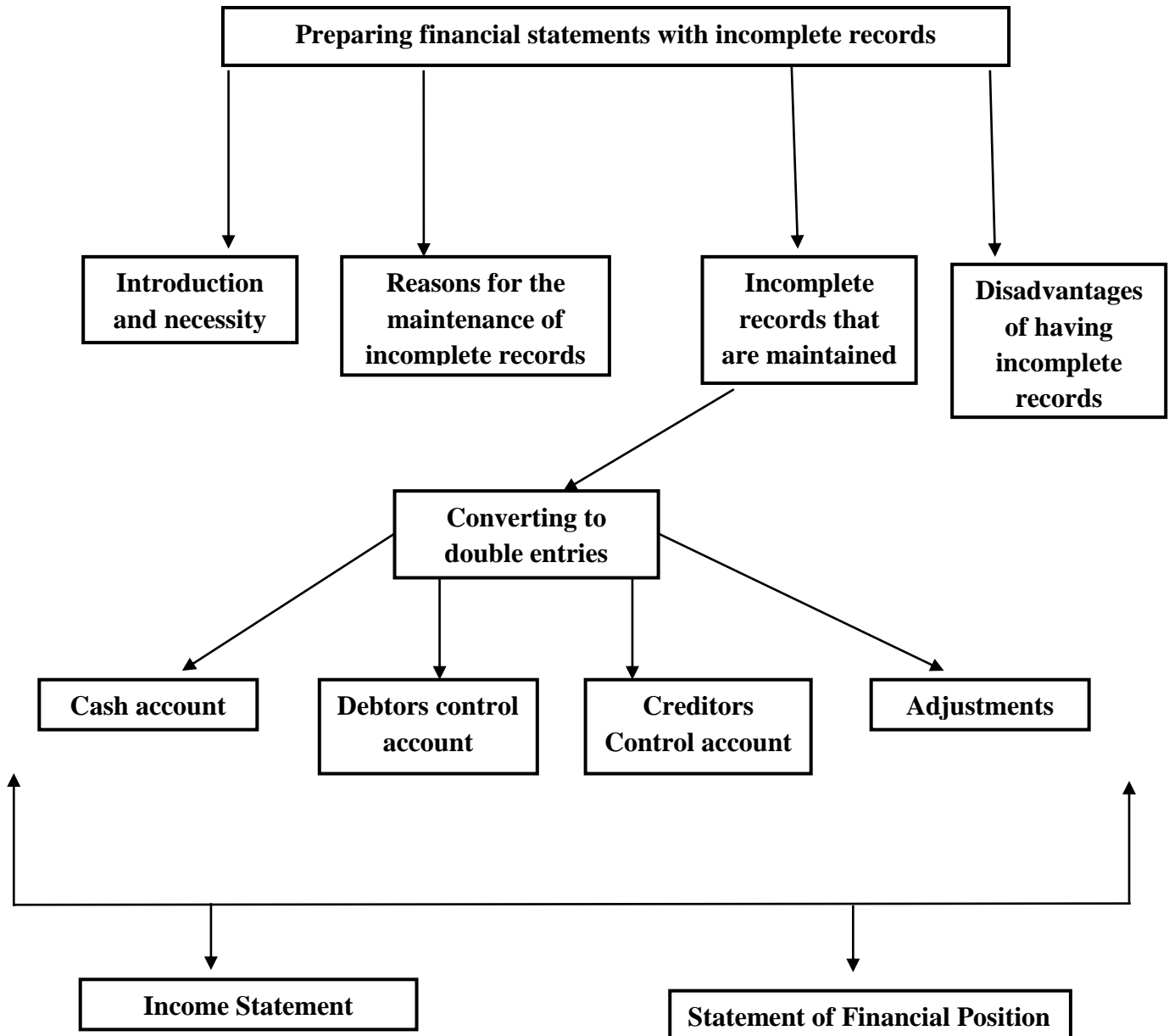


INCOMPLETE RECORDS

Learning Outcomes:

- Explains the reasons for incompleteness
- Explains how conversion of incomplete records to double entry takes place.
- Prepares financial statements by using completed records

▪ Session Guide



▪ Introduction

You have already studied that the accepted way of keeping accounting records is the “Double Entry System”. Under double entry system, all the transactions are recorded in two accounts as debit and credit. The accounting records which have not been kept under double entry system are known as “Incomplete Records”.

Most of small business organizations do not keep their records under double entry system. Such business organizations record only one entry, after identifying the nature of the transaction. Therefore, this process

can also be identified as “Single Entry System”. Some business organizations maintain cash book, debtors and creditors accounts only. However, if the accounting records have not been maintained under double entry system, such records can be identified as incomplete records.

