

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	18,000	Cash in hand	2,400
Bills Payable	5,000	Sundry Debtors	24,000
Capital Accounts		Stock in trade	26,000
A - 30,000		Furniture	10,000
B - 20,000		Machinery	50,000
C - 15,000	65,000	Buildings	35,000
Bank Loan	60,000	Prepaid Expenses	600
	1,48,000		1,48,000

The partners share profits in the ratio of 5 : 3 : 2 after allowing interest on capital @ 10% per annum. The drawings were A - Rs. 800, B - Rs. 600 and C-Rs. 500 per month. Interest charged on drawings was A - Rs. 480, B - Rs. 360 and C - Rs. 300.

On December 31, 1988 the assets and liabilities of the firm were as follows:

Cash in hand Rs. 3,600; Sundry Debtors Rs. 32,000; Stock in trade Rs. 35,000;

Furniture Rs. 16,000; Machinery Rs. 50,000; Buildings Rs. 35,000; Sundry Creditors Rs. 20,000; Bills Payable Rs. 6,000; Unpaid Expenses Rs. 800,

New furniture worth Rs. 6,000 was purchased on April 1, 1988. The Bank Loan is repaid to the extent of 40%. Depreciation has to be provided @ 20% on furniture; 10% on machinery and 2% on buildings per annum. A brought additional capital of Rs. 10,000 on July 1, 1988. Calculate the profit and prepare the Statement of Affairs as on December 31, 1988 as it stands in the books of the firm.

(Answer: Closing Capital after providing for depreciation Rs. 1,00,200; Net Profit after accounting for interest on Capital and drawings Rs. 42,140)

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

UNIT 16 ACCOUNTS FROM INCOMPLETE RECORDS-II

Structure

16.0 Objectives

16.1 Introduction

16.2 Conversion Method

16.2.1 Full Conversion Method

16.2.2 Abridged Conversion Method

16.3 Missing Items and Their Ascertainment

16.3.1 Opening Capital

16.3.2 Credit Sales

16.3.3 Credit Purchases

16.3.4 Cash and Bank Balances

16.4 Preparation of Final Accounts

16.5 Let Us Sum Up

16.6 Some Useful Books

16.7 Answers to Check Your Progress

16.8 Terminal Questions/Exercises

16.0 OBJECTIVES

After studying this unit you should be able to:

- explain full conversion method and describe how records maintained on single entry system can be converted into double entry records
- explain abridged conversion method and describe how missing items can be ascertained
- prepare Trading and Profit & Loss Account and Balance Sheet from incomplete records.

16.1 INTRODUCTION

You know there are two methods of ascertaining the profit or loss of a business which does not maintain complete accounting records. In Unit 15 you learnt in detail about the first method viz., Net Worth Method. No doubt, the Net Worth Method helps us to ascertain the profits earned during the accounting period and prepare the Statement of Affairs as at the end. But, certain vital information regarding operational aspects of the business cannot be ascertained and many important questions relating to the operational efficiency of the firm remain unanswered. For example, the information regarding sales, purchases and operating expenses is not available and so we cannot work out the rate of gross profit earned by the firm. Thus, neither a meaningful analysis of various aspects of business operations nor measurement of the comparative efficiency of the firm can be made. Hence, the second method viz., the Conversion Method is adopted by most of the firms. This helps in digging out the necessary information and prepare proper final accounts for the business. In this unit you will learn how such information is extracted from the incomplete records and how profit or loss is ascertained under the Conversion Method by preparing proper Profit & Loss Account and the Balance Sheet.

16.2 CONVERSION METHOD

In Unit 15 you learnt that the Conversion Method involves preparation of proper Profit and Loss Account and the Balance Sheet. There are two ways of doing it: (1) preparation of final accounts after converting the single entry records into complete double entry records

including the preparation of Trial Balance, (2) preparation of final accounts simply by ascertaining certain missing figures. The first method is known as 'Full Conversion Method' and the second an 'Abridged Conversion Method'.

16.2.1 Full Conversion Method

As stated above, the full conversion method involves conversion of records maintained on single entry system into complete double entry records. You know most of the firms which keep records on single entry system usually maintain a Cash Book along with the personal accounts of the customers and suppliers. So, in order to convert them into double entry records, you must also open all the concerned real and nominal accounts in the ledger and make proper postings therein. This involves a series of steps as follows:

- 1 Prepare the Statement of Affairs at the beginning and open all those real and personal accounts which do not appear in the ledger maintained under single entry system. This may involve the opening of all real accounts (other than cash and bank) and the personal accounts such as Capital, Drawings, Loan, Outstanding Expenses, Outstanding Incomes, Prepaid Expenses, etc. It can be done by passing an opening journal entry.
- 2 From the Cash Book, complete postings into all real and personal accounts opened above.
- 3 Go through the debit side of the Cash Book and open all the incomes' accounts in the ledger and make postings therein.
- 4 Go through the credit side of the Cash Book and open all expenses' accounts in the ledger and make postings therein.
- 5 Make complete analysis of the customers accounts and complete double entry in accounts like Sales, Sales Returns, Bad Debts, Bills Receivable, etc.
- 6 Similarly, make a complete analysis of suppliers accounts and complete double entry in accounts like Purchases, Purchases Returns, Bills Payable, etc.
- 7 Go through all vouchers and documents and note whether certain other items require entry in books. For example, a piece of old furniture might have been sold which may involve some profit or loss, the same will have to be brought into books.
- 8 Prepare a Trial Balance and ensure that double entry is complete in every respect.

You can now prepare the Trading and Profit & Loss Account and the Balance Sheet.

