UNIT NINE

THEORY

ACCOUNTING
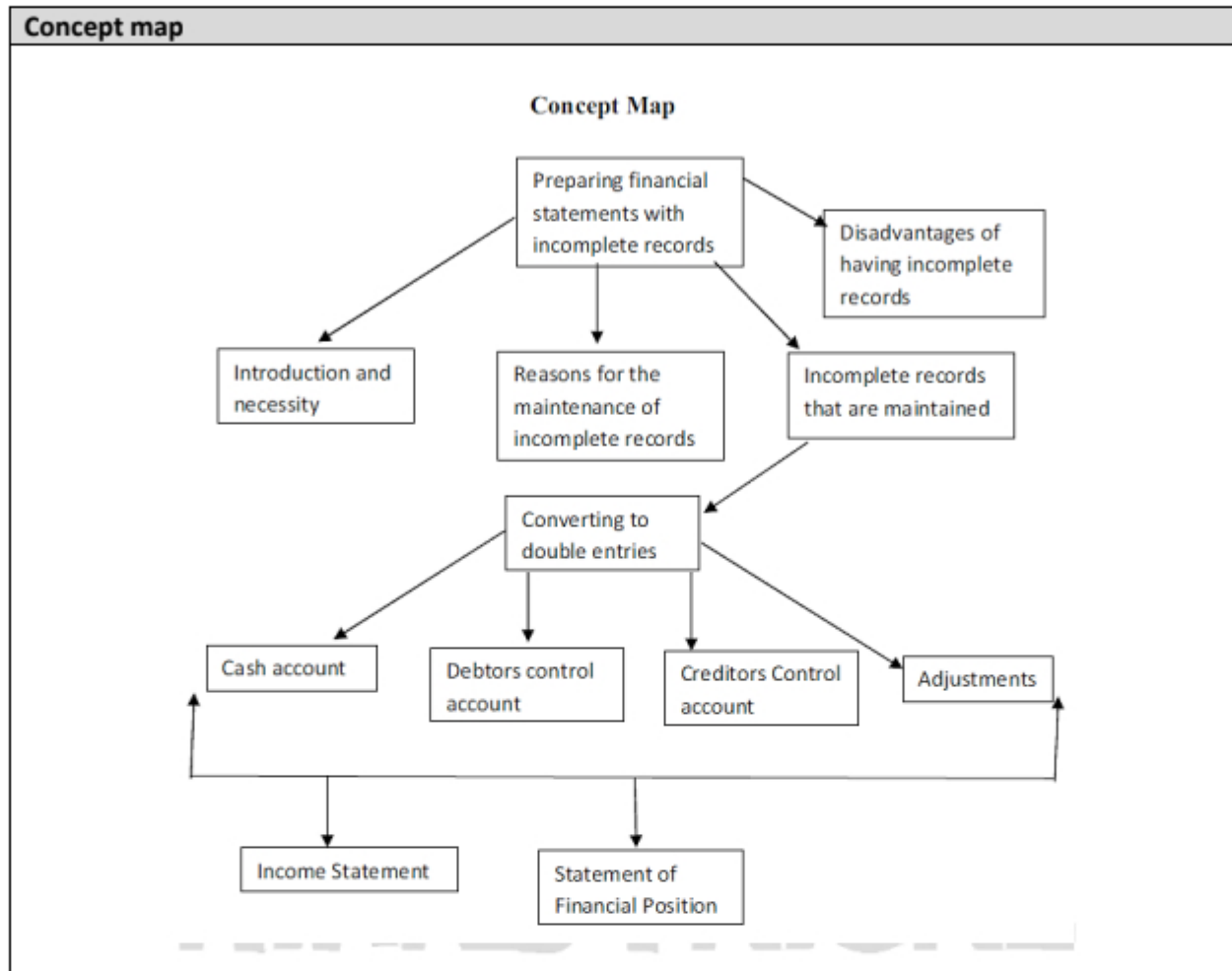RIHAB FAISAL

Unit 9	Incomplete Records
• Reasons for incomplete records
• Preparation of financial statements

9.1 | Incomplete records
- **Incomplete records**
- **Reasons for incompleteness**

Concept map

Concept Map

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                    Preparing financial
                    statements with
                    incomplete records ──────────┐
                    │        │                    │
                    │        │              Disadvantages of
         ┌──────────┘        │              having incomplete
         │                   │              records
         ▼                   ▼                    │
   Introduction and    Reasons for the      Incomplete records
   necessity           maintenance of       that are maintained
                       incomplete records         │
                              │                    │
                              └──────┬─────────────┘
                                     ▼
                              Converting to
                              double entries
                    ┌─────────┬──────┴──────┬──────────┐
                    ▼         ▼             ▼          ▼
              Cash account  Debtors control  Creditors Control  Adjustments
                            account          account
                    │                                  │
                    └──────────┬───────────────────────┘
                               │
                    ┌──────────┴──────────┐
                    ▼                     ▼
              Income Statement      Statement of
                                    Financial Position
```

Incomplete records

Incomplete records refers to a situation in which an organization is not using double entry book keeping. Instead, a more informal accounting system has been used such as the single-entry system, to maintain a reduced amount of information on financial results.

Reasons for incomplete records

- Lack of proper knowledge in accounting principles and practices
- Expensive to maintain accounting records under the double entry system
- Time consuming to keep track of all transactions on a daily basis
- Negligence or unsystematic method in maintaining accounts
- Personal transactions are mixed up with business transactions
- Lack of uniformity in following the concepts
- Intention of deception

Results of incomplete records

- Cannot calculate the net operating result easily
- Cannot reveal the accurate financial position of the business
- Unable to make effective decisions due to lack of information

9.2 | Preparation of financial statements
- **Conversion of incomplete records to double entry**
- **Preparation of financial statements using completed records**

Extracting available information
- If a Cash book was maintained, it is possible to extract the following data:
    o Cash sales and and Receipts from debtors
    o Cash purchases and Payments to creditors
    o Cash drawings and Bank deposits
    o Cash balance

- If a Debtors control account was maintained, it is possible to extract the following data:
    o Debtors opening balance
    o Credit sales
    o Receipts from debtors
    o Debtors closing balance

- If a Creditors control account was maintained, it is possible to extract the following data:
    o Creditors opening balance
    o Credit purchases
    o Payments to creditors
    o Creditors closing balance

- If the opening and closing balances of fixed assets were available, it is possible to derive the depreciation for the accounting period.

Preparation of financial statements
With incomplete records, there is no specific method to follow to find out information to prepare financial statements. The following steps can be followed as a guideline.

1. Calculate opening capital based on the assets and liabilities at commencement date
   - Record the opening assets and liabilities in the Statement of Affairs and in ledgers
   - Calculate the opening capital and use it in the Statement of Financial Position

2. Calculate sales for the accounting period
   - Use the cash control account to calculate cash sales
   - Use the debtors control account to calculate credit sales
   - Record the total sales in the income statement

3. Calculate purchases for the accounting period
   - Use the cash control account to calculate cash purchases
   - Use the creditors control account to calculate credit purchases
   - Record the total purchases in the income statement

4. Record all transactions in accordance with the double entry system

5. Calculate the cash balance from the cash control account

6. Calculate the closing balances of non-current assets

7. Prepare Income Statement and Statement of Financial Position using the available information

Statement of Affairs

- Statement of Affairs is the summary of a company's assets and liabilities and shows its net worth at a given point in time.

- The statement of affairs method compares transactions at the beginning of the priod to transactions at the end of the period, in order to calculate net profit/loss.

- Format of the Statement of Affairs:

Statement of affairs of ABC Ltd as at 31/12/2015	Rs.	Rs.
Assets		
Property, plant and equipement	xx	
Stock	xx	
Debtors	xx	
Prepaid expenses	xx	
Income receivable	xx	
Cash	xx	xxxx
Liabilities		
Bank loan	xx	
Creditors	xx	
Bank overdrafts	xx	
Accrued expenses	xx	
Income received in advance	xx	(xxxx)
Capital/ Net assets		xx

Calculation of net operating result

Method: Using opening and closing net assets

Opening capital	xxx
Add: Net profit	x
Add: Additional capital	x
Less: Drawings	(x)
Closing capital	xxx

- Closing capital = Opening capital + Net profit + Additional capital – Drawings

- Net profit = Closing capital – Opening capital – Additional capital + Drawings