Incomplete records are maintained due to following reasons

- He has no knowledge or lack of knowledge about the accounting principles and concepts.
- The double entry system is comparatively an expensive way of maintaining the financial accounts. The accountants may charge a handsome amount as fees.
- Maintaining incomplete records consumes less time.
- It is more convenient to maintain records as per the single entry system.

Disadvantages of Incomplete Records

- We cannot prepare a Trial Balance to ensure the accuracy of the accounts in the absence of the double entry system.
- It fails to ascertain the accurate financial results of the organization.
- Investigation and examination of the profitability, solvency, and liquidity are difficult. Hence, the outsiders and banks may not lend money for the expansion of the business.
- In case of loss by fire or theft claiming the insurance amount causes great difficulty due to incomplete records and missing information.
- Also, convincing the income tax authorities about the computed income is difficult in the absence of proper accounting.

Calculation of Operating Results using incomplete Records

If the accounting records have not been maintained under double entry system or, if the accounting records are incomplete, it is difficult to give an identical method of finding out operating profit or loss of the business. However, using available accounting data, we can calculate profit or loss using following methods

1.
2.

▪ Calculation of operating results using Net assets

If there is no additional capital or no withdrawal during the accounting period, the capital can change due to profit or loss of the accounting period. Therefore, the profit or loss of the accounting period can be calculated comparing opening and closing capital of the business. This is the easiest way of calculating profit or loss. This process is also known as “net assets approach”.

Accordingly,

- Net assets can be calculated using following formula

- Net assets are also known as “**Equity**”
- If there are both additional capital and drawings made by the owner, profit or loss earned by the business can be calculated using following formula.

Example 01

Matheesha started a business on 01st January 2020 investing Rs.3,500,000. The capital of the business as at 31st December 2020 was Rs. 8,500,000. He has taken Rs. 50,000 for his personal use while investing Rs. 750,000 as additional capital.

Required

Calculate the net profit/ (Loss) earned by the business during the year ended 31st December 2020.

Example 02

The following information was extracted from the Financial Statements of four sole trader enterprises.

Business	Dinuri	Lihansa
31 st December 2019		
Assets	7,000	9,000
Liabilities	4,500	4,700
31 st December 2020		
Assets	8,200	9,600
Liabilities	5,500	?
During 2020		
Additional Capital	300	1,000
Net profit (Loss)	?	1,500
Owner's withdrawals	700	500

Required

Calculate the missing figures for each of the business

Example 03

The balance sheet of Kevin Enterprises as at 01st April 2019 is given below :

	Rs.		Rs.
Capital	400,000	Fixed assets	600,000
Long term loan	200,000	Accumulated depreciation	(100,000)
			500,000
Current liabilities	200,000	Current assets	300,000
	800,000		800,000

- Fixed assets were purchased for Rs.100,000 on 01st October 2019. All fixed assets are depreciated at 10% per annum on cost. Other than this there was no other change in the fixed assets.
- During the year a loan repayment installment of Rs. 50,000 had been paid which included an interest component of Rs.10,000
- Current assets and current liabilities as at 31st March 2020 were Rs.340,000 and Rs. 175,000 respectively
- The owner brought in Rs.80,000 as additional capital while stock worth of Rs.20,000 was taken for his personal use during the year.

Required

Using the above information compute the Net Profit or Loss for the year ended 31st March 2020

ADVANCED LEVEL – 2017

Description	As at 31.03.2017 (Rs. '000)	As at 31.03.2016 (Rs. '000)
Capital	650	500
Retained Earnings	325	250

The owner annually withdraws Rs. 50 000 from the business for personal use. It is debited to the retained earnings, the only reserve maintained by the business.

What is the profit for the year ending 31.03.2017 and the net assets as at 31.03.2017?

	Profit for the year (Rs. '000)	Net Asset (Rs. '000)
(1)	25	925
(2)	75	975
(3)	75	875
(4)	125	875
(5)	125	975

(.....)

Calculation of operational results using Financial Statements

Some transactions may have not been recorded in the accounting records or the transactions which have already been recorded in the financial statements, may have not been completely recorded. Using the transaction which have already been recorded in the accounting records and the information available from other sources (Examples : bank statements, rough cash control etc.) we can prepare the cash control, debtors control account and creditors control account under double entry system. Income , expenses, assets and liabilities can be calculated with the help of cash control.

Accordingly, using the balances of ledger accounts, we can prepare the income statement and statement of financial position.

There is no specific method of finding out information required for the income statement and the statement of financial position. However, following steps could be taken for this purpose.

Calculation of opening capital (using statement of affairs)

Using assets and liabilities as at the beginning date of the accounting period, we can prepare the statement of affairs for the opening date. The difference between assets and liabilities can be treated as the opening capital. The balances of assets and liabilities accounts should be brought forward as opening balances of relevant accounts.