16.2.2 Abridged Conversion Method

You will agree that the conversion of records maintained on single entry system into double entry records is an arduous task involving a lot of time, labour and expense. Hence, a short cut method known as 'Abridged Conversion Method' has been devised which helps us to prepare the Trading and Profit & Loss Account and the Balance Sheet without the opening of any additional accounts in the ledger. Under this method we simply prepare a summary of all Cash transactions for the entire accounting period. This is known as 'Receipt and Payments Account'. In this account we show the opening cash and bank balances and enter all receipts during the year under different heads of accounts on its debit side. All Payments during the year under various head of accounts and the closing balances of cash and bank are shown on its credit side. This enables us to work out the amounts of various incomes earned and the expenses incurred during the year. Not only that, a number of other items such as cash purchases, cash sales, cash received from debtors, cash paid to creditors, and purchase or sale of fixed assets can also be worked out from the Receipt and Payments Account. Similarly, we prepare a **Total Debtors** and a **Total Creditors Account** to find out the amounts of credit sales and credit purchases respectively. This enables us to work out most of the figures required for preparing the final accounts at the end of the accounting period. In such a situation, there is no need to open any real or nominal account in the ledger or prepare a Trial Balance. **Note that the Receipt and Payments Account and Total Debtors and Total Creditors Accounts do not form part of the ledger. They are prepared simply to ascertain the amounts of a few missing items.**

The Conversion Method usually refers to the abridged conversion method which implies the preparation of Trading and Profit & Loss Account and the Balance Sheet from incomplete records after finding out certain missing figures with the help of Receipts and Payments Account, Total Debtors Account and Total Creditors Account.

16.3 MISSING ITEMS AND THEIR ASCERTAINMENT

As stated earlier, the **conversion method** usually implies the preparation of final accounts without actual conversion of single entry records into double entry records. But the kind of information which is needed for preparing the final accounts is not directly available from records maintained on single entry system. Hence, **we** have to prepare certain additional accounts for finding out the necessary information. Before we learn how such information can be extracted from incomplete records, we should identify the kind of **information** which is usually missing. In practice, the most common items are :

- 1 Opening Capital
- 2 Credit Sales
- 3 Credit Purchases
- 4 Cash and Bank Balances

Let us now take them one by one and study how the amount of each item **will** be worked out,

16.3.1 Opening Capital

You know capital is always equal to the total of assets minus the total of external liabilities. Hence, by preparing a statement of all assets and all external liabilities we can easily find out the opening capital. **You** have already learnt about the preparation of such a statement in Unit 15. It is called 'Statement of Affairs at the beginning'. Go through Sub-section 15.6.1 once again and look at **Illustration 1** of Unit 15. This will help you to revise the calculation of **opening** capital.

16.3.2 Credit Sales

To prepare Trading Account **and** find out the **Gross Profit** **you** will certainly need the figure of sales. The sales include cash as well as credit sales of goods. Hence you will need both of these amounts. The amount of cash **sales** can be easily found out from the summary of cash transactions called the 'Receipts and Payments Account'. But, for credit sales we should prepare an additional account **called** 'Total Debtors Account'. You learnt about the preparation of Total Debtors Account in Unit 14 under Sectional Balancing. You know it shows opening debtors and credit sales on the debit side, and cash received from debtors, sales returns, discount allowed, bad debts, and **closing** debtors on the credit side. If **the** figures of all other **items** (opening and closing balances of debtors, cash **received** from debtors, discount allowed, bad debts, etc.) are given, the credit sales can be easily ascertained by working out the **difference** between the totals of debit and credit **sides** of the Total Debtors Account. Look at **Illustration 1** and see how credit sales have been worked out.

Illustration 1

From the following information ascertain the amount of credit sales for the year ending December 31, 1988.

	Rs.
Debtors on 1.1.88	50,000
Debtors on 31.12.88	65,000
Cash received from Debtors	80,000
Discount Allowed	2,000
Bad Debts	2,000

Solution:

The **missing** figure is credit sales. It will be calculated by preparing Total Debtors Account as follows:

Total Debtors Account			
Dr.			Cr.
	Rs.		Rs.
To Balance b/d (opening debtors)	50,000	By Cash Received	80,000
To Credit Sales (balancing figure)	99,000	By Discount Allowed	2,000
		By Bad Debts	2,000
		By Balance c/d (closing debtors)	65,000
	1,49,000		1,49,000

Note that the credit sales are worked out with the help of the Total Debtors Account are the net of total credit sales and sales returns. In fact with the help of Total Debtors Account we can find out any missing item like cash received from debtors, opening debtors or closing debtors provided the Figures of all other items including credit sales are given.

16.3.3 Credit Purchases

The amount of purchases is another item which is important for the preparation of Trading Account. Like sales, purchases also include cash purchases and credit purchases of goods. The amount of cash purchases can be taken from the Receipts and Payments Account. For credit purchases we have to prepare Total Creditors Account about which you have already learnt in Unit 14. You know Total Creditors Account shows the opening creditors and the credit purchases on the credit side, and the cash paid to creditors, purchases returns, discount received and closing creditors, on the debit side. If the amounts of all other items (opening and closing creditors, cash paid to creditors, discount received, etc.) are given, the credit purchases can be ascertained simply by working out the difference between the totals of the debit and credit sides of the Total Creditors Account. Look at Illustration 2 and see how credit purchases have been worked out.

Illustration 2

From the following information find out the amount of credit purchases for the year ending December 31, 1988.

	Rs.
Creditors on 1.1.88	40,000
Creditors on 31.12.88	33,000
Cash paