Rs.*	*Assets*	*Apr. 01, 04 Rs.*	*Amount Rs.*
Creditors	75,340	65,680	Printing press	5,00,000	5,25,000
Wages outstanding	5,000	–	Buildings	2,00,000	2,00,000
Capital	7,63,590	7,87,250	Debtors	20,350	17,210
(balancing figure)			Stock	50,000	55,000
			Cash at bank	65,600	40,380
			Cash in hand	7,980	15,340
	8,43,930	8,52,930		8,43,930	8,52,930

Statement of Profit or Loss for the year ended on March 31, 2005

	Particulars	*Amount Rs.*
	Capital as on March 31,2005	7,87,250
Add	Drawings during the year	96,000
		8,83,250
Less	Additional capital introduced during the year	(15,000)
	Adjusted capital at the end of the year (31.3.2005)	8,68,250
Less	Capital as on April 01, 2004	(7,63,590)
	Profit made during the year	1,04,660

11.3.2 Difference between Statement of Affairs and Balance Sheet

Both statement of affairs and balance sheet show the assets and liabilities of a business entity on a particular date. However, there are some fundamental differences between the two. A statement of affairs is prepared from incomplete records where most of the assets are recorded on the basis of estimates as compared to a balance sheet which is prepared from records maintained on the basis of double entry book-keeping and all assets and liabilities can be verified from the ledger accounts. Hence, a balance sheet is more reliable than a statement of affairs. The objective of preparing a statement of affairs is to ascertain the amount of capital account as on that date whereas a balance sheet is prepared to know the financial position of the business at a particular date. In statement of affairs, an item of assets or liabilities may get omitted and this omission may remain unknown because the effect of this omission gets adjusted in the capital account balance and the total of both sides of statement match. However, in case of a balance sheet the possibility of omission of any item is remote because in case of an omission, the balance sheet will not agree and the accountant will trace the missing item from accounting records. These differences have been shown in a tabular form as under :

Basis of difference	*Statement of affairs*	*Balance sheet*
Reliability	It is less reliable as it is prepared from incomplete records.	It is more reliable as it is prepared from double entry records.
Objective	The objective of preparing statement of affairs is to estimate the balance in capital account on a particular date.	The objective of preparing balance sheet is to show the true financial position of an entity on a particular date.
Omission	Omission of assets or liabilities cannot be discovered easily.	Omissions of assets or liabilities can be discovered easily and can be traced from accounting records.

Fig. 11.3 : *Showing comparison between statement of affairs and balance sheet*

Do It Yourself

Identify a small shopkeeper in your locality, ask him about the accounting records maintained by him. If he is not maintaining the records as per double entry system, list the reasons thereof and ask him how does he compute profit or loss.

11.4 Preparing Trading and Profit and Loss Account and the Balance Sheet

To prepare proper trading and profit and loss account and the balance sheet one needs complete information regarding expenses, incomes, assets and liabilities. In case of incomplete records, details of some items like creditors, cash purchases, debtors, cash sales, other cash payments and such receipts are easily available, but there are a number of items the details of which will have to be ascertained in an indirect manner by using the logic of double entry. The most common items that are missing and have to be worked out as such are :

- Opening capital
- Credit purchases
- Credit sales
- Bills payable accepted
- Bills receivable received
- Payments to creditors
- Payments to debtors
- Any other cash/bank related items.

You know that opening capital can be worked out by preparing the statement of affairs at the beginning of the year. For other items we have explained as to how available information can be used to ascertain their missing figures with the help of total debtors and total creditors, total bills receivable and total bills payable accounts and summary of cash.

11.4.1 Ascertaining Credit Purchases

The credit purchases figure is not usually available from the incomplete records. It is quite possible that some other information related to creditors may also be missing. Therefore, by preparing the total creditors account, a proforma of which is given in figure 11.4, credit purchases or any other missing figure related to creditors, as the case may be, can be ascertained as the balancing figure.

Total Creditors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Cash paid		....		Balance b/d		....
	Bank (cheques issued)		....		Bank (cheques dishonoured)		....
	Bills payable (bills accepted)		....		Bills payable (bills dishonoured)		....
	Discount received		....		Credit purchases		....
	Purchases return		....				
	Balance c/d		....				
			xxxxxxx				xxxxxxx

Fig. 11.4 : *Showing format of creditors account*

For example, consider the following transactions relating to M/s Kisan Food Suppliers:

	Rs.
Opening balance of creditors	40,000
Closing balance of creditors	50,000
Payment made in cash	85,000
Discount received	2,000

The total creditors account will be prepared as follows :

Books of Kisan
Food Suppliers
Total Creditors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Cash		85,000		Balance b/d		40,000
	Discount		2,000		Credit purchases (balancing figure)		97,000
	Balance c/d		50,000				
			1,37,000				1,37,000

11.4.2 Ascertainment of Credit Sales

The figure of credit sales is also not usually available from incomplete records. Some other information on related to debtors may also be missing. Therefore, if the total debtors account is prepared as shown in figure 11.5, credit sales or any other missing figure, as the case may be, can be traced out as the balancing figure.

Total Debtors Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Balance b/d		....		Cash (cash received) Bank (cheque received)		....
	Bills receivable (bills dishonoured)		....		Discount allowed		....
	Bank (cheque dishonoured)		....		Bad debts		....
	Credit sales (balancing figure)		....		Sales return		....
					Bills receivable (bills received)		....
					Balance c/d		....
			xxx				xxx

Fig. 11.5 : *Showing format of debtors account*

From the credit sales as ascertained from total debtors account, the sales returns should be deducted from gross credit sales to get net credit sales. For example, the following information is obtained from the books of Mohanlal Traders :

	Rs.
Debtors on April 01, 2005	50,000
Debtors on March 31, 2005	70,000
Cash received from debtors	60,000
Discount allowed	1,000
Bills receivable	30,000
Bad debts	3,000

The total debtors account will be prepared as follows :

Mohan Lal Traders
Total Debtors Account

Dr. **Cr**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2005							
Apr. 01	Balance b/d		50,000		Cash		60,000
	Credit sales (balancing figure)		1,14,000		Discount		1,000
					Bills receivable		30,000
					Bad debts		3,000
					Balance c/d		70,000
			1,64,000				1,64,000

11.4.3 Ascertainment of Bills Receivable and Bills payable

Quite often, while all details relating to bills receivable and bills payable are available but the figures of the bills received and bills accepted during the year are not given. In such a situation, total bills receivable account and total bills payable account can be prepared and the missing figures ascertained as the balancing figures. The proforma of total bills receivable account and total bills payable account is shown in figure 11.6 and figure 11.7.