Example 04

Using following information provided by Shaveen's Business, calculate the capital as at 01.04.2019.

	Rs.		Rs.
Motor vehicles (Cost)	45,000	Bank loans	10,000
Land and buildings (Cost)	120,000	Bank overdrafts	12,000
Cash	12,000	Bills receivables	24,000
Creditors	18,000	Bills payables	12,500
Debtors	18,000	Furniture & Fittings	42,000
Trading stocks	6,500	Accrued electricity	4,000
Pre-paid insurance	2,000		

Calculation of sales

There are two types of sales

1. Cash sales - can be calculated using cash control account
2. Credit sales - can be calculated using debtors control account

Example 05

Using following information provided by Kavishka's Business, calculate the value of the credit sales for the year ended 31st March 2020.

	Rs.		Rs.
Debtors as at 31.03.2019	150,000	Discount allowed	24,000
Debtors as at 31.03.2020	845,000	Sales returns	65,000
Cash received	420,000	Bad debts written off	22,000

▪ Calculation of purchases

1. Cash purchases - can be calculated using cash control
2. Credit purchases - can be calculated using creditors control account

Example 06

Using following information provided by Leon's Business, calculate the value of the credit purchase for the year ended 31st March 2020.

	Rs.		Rs.
Creditors as at 31.03.2019	140,000	Discount received	30,000
Creditors as at 31.03.2020	285,000	Purchases returns	25,000
Cash paid to creditors	420,000		

▪ Calculation of income and expenses for the period

Using the details available in the cash book and after adjusting accrued and pre-payments of expenses and receivables and received in advance of income, we can calculate the expenses and income for the period

🔑 ADVANCED LEVEL – 2001

Following are some account balances and transactions that took place at Kamal Enterprises during the financial year ended December 31, 2000.

- (i) General expenses - Paid during the year Rs.5,000
payable as at 01.01.2000 Rs.1,200 **Accrued expenses**
payable at 31.12.2000 Rs.1,800
- (ii) Rent Expense - Paid during the year, Rs.3,800
paid in advance at 01.01.2000 Rs.500 **Prepaid expenses**
paid in advance at 31.12.2000 Rs1,200
- (iii) Rent income - Received during the year Rs.7,500
Receivable as at 01.01.2000 Rs.1,400 **Income Receivable**
Receivable as at 31.12.2000 Rs.1,000
- (iv) Commission Income - Received during the year Rs.10,500
Received in advance at 01.01.2000 Rs.1,800 **Income in Advanced**
Received in advance at 31.12.2000 Rs.1,500

Required

Relevant ledger accounts, showing the transfers to the income statement for the year 2000 and the balances carried down.

▪ Preparation of income statement and statement of financial position

Based on the information calculated from the above sources, the income statement and statement of financial position are prepared using the normal way.

Example 07

Following information was provided by Anushka's Business

i. Assets and liabilities

	As at 01.04.2019	As at 31.03.2020
	Rs.	Rs.
Property, plant and equipment	300,000	380,000
Inventories	120,000	160,000
Trade debtors	80,000	150,000
Trade creditors	140,000	180,000
Bank balance	100,000	?
Accrued operating expenses	10,000	25,000

- ii. All purchases and sales were on credit
- iii. All the payments were made by cheques during the year
- iv. Total operating expenses paid during the year were Rs. 175,000
- v. Rs.60,000 has been introduced by the owner to the business during the year and Rs.40,000 has been taken for the personal use
- vi. Rs. 951,000 has been collected from customers and Rs. 706,000 has been settled to the creditors.
- vii. Discount allowed and discount received were Rs.20,000 and Rs.15,000 respectively. Rs.9,000 has been written off as bad debts.
- viii. A machine costing Rs. 120,000 had been acquired by the business during the year.

Required

- Statement of affairs as at 01.04.2019 to calculate the opening capital
- Debtors control account for the year ended 31.03.2020 to calculate credit sales for the year
- Creditors control account for the year ended 31.03.2020 to calculate credit purchases for the year
- Cash control account for the year ended 31.03.2020 to identify the bank balance as at 31.03.2020.
- Property, plant and equipment account for the year ended 31.03.2020 to calculate the depreciation for the year.
- Operating expenses account for the year ended 31.03.2020 to calculate the expenses for the year
- Income statement for the year ended 31.03.2020
- Statement of financial position as at 31.03.2020

ADVANCED LEVEL – 2005

Milinda started up a business on 01.01.2020 by using his own savings of Rs. 50,000 and Rs. 30,000 loan obtained from his brother. Milinda bought the following assets on that same day.

Office Equipment	-	Rs.	40,000
Machines and equipments	-	Rs.	30,000

Balance of the money was deposited in the bank and all receipts and payments were made by cheques. Following is the bank A/c summary for the half year ended 30.06.2020.

	Rs.		Rs.
Initial deposit	10,000	Administrative expenses	30,000
Receipts from debtors	180,000	Selling expenditure	28,000
Cash sales	75,000	Drawings	15,000
		Distribution expenditure	5,000
		Payments to suppliers	165,000
		B/C/F	22,000
	265,000		265,000

Additional information is given below:

- (i) Semi annual sales Rs. 300,000. All sales were made in order to receive 30% of profit from the selling price.
- (ii) Payment to be made to suppliers was Rs. 65,000 as at 30.06.2020. Discount received Rs.5,000
- (iii) All assets should be depreciated by 20% per annum
- (iv) Milinda had obtained Rs. 5,000 worth goods for his household use.
- (v) Rs. 2,000 is in arrears for administration expenses at 30.06.2020

Required

1. Trading profit and loss account as at 30.06.2020
2. Balance sheet as at that date

Example 08

Janahitha Business does not maintain the books of accounts properly based on double entry system. The following information have been extracted from the books of the business for the year ended 31.12.2019.

Description	Rs.
Cash receipts from debtors	270 000
Discount allowed	2 800
Additional capital investment	4 000
Salaries payment up to 30.11.2019	22 000
Advertising	1 800
Operating expenses	1 200
Printing and stationery expenses	1 600
Drawings	13 200
Cash paid to creditors	224 000
Discount received	2 400
Travelling expenses	2 000
Building rent payment up to 30.11.2019	77 000

- ii. Assets and liabilities as at 01.01.2018 and 31.12.2018

	01.01.2019	31.12.2019
Inventories	44 000	50 000
Bank balance	6 800	39 900
Trade receivable	?	70 000
Trade payable	46 800	37 000
Furniture and fittings	4 000	?
Office equipment	2 000	?

- iii. **Additional information**

1. Sales are made on both cash and credit basis (All purchases are made on credit)
2. Gross profit margin is 25% on sales
3. Any shortage in the debit side of the bank account should be considered as cash received from sales
4. Salaries and rent are accrued for the month of December 2019
5. Non- current assets are depreciated on straight line method
Office equipment 10% per annum
Furniture and fittings 5% per annum
6. Accrued expenses as at 31.12.2019
Advertising Rs. 1 500
Printing and stationery Rs. 900
7. Provision for doubtful debts should be provided 5% on debtors from this year onwards

Required:

1. Income statement for the year ending 31.12.2019
2. Statement of financial position as at 31.12.2019

Example 09

Prathap Traders has not recorded its transactions using double entry system. But he provides following balances as at **31st March 2018**

	Rs. '000
Motor vehicles – Cost	38 000
Motor vehicles – Accumulated depreciation	12 000
Equipment – Cost	42 000
Equipment – Accumulated depreciation	23 000
Trade receivables	27 000
Trade payables	20 000
Inventories	34 000
Prepaid rent and rates	4 000
Accrued general expenses	1 000
Petty Cash	3 000

Additional Information

- i. The summarized bank account of the business for the year

	Rs. '000		Rs. '000
Balance as at 01.04.2018	4 000	Drawings	22 000
Receipts from trade receivables	200 000	Payments to trade payables	135 000
Receipts from cash sales	10 000	Rent and rates	21 000
		General expenses	7 000
		Motor vehicles	10 000
		Salaries and wages	26 000
Balance 31.03.2019	12 000	Motor vehicles maintenance	5 000
	226 000		226 000

- (i) Cash sales during the year was Rs. 15 000 000. Prathap has withdrawn cash before depositing cash to the bank account.
- (ii) Total operating expenses paid using the petty cash during the year were Rs. 2 000 000.
- (iii) Total credit sales for the period was Rs. 210 000 000 and the gross profit margin on sales is 40%
- (iv) A motor vehicle costing Rs. 16 000 000 acquired on 01.10.2012 was exchanged on 01.10.2018 with a new vehicle costing Rs. 20 000 000. A cheque has been issued for the balance amount(only this amount has been debited to the motor vehicle account) no other entries have been passed in relation to this exchange. Property, plant and equipment are depreciated at 10% on straight-line basis. It is the policy of the company to provide full year's depreciation in the year of purchase and no depreciation in the year of disposal.
- (v) Prepaid rent and rates as at 31.03.2019 was Rs. 2 000 000
- (vi) Trade payables as at 31.03.2019 were Rs. 15 000 000

Required:

- (1) Statement of profit or loss for the year ended 31.03.2019
- (2) Statement of financial position as at 31.03.2019