Total Bills Receivable Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Balance b/d		....		Bank (bills honoured)		....
	Sundry debtors (bills received)		....		Sundry debtors (bills dishonoured)		....
					Balance c/d		....
			xxx				xxx

Fig. 11.6 : *Showing format of bills receivable account*

Total Bills Payable Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Bank (bills matured)		....		Balance b/d		....
	Sundry creditors (bills dishonoured)		....		Sundry creditors (bills accepted)		....
	Balance c/d		....				
			xxx				xxx

Fig. 11.7 : *Showing format of bills payable account*

For example consider the following data available from the records of M/s S.S. Senapati

	Rs.
Opening bills receivable	5,000
Opening bills payable	37,000
Bills receivable dishonoured	2,000
Bills payable dishonoured	66,750
Closing bills payable	52,000
Bills collected during the year	12,000
Closing bills receivable	4,000

The bills receivable and bills payable will be prepared as follows :

Total Bills Receivable Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F*	*Amount Rs.*
	Balance b/d		5,000		Sundry debtors (bills dishonoured)		2,000
	Sundry debtors (bills received) (balancing figure)		13,000		Bank (bills collected)		12,000
					Balance c/d		4,000
			18,000				18,000

Total Bills Payable Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Bill dishonoured		66,750		Balance b/d		37,500
	Balance c/d		52,500		Sundry Creditors (bills accepted) (balancing figure)		81,750
			1,19,250				1,19,250

Test Your Understanding - I

Tick the correct answer :

1. Incomplete record mechanism of book keeping is :
   (a) Scientific (b) Unscientific
   (c) Unsystematic (d) both (b) and (c)
2. Opening capital is ascertained by preparing :
   (a) Total debtors account (b) Total creditors account
   (c) Cash account (d) Opening statement of affairs
3. Credit purchase, during the year is ascertained by preparing :
   (a) Total creditors account (b) Total debtors account
   (c) Cash account (d) Opening statement of affairs
4. If opening capital is Rs. 60,000, drawings Rs. 5,000, capital introduced during the period Rs. 10,000, closing capital Rs. 90,000. The value of profit earned during the period will be :
   (a) Rs. 20,000 (b) Rs. 25,000
   (c) Rs. 30,000 (d) Rs. 40,000

11.4.4 Ascertainment of Missing Information through Summary of Cash

Sometimes, the amount paid to creditors or the amount received from debtors or the opening or closing cash or bank balance may be missing. To ascertain any missing item of receipt or payment, we may prepare a cash book summary showing all receipts and payments during the year and the balancing figure is taken as the amount of missing item.

If however, both amount paid to creditors and that received from debtors are missing, then any one of these may be obtained first through the total creditors or total debtors account, as the case may be, and the other missing information ascertained from the cash book summary in the same way as stated earlier.

After the missing figures have been traced out, the final accounts may be prepared straight away or after the preparation of the trial balance. The components of the trial balance and their sources of information are summarised below :

1.	Closing assets (except stock) and liabilities	Closing list
2.	Opening assets (including opening stock) and liabilities	Opening list
3.	Purchases	Credit purchases from total creditors account and cash purchases from summary of cash
4.	Sales	Credit sales from total debtors account and cash sales from summary of cash
5.	Opening capital	Opening statement of affairs
6.	Expenses and Revenues	As per cash summary of cash plus subsidiary informatioon
7.	Losses and Gains	From all the accounts and scattered information
8.	Bills receivable received	Total bills receivable account
9.	Bills payable accepted	Total bills payable account
10.	Cash/Bank balance	Summary of cash

Fig. 11.7 : *Detecting the missing information*

Illustration 3

Compute the amount of total purchases and total sales of Mr. Amit from the following information for the year ending on March 31,2005.

	Amount Rs.
Total debtors as on April 01, 2004	40,000
Total creditors as on April 01, 2004	50,000
Bills receivable as on April 01, 2004	30,000
Bills payable as on April 01, 2004	45,000
Discount received	5,000
Bad debts	2,000
Return inwards	4,000
Discount allowed	3,000

Cash sales	10,000
Cash purchases	8,000
Total debtors as on March 31, 2005	80,000
Cash received from debtors	1,00,000
Cash paid to creditors	80,000
Cash received against bills receivable	25,000
Payment made against bills receivable	40,000
Total creditors as on March 31, 2005	40,000
Bills payable as on March 31, 2005	50,000
Bills receivable as on March 31, 2005	35,000

Solution

Total Bills Receivable Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Balance b/d		30,000		Cash		25,000
	Total debtors (balancing figure)		30,000		Balance c/d		35,000
			60,000				60,000

Total Bills Payable Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Cash		40,000		Balance b/d		45,000
	Balance c/d		50,000		Total creditors (balancing figure)		45,000
			90,000				90,000

Total Debtors Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Balance b/d		40,000		Bad debts		2,000
	Sales (balancing figure)		1,79,000		Return inwards		4,000
					Discount allowed		3,000
					Cash		1,00,000
					Bills receivable (Transfer from bills receivable account)		30,000
					Balance c/d		80,000
			2,19,000				2,19,000

Total Creditors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Discount received		5,000		Balance b/d		50,000
	Cash		80,000		Purchases (credit) (balancing figure)		1,20,000[2]
	Bills payable (transfer from bills payable account)		45,000				
	Balance c/d		40,000				
			1,70,000				1,70,000

Working Notes

(i) Credit purchases have been computed from total creditors account as Rs. 1,20,000[2]. Cash purchases given are Rs. 8,000. Total purchases will be Rs. 1,20,000 + Rs. 8,000 = Rs. 1,28,000.

(ii) Credit sales have been computed from total debtors account as Rs. 1,79,000 and cash sales are given as Rs. 10,000. Total sales will be Rs. 1,79,000 + Rs. 10,000 = Rs. 1,89,000.

Illustration 4

From the following information supplied by Ms. Sudha, calculate the amount of 'Net Sales'

	Rs.
Debtors on April 01, 2005	65,000
Debtors on March 31, 2006	50,000
Opening balance of bills receivable as on April 01, 2005	23,000
Closing balance of bills receivable as on March 03, 2006	29,000
Cash received from debtors	3,02,000
Discount allowed	8,000
Cash received against bills receivable	21,000
Bad debts	14,000
Bill receivalbes (dishonoured)	20,000
Cash sales	2,25,000
Sales return	17,000

Total Bills Receivable Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Opening balance		23,000		Cash (bills honoured)		21,000
	Debtors (Bills receivable) (balancing figure)		47,000		Bills receivable dishonoured		20,000
					Closing balance		29,000
			70,000				70,000

Total Debtors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2005				2005			
Apr. 01	Opening balance		65,000	Apr. 01	Cash received		3,02,000
	Bills receivable (dishonoured)		20,000		Discount allowed		8,000
	Sales (balancing figure)		3,53,000		Sales return		17,000
					Bad debts		14,000
					Bills receivable (transferred from bills receivable account)		47,000
					Closing balance		50,000
			4,38,000				4,38,000

(*Working Notes*)

With the preparation of total debtors account and total bills receivable account, the net sales will be computed as follows :

Net Sales = Cash Sales + Credit Sales – Sales return
= Rs. 2,25,000 + Rs. 3,53,000 – Rs. 1,7000
= Rs. 5,61,000

Illustration 5

Mr. Om Prakash did not keep his books of accounts under double entry system. From the following information available from his records, prepare profit and loss account for the year ending on March 31, 2005 and a balance sheet as at that date, depreciating the washing equipment @ 10%.

Summary of Cash

Dr. **Cr.**

Receipts	Amount Rs.	Payments	Amount Rs.
Balance b/d	8,000	Cash purchases	14,000
Cash sales	40,000	Paid to creditors	20,000
Received from debtors	30,000	Sundry expenses	6,000
		Cartage	2,000
		Drawings	8,000
		Balance c/d	28,000
	78,000		78,000

Other information :

March 31, 2004

	March 31, 2004 *Rs.*	*March 31, 2005* *Rs.*
Debtors	9,000	12,000
Creditors	14,400	6,800
Stock of materials	10,000	16,000
Washing equipment	40,000	40,000
Furniture	3,000	3,000
Discount allowed during the year		1,400
Discount received during the year		1,700

Solution

Books of Om Prakash
Trading and Profit and Loss Account
for the year ended on March 31, 2005

Expenses/losses	*Amount* *Rs.*	*Revenues/gains*	*Amount* *Rs.*
Opening stock	10,000	Sales	74,400
Purchases	28,100	Closing stock	16,000
Cartage	2,000		
Gross profit c/d	50,300		
	90,400		90,400
Sundry expenses	6,000	Gross profit b/d	50,300
Discount allowed	1,400	Discount received	1,700
Depreciation	4,000		
Net profit (transfered to capital account)	40,600		
	52,000		52,000

Balance Sheet as at March 31, 2005

Liabilities		*Amount* *Rs.*	*Assets*		*Amount* *Rs.*
Capital	55,600		Washing equipment	40,000	
Add Profit	40,600		*Less* Depreciation	(4,000)	36,000
	96,200				
Less Drawings	(8,000)	88,200	Furniture		3,000
Creditors		6,800	Stock of materials		16,000
			Debtors		12,000
			Cash		28,000
		95,000			95,000

Working Notes :

Total Debtors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Balance b/d		9,000		Cash		30,000
	Sales (credit) (balancing figure)		34,400		Discount allowed		1,400
					Balance c/d		12,000
			43,400				43,400

Total Creditors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Cash		20,000		Balance b/d		14,400
	Discount received		1,700		Purchases (credit) (balancing figure)		14,100
	Balance c/d		6,800				
			28,500				28,500

Statement of Affairs as at March 31,2004

Liabilities	Amount Rs.		Assets	Amount Rs.
Creditors	14,400		Washing equipment	40,000
Capital (balancing figure)	55,600		Furniture	3,000
			Stock of material	10,000
			Debtors	9,000
			Cash	8,000
	70,000			70,000

Illustration 6

Mrs. Surabhi started business on Jan 01, 2005 with cash of Rs. 50,000, furniture of Rs. 10,000, goods of 2,000 and machinery worth 20,000. During the year she further introduced Rs. 20,000 in her business by opening a bank account. From the following information extracted from her books, you are required to prepare final accounts for the ended December 31, 2005.

	Rs.
Receipt from debtors	57,500
Cash sales	45,000
Cash purchases	25,000
Wages paid	5,000
Salaries to staff	17,500
Trade expanses	6,500
Electricity bill of factory	7,500
Drawings of Surabhi	3,000
Cash paid to creditors	42,000
Discount allowed	1,200
Discount received	3,000
Bad debts written-off	1,300
Cash balance at end of year	20,000

Mrs. Surabhi used goods worth 2,500 for private purposes, which is not recorded in the books. Charge depreciation on furniture 10% and machinery 20% p.a. on Dec. 31, 2005 her debtors were worth 70,000 and creditors Rs. 35,000, stock in trade was valued on that date at Rs. 25,000.

Solution

Books of Mrs. Surabhi
Trading and Profit and Loss Account
for the year ended December 31, 2005

Expenses/Losses		*Amount Rs.*	*Revenues/Gains*		*Amount Rs.*
Opening stock		20,000	Sales	45,000	
Purchases :					
Cash :	25,000		Credit	1,30,000	1,75,000
Credit :	80,000[2]		Closing stock		25,000
	1,05,000				
Less Goods used for private use	(2,500)	1,02,500			
Wages		5,000			
Electricity bill of factory		7,500			
Gross profit c/d		65,000			
		2,00,000			2,00,000
Salaries		17,500	Gross profit b/d		65,000
Trade expenses		6,500	Discount received		3,000
Discount allowed		1,200			
Bad debts		1,300			
Depreciation					
Furniture	1,000				
Machinery	4,000	5,000			
Net profit (transferred to capital account)		36,500			
		68,000			68,000

Balance Sheet of Mrs. Surabhi as at December 31, 2005

Liabilities		*Amount Rs.*	*Assets*		*Amount Rs.*
Creditors		35,000	Cash		20,000
			Bank		13,000
Capital	1,00,000		Stock		25,000
Add Net profit	36,500		Debtors		70,000
	1,36,000		Furniture	10,000	
Add Additional capital	20,000		*Less* Depreciation	(1,000)	9,000
	1,56,500		Machinery	20,000	
			Less Depreciation	(4,000)	16,000
Less Drawings					
Cash 36,000					
Goods 2,500	(38,500)	1,18,000			
		1,53,000			1,53,000

Working Notes :

(i) Total Debtors Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Balance b/d		NIL		Cash		57,500
	Sales (credit) (balancing figure)		1,30,000		Discount allowed		1,200
					Bad debts		1,300
					Balance c/d		70,000
			1,30,000				1,30,000

(ii) Total Creditors Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Cash		42,000		Balance b/d		NIL
	Discount received		3,000		Purchase credit (balancing figure)		80,000
	Balance c/d		35,000				
			80,000				80,000

(iii) Statement of Affair as on Jan. 01, 2005

Liabilities	*Amount Rs.*	*Assets*	*Amounts Rs.*
Capital (balancing figure)	1,00,000[3]	Cash Stock Furniture Machinery	50,000 20,000 10,000 20,000
	1,00,000		1,00,000

(iv) Summary of Cash

Dr. **Cr.**

Receipts	*Amount Rs.*	*Payments*	*Amount Rs.*
Balance b/d	50,000	Purchases	25,000
Capital(bank)	20,000	Wages	5,000
Debtors	57,500	Salaries	17,500
Sales	45,000	Trade expenses	6,500
		Electric bill	7,500
		Drawings	36,000
		Creditors	42,000
		Balance c/d—cash	20,000
		Closing bank(balancing figure)	13,000
	1,72,500		1,72,500

Test Your Understanding - II

Write the correct word(s) :

1. Credit sales can be ascertained as the balancing figure in the..........account.
2. Excess of ....over.........represents loss sustained during the period.
3. To ascertain the profit, closing capital is to be adjusted by deducting ....and adding ....
4. Incomplete records are generally used by ....

Illustration 7

Mr. Bahadur does not know how to keep books of account. From his various records, the following particulars have been made available prepare the final Accounts, after providing for doubtful debts 5 per cent of debtors outstanding and depreciating the motor car @ 20 per cent.

(i) Balance Sheet as on April 1, 2005

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Capital	92,500	Motor Car	71,700
Bills payable	32,800	Stock	51,500
Creditors	84,200	Debtors	49,500
		Bills receivable	24,400
		Cash in hand	12,400
	2,09,500		2,09,500

(ii) Cash Transactions during the year

Particular	*Amount Rs.*	*Particular*	*Amount Rs.*
Balance b/d	12,400	Furniture	30,000
Receipt from debtors	1,15,000	Wages	9,400
Bills receivable	14,200	Purchases	40,500
Sales	1,03,000	Drawings	24,000
		Bills payable	30,700
		General expenses	20,700
		Payment to creditors	80,800
		Balance c/d	8,500
	2,44,600		2,44,600

(iii) Other Information

Particulars	*Amount Rs.*
Bills receivable drawn (received)	6,300
Discount to customers	2,300
Discount from suppliers	700
Credit purchases	29,600
Closing stock	41,700
Closing balance of debtor	55,000
Closing balance of bills payable	10,200

Solution

Cash sales and cash purchases are available from cash transactions. Credit purchase is also given. But credit sale is to be ascertained by the opening debtors account. Though the credit purchase is available, the closing balance of creditors is not known. That is why the creditors account also has to be opened. As there are bills payable and bills receivable, those accounts also have to be opened, otherwise the creditors and debtors accounts will not be complete.

Books of Mr. Bahadur
Trading and Profit and Loss Account
for the year ended March 31, 2006

Expenses/Losses		*Amount Rs.*	*Revenues/Gains*		*Amount Rs.*
Opening stock		51,500	Sales		
purchases					
Cash	40,500		Cash	1,03,000	
Credit	29,600	70,100	Credit	1,29,100	2,32,100
Wages		9,400	Closing stock		41,700
Gross profit c/d		1,42,800			
		2,73,800			2,73,800
General expenses		20,700	Gross profit b/d		1,42,800
Discount allowed		2,300	Discount received		700
Depreciation on motor car		14,340			
Reserve for bad debts		2,750			
Net profit		1,03,410			
		1,43,500			1,43,500

Balance Sheet as March 31, 2006

Liabilities		*Amount Rs.*	*Assets*		*Amount Rs.*
Capital	92,500		Motor car	71,700	
Add Net profit	1,03,410		*Less* depreciation	(14,340)	57,360
	1,95,910		Furniture		30,000
Less Drawings	(24,000)	1,71,910	Stock		41,700
Creditors		24,200	Debtors	55,000	
Bills payable		10,200	*Less* Provision	(2,750)	52,250
			Bills receivable		16,500
			Cash		8,500
		2,06,310			2,06,310

Working Notes:

(i) Total Bills Receivable Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Balance b/d		24,400		Cash (receipt)		14,200
	Debtors (bills drawn)		6,300		Balance c/d (balancing figure)		16,500
			30,700				30,700

(ii) Total Debtors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Balance b/d		49,500		Cash (receipt)		1,15,000
	Credit sales (balancing figure)		1,29,100		Bills (drawn)		6,300
					Discount allowed		2,300
					Balance c/d		55,000
			1,78,600				1,78,600

(iii) Total Bills payable Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Cash (paid)		30,700		Balance b/d		32,800
	Balance c/d		10,200		Creditors (bills accepted) (balancing figure)		8,100
			40,900				40,900

(iv) Total Creditors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	Cash		80,800		Balance b/d		84,200
	Bills payable		8,100		Credit purchases		29,600
	Discount received		700				
	Balance c/d (balancing figure)		24,200				
			1,13,800				1,13,800

Illustration 8

Dinesh does not keep systematic books of account due to lack of Knowledge about the double entry system of accounting. He supplies you the following information :

(i) Assets and Liabilities
December 31, 2006

	Rs.	Rs.
Sundry debtors	45,000	48,600
Sundry creditors	24,000	?
Cash	4,500	?

Furniture and Fixtures	15,000	?
Stock	25,000	?
Motor Van	16,000	?

(ii) Transaction during the year

	Rs.
Cash received from debtors	80,000
Discount allowed to debtors	1,400
Bad debts written off	1,800
Cash paid to creditors	63,000
Discount allowed by creditors	1,000
Sales return	3,000
Purchases return	2,000
Expenses paid	6,000
Drawings	5,000
Rent paid	2,500

(iii) Other Information

Outstanding expenses Rs. 1,200. Charge 10 per cent depreciation on furniture and 5 per cent on motor van.Dinesh informs that he sells goods at cost plus 40 per cent. A provision of 5 per cent on debtors is to be created. Prepare his trading and profit and loss account and balance sheet as on December 31, 2006

Books of Dinesh
Trading and Profit and Loss Account
for the year ending December 31, 2006

Dr. **Cr.**

Expenses/Losses		*Amount Rs.*	*Revenues/Gains*		*Amount Rs.*
Opening stock		25,000	Sales	89,800	
Purchases	69,000		*Less* Returns	(3,000)	86,800
Less Returns	(2,000)	67,000	Closing stock		30,000
Gross profit c/d		24,800			
		1,16,800			1,16,800
Discount allowed		1,400	Gross profit b/d		24,800
Bad debts		1,800	Discount received		1,000
Expenses paid	6,000				
Add Outstanding expenses	1,200	7,200			
Rent paid		2,500			
Depreciation on Furniture	1,500				
Motor van	800	2,300			
Provision for bad debts		2,430			
Net profit (transferred to capital account)		8,170			
		25,800			25,800

Balance Sheet as on December 31, 2006

Liabilities		*Amount Rs.*	*Assets*		*Amount Rs.*
Outstanding expenses		1,200	Cash		8,000
Creditors		27,000	Debtors	48,600	
Capital	81,500		*Less* Provision	(2,430)	46,170
Less Drawings	(5,000)		Closing stock		30,000
	76,500		Furniture & Fixtures	15,000	
Add Net profit	8,170	84,670	*Less* Depreciation	(1,500)	13,500
			Motor van	16,000	
			Less Depreciation	(800)	15,200
		1,12,870			1,12,870

Working Notes :

(i) Total Debtors Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Balance b/d		45,000		Cash received		80,000
	Sales		89,800		Discount allowed		1,400
					Bad debts		1,800
					Sales return		3,000
					Balance c/d		48,600
			1,34,800				1,34,800

(ii) Total Creditors Account

Dr. **Cr.**

Date	*Particulars*	*J.F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
	Cash paid		63,000		Balance b/d		24,000
	Discount received		1,000		Purchases		69,000
	Purchases return		2,000				
	Balance c/d		27,000				
			93,000				93,000

(iii) Summary of Cash

Dr. **Cr.**

Receipts	*Amount Rs.*	*Payments*	*Amount Rs.*
Balance b/d	4,500	Creditors	63,000
Debtors	80,000	Expenses paid	6,000
		Drawings	5,000
		Rent paid	2,500
		Balance c/d	8,000
	84,500		84,500

(iv) Statement of Affairs as on December 31, 2005

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Creditors	24,000	Debtors	45,000
		Cash	4,500
		Stock	25,000
Capital in the beginning (Balancing figure)	81,500	Furniture and Fixtures	15,000
		Motor Van	16,000
	1,05,500		1,05,500

(v) Calculation of Closing Stock

	Rs.
Total sales	89,800
Less Sales return	(3,000)
Net sales	86,800
Total purchases	69,000
Less Purchases returens	(2,000)
	(67,000)
Rate of gross profit on cost	40%
Suppose cost of goods sold is	100
Then, Gross profit equals to	40
Sales equals to	140
Hence, Cost of goods sold will be	

Sale = Rs. 86,800 = $\frac{100}{140} \times 86,800 = 62,000$

The amount of closing stock will be calculated as :

Net Purchases	67,000
Add Closing stock	25,000
Cost of goods available for sale	92,000
Less Cost of goods sold	(62,000)
Closing stock	30,000

Key Terms Introduced in the Chapter

- Incomplete records
- Statement of affairs

Summary with Reference to Learning Objectives

1. *Incomplete records* : Incomplete records refer to, lack of accounting records according to the double entry system. Degree of incompleteness may vary from highly disorganised records to organised, but still not complete.
2. *Difference between statement of affairs and balance sheet* : A statement of affairs is a statement showing various assets and liabilities of a firm on date, with

difference between the two sides denoting capital. Since, the records are incomplete, the values of assets and liabilities are normally estimates based on information available. They are not the balances taken from properly maintained ledger like in case of balance sheet. The balance sheet is derived from a set of books maintained on the basis of double entry system.

3. *Computation of profit and loss from incomplete records* : The statement of affairs is used to compute capital when a firm has a highly disorganised set of incomplete records. To the difference between the closing and opening capital, any sum withdrawn from business are added back and any additional capital introduced during the year are deducted to find out profit and loss made for the period.
4. *Preparation of profit and loss account and balance sheet* : When cash summary of a firm is available along with information about personal accounts of creditors and customers, an attempt can be made to prepare the profit and loss account and balance sheet. Missing figures about purchases, sales, debtors and creditors can be obtained by preparing proforma accounts of debtors, creditors, bills receivable and bills payable using the logic of double entry system. Once a profit and loss account and balance sheet are prepared, it will be possible for the firm to start a complete accounting system for future.

Questions for Practice

Short Answers

1. State the meaning of incomplete records?
2. What are the possible reasons for keeping incomplete records?
3. Distinguish between statement of affairs and balance sheet.
4. What practical difficulties are encountered by a trader due to incompleteness of accounting records?

Long Answers

1. What is meant by a 'statement of affairs'? How can the profit or loss of a trader be ascertained with the help of a statement of affairs?
2. 'Is it possible to prepare the profit and loss account and the balance sheet from the incomplete book of accounts kept by a trader'? Do you agree? Explain.
3. Explain how the following may be ascertained from incomplete records:
   (a) Opening capital and closing capital
   (b) Credit sales and credit purchases
   (c) Payments to creditors and collection from debtors
   (d) Closing balance of cash.

Numerical Questions

Ascertainment of profit or loss by statement of affairs method

1. Following information is given below prepare the statement of profit or loss:

	Rs.
Capital at the end of the year	5,00,000
Capital in the beginning of the year	7,50,000

Drawings made during the period	3,75,000
Additional Capital introduced	50,000

[*Ans* : Profit : Rs. 75,000].

2. Manveer started his business on January 01, 2005 with a capital of Rs. 4,50,000. On December 31, 2005 his position was as under:

	Rs.
Cash	99,000
Bills receivable	75,000
Plant	48,000
Land and Building	1,80,000
Furniture	50,000

He owned Rs. 45,000 from his friend Susheel on that date. He withdrew Rs. 8,000 per month for his household purposes. Ascertain his profit or loss for this year ended December 31, 2005
[*Ans* : Profit : Rs.53,000].

3. From the information given below ascertain the profit for the year :

	Rs.
Capital at the beginning of the year	70,000
Additional capital introduced during the year	17,500
Stock	59,500
Sundry debtors	25,900
Business premises	8,600
Machinery	2,100
Sundry creditors	33,400
Drawings made during the year	26,400

[*Ans* : Profit : Rs.1,600].

4. From the following information, Calculate Capital at the beginning :

	Rs.
Capital at the end of the year	4,00,000
Drawings made during the year	60,000
Fresh Capital introduce during the year	1,00,000
Profit of the current year	80,000

[*Ans* : Capital at thé beginning of the year : Rs.2,60,000].

5. Following information is given below : calculate the closing capital

	Jan. 01, 2005	Dec. 31, 2005
	Rs.	Rs.
Creditors	5,000	30,000
Bills payable	10,000	—
Loan	—	50,000
Bills receivable	30,000	50,000
Stock	5,000	30,000
Cash	2,000	20,000

[*Ans* : Closing capital : Rs.20,000].

Calculation of profit or loss and ascertainment of statement of affairs at the end of the year (Opening Balance is given)

6. Mrs. Anu started firm with a capital of Rs. 4,00,000 on 1st July 2005. She borrowed from her friends a sum of Rs. 1,00,000 @ 10% per annum (interest

paid) for business and brought a further amount to capital Rs. 75,000 on Dec. 31, 2005, her position was :

	Rs.
Cash	30,000
Stock	4,70,000
Debtors	3,50,000
Creditors	3,00,000

He withdrew Rs. 8,000 per month for the year. Calculate profit or loss for the year and show your working clearly.

[*Ans* : Profit : Rs.23,000].

7. Mr. Arnav does not keep proper records of his business he provided following information, you are required to prepare a statement showing the profit or loss for the year.

	Rs.
Capital at the beginning of the year	15,00,000
Bills receivable	60,000
Cash in hand	80,000
Furniture	9,00,000
Building	10,00,000
Creditors	6,00,000
Stock in trade	2,00,000
Further capital introduced	3,20,000
Drawings made during the period	80,000

[*Ans* : Loss : Rs. 1,00,000].

Ascertainment of statement of affairs at the beginning and at the end of the year and calculation of profit or loss.

8. Mr. Akshat keeps his books on incomplete records following information is given below :

	April 01, 2004	March 31, 2005
	Rs.	Rs.
Cash in hand	1,000	1,500
Cash at bank	15,000	10,000
Stock	1,00,000	95,000
Debtors	42,500	70,000
Business premises	75,000	1,35,000
Furniture	9,000	7,500
Creditors	66,000	87,000
Bills payable	44,000	58,000

During the year he withdrew Rs. 45,000 and introduced Rs. 25,000 as further capital in the business compute the profit or loss of the business.

[*Ans* : Profit : Rs. 61,500].

9. Gopal does not keep proper books of account. Following information is given below:

	Jan. 01, 2005	Dec. 31, 2005
	Rs.	Rs.
Cash in hand	18,000	12,000
Cash at bank	1,500	2,000

Stock in trade	80,000	90,000
Sundry debtors	36,000	60,000
Sundry creditors	60,000	40,000
Loan	10,000	8,000
Office equipments	25,000	30,000
Land and Buildings	30,000	20,000
Furniture	10,000	10,000

During the year he introduced Rs. 20,000 and withdrew Rs. 12,000 from the business. Prepare the statement of profit or loss on the basis of given information

[*Ans* : Profit : Rs. 53,500].

10. Mr. Muneesh maintains his books of accounts from incomplete records. His books provide the information :

	Jan. 01, 2005 Rs.	Dec. 31, 2005 Rs.
Cash	1,200	1,600
Bills receivable	—	2,400
Debtors	16,800	27,200
Stock	22,400	24,400
Investment	—	8,000
Furniture	7,500	8,000
Creditors	14,000	15,200

He withdrew Rs. 300 per month for personal expenses. He sold his investment of Rs. 16,000 at 2% premium and introduced that amount into business.

[*Ans* : Profit : Rs. 9,780].

11. Mr. Girdhari Lal does not keep full double entry records. His balance as on January 01, 2006 is as.

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Sundry creditors	35,000	Cash in hand	5,000
Bills payable	15,000	Cash at bank	20,000
Capital	40,000	Sundry debtors	18,000
		Stock	22,000
		Furniture	8,000
		Plant	17,000
	90,000		90,000

His position at the end of the year is :

	Rs.
Cash in hand	7,000
Stock	8,600
Debtors	23,800
Furniture	15,000

Plant	20,350
Bills payable	20,200
Creditors	15,000

He withdrew Rs. 500 per month out of which to spent Rs. 1,500 for business purpose. Prepare the statement of profit or loss.
[*Ans* : Profit : Rs. 4,050].

12. Mr. Ashok does not keep his books properly. Following information is available from his books.

	Jan. 01, 2005 Rs.	Dec. 31, 2005 Rs.
Sundry creditors	45,000	93,000
Loan from wife	66,000	57,000
Sundry debtors	22,500	—
Land and Building	89,600	90,000
Cash in hand	7,500	8,700
Bank overdraft	25,000	—
Furniture	1,300	1,300
Stock	34,000	25,000

During the year Mr. Ashok sold his private car for Rs. 50,000 and invested this amount into the business. He withdrew from the business Rs. 1,500 per month upto July 31, 2005 and thereafter Rs. 4,500 per month as drawings. You are required to prepare the statement of profit or loss and statement of affair as on December 31, 2005.
[*Ans* : Loss : Rs. 57,900].

13. Krishna Kulkarni has not kept proper books of accounts prepare the statement of profit or loss for the year ending December 31, 2005 from the following information:

	Jan. 01, 2005 (Rs.)	Dec. 31, 2005 (Rs.)
Cash in hand	10,000	36,000
Debtors	20,000	80,000
Creditors	10,000	46,000
Bills receivable	20,000	24,000
Bills payable	4,000	42,000
Car	—	80,000
Stock	40,000	30,000
Furniture	8,000	48,000
Investment	40,000	50,000
Bank balance	1,00,000	90,000

The following adjustments were made :

(a) Krishna withdrew cash Rs. 5,000 per month for private use.
(b) Depreciation @ 5% on car and furniture @10% .
(c) Outstanding Rent Rs. 6,000.
(d) Fresh Capital introduced during the year Rs.30,000.

[*Ans* : Profit : Rs. 1,41,200 ; Statement of affairs with adjusted : Rs. 4,29,200].

14. M/s Saniya Sports Equipment does not keep proper records. From the following information find out profit or loss and also prepare balance sheet for the year ended December 31, 2005

	Dec. 31, 2004	Dec. 31, 2005
	Rs.	Rs.
Cash in hand	6,000	24,000
Bank overdraft	30,000	—
Stock	50,000	80,000
Sundry creditors	26,000	40,000
Sundry debtors	60,000	1,40,000
Bills payable	6,000	12,000
Furniture	40,000	60,000
Bills receivable	8,000	28,000
Machinery	50,000	1,00,000
Investment	30,000	80,000

Drawing Rs.10,000 p.m. for personal use, fresh capital introduce during the year Rs.2,00,000. A bad debts of Rs.2,000 and a provision of 5% is to be made on debtors. outstanding salary Rs.2,400, prepaid insurance Rs.700, depreciation charged on furniture and machine @ 10% p.a.
[Ans : Profit : Rs. 1,71,300 ; Statement of affairs with adjustment : Rs. 4,87,700].

Ascertainment of Missing Figures

15. From the following information calculate the amount to be paid to creditors:

	Rs.
Sundry creditors as on March 31, 2005	1,80,425
Discount received	26,000
Discount allowed	24,000
Return outwards	37,200
Return inward	32,200
Bills accepted	1,99,000
Bills endorsed to creditors	26,000
Creditors as on April 01, 2006	2,09,050
Total purchases	8,97,000
Cash purchases	1,40,000

[*Ans* : Cash paid to creditors : Rs. 4,40,175].

16. Find out the credit purchases from the following:

	Rs.
Balance of creditors April 01, 2004	45,000
Balance of creditors March 31, 2005	36,000
Cash paid to creditors	1,80,000
Cheque issued to creditors	60,000
Cash purchases	75,000
Discount received from creditors	5,400
Discount allowed	5,000
Bills payable given to creditors	12,750
Return outwards	7,500
Bills payable dishonoured	3,000

Bills receivable endorsed to creditors	4,500
Bills receivable endorsed to creditors dishonoured	1,800
Return inwards	3,700

[*Ans* : Credit purchases : Rs. 2, 56,350].

17. From the following information calculate total purchases.

	Rs.
Creditors Jan. 01, 2005	30,000
Creditors Dec. 31, 2005	20,000
Opening balance of Bills payable	25,000
Closing balance of Bills payable	35,000
Cash paid to creditors	1,51,000
Bills discharged	44,500
Cash purchases	1,29,000
Return outwards	6,000

[*Ans* : Total purchases : Rs. 3,30,500].

18. The following information is given

	Rs.
Opening creditors	60,000
Cash paid to creditors	30,000
Closing creditors	36,000
Returns Inward	13,000
Bill matured	27,000
Bill dishonoured	8,000
Purchases return	12,000
Discount allowed	5,000

Calculate credit purchases during the year
[*Ans* : Credit purchases : Rs. 37,000].

19. From the following, calculate the amount of bills accepted during the year.

	Rs.
Bills payable as on April 01, 2005	1,80,000
Bills payable as on March 31, 2006	2,20,000
Bills payable dishonoured during the year	28,000
Bills payable honoured during the year	50,000

[*Ans* : Bills accepted : Rs. 1,18,000].

20. Find out the amount of bills matured during the year on the basis of information given below ;

	Rs.
Bills payable dishonoured	37,000
Closing balance of Bills payable	85,000
Opening balance of Bills payable	70,000
Bills payable accepted	90,000
Cheque dishonoured	23,000

[*Ans* : Bills matured : Rs. 38,000].

21. Prepare the bills payable account from the following and find out missing figure if any :

	Rs.
Bills accepted	1,05,000
Discount received	17,000
Purchases returns	9,000
Return inwards	12,000
Cash paid to accounts payable	50,000
Bills receivable endorsed to creditor	45,000
Bills dishonoured	17,000
Bad debts	14,000
Balance of accounts payable (closing)	85,000
Credit purchases	2,15,000

[*Ans* : Opening balance of creditors : Rs. 79,000].

22. Calculate the amount of bills receivable during the year.

	Rs.
Opening balance of bills receivable	75,000
Bill dishonoured	25,000
Bills collected (honoured)	1,30,000
Bills receivable endorsed to creditors	15,000
Closing balance of bills receivable	65,000

[*Ans* : Rs. 1,60,000].

23. Calculate the amount of bills receivable dishonoured from the following information.

	Rs.
Opening balance of bills receivable	1,20,000
Bills collected (honoured)	1,85,000
Bills receivable endorsed	22,800
Closing balance of bills receivable	50,700
Bills receivable received	1,50,000

[*Ans* : Rs. 11,500].

24. From the details given below, find out the credit sales and total sales.

	Rs.
Opening debtors	45,000
Closing debtors	56,000
Discount allowed	2,500
Sales returns	8,500
Irrecoverable amount	4,000
Bills receivables received	12,000
Bills receivable dishonoured	3,000
Cheque dishonoured	7,700
Cash sales	80,000
Cash received from debtors	2,30,000
Cheque received from debtors	25,000

[*Ans* : Total sales : Rs. 3,62,300].

25. From the following information, prepare the bills receivable account and total debtors account for the year ended December 31, 2005.

	Rs.
Opening balance of debtors	1,80,000
Opening balance of bills receivable	55,000
Cash sales made during the year	95,000
Credit sales made during the year	14,50,000
Return inwards	78,000
Cash received from debtors	10,25,000
Discount allowed to debtors	55,000
Bills receivable endorsed to creditors	60,000
Cash received (bills matured)	80,500
Irrecoverable amount	10,000
Closing balance of bills receivable on Dec. 31, 2005	75,500

[*Ans* : Bills received : Rs. 1,61,000 ; Closing balance of debtors : Rs. 3,01,000].

26. Prepare the suitable accounts and find out the missing figure if any.

	Rs.
Opening balance of debtors	14,00,000
Opening balance of bills receivable	7,00,000
Closing balance of bills receivable	3,50,000
Cheque dishonoured	27,000
Cash received from debtors	10,75,000
Cheque received and deposited in the bank	8,25,000
Discount allowed	37,500
Irrecoverable amount	17,500
Returns inwards	28,000
Bills receivable received from customers	1,05,000
Bills receivable matured	2,80,000
Bills discounted	65,000
Bills endorsed to creditors	70,000

[*Ans* : Credit sales : Rs. 5,16,000].

27. From the following information ascertain the opening balance of sundry debtors and closing balance of sundry creditors.

	Rs.
Opening stock	30,000
Closing stock	25,000
Opening creditors	50,000
Closing debtors	75,000
Discount allowed by creditors	1,500
Discount allowed to customers	2,500
Cash paid to creditors	1,35,000
Bills payable accepted during the period	30,000
Bills receivable received during the period	75,000
Cash received from customers	2,20,000
Bills receivable dishonoured	3,500
Purchases	2,95,000

The rate of gross profit is 25% on selling price and out of the total sales Rs. 85,000 was for cash sales.

(*Hint* : Total sales = 4,00,000 $= 3,00,000 \times \frac{100}{75}$)

[*Ans* : Opening balance of debtors : Rs. 54,000 ; Closing balance of creditors: Rs. 1,78,500].

28 Mrs. Bhavana keeps his books by Single Entry System. You're required to prepare final accounts of her business for the year ended December 31, 2005. Her records relating to cash receipts and cash payments for the above period showed the following particulars :

Summary of Cash

Dr. **Cr.**

Receipts	*Amount Rs.*	*Payments*	*Amount Rs.*
Opening balance of cash	12,000	Paid to creditors	53,000
Further capital	20,000	Business expenses	12,000
Received from debtors	1,20,000	Wage paid	30,000
		Bhavana's drawings	15,000
		Balance at bank on Dec. 31,2005	35,000
		Cash in hand	7,000
	1,52,000		1,52,000

The following information is also available :

	Jan. 01, 2005 Rs.	Dec. 31, 2005 Rs.
Debtors	55,000	85,000
Creditors	22,000	29,000
Stock	35,000	70,000
Plant	10,00,000	1,00,000
Machinery	50,000	50,000
Land & Building	2,50,000	2,50,000
Investment	20,000	20,000

All her sales and purchases were on credit. Provide depreciation on plant and building by 10% and machinery by 5%, make a provision for bad debts by 5%.

[*Ans* : Gross profit ; Rs. 95,000 ; Net profit : Rs. 41,250 ; Total of balance sheet : Rs. 5, 75,250].

Checklist to Test Your Understanding

1. *Test Your Understanding - I*

   1. (a) 2. (d) 3. (a) 4. (b)

2. *Test Your Understanding - II*

   1. Total debtors
   2. Opening capital, closing capital
   3. Fresh capital introduced, drawings
   4. Small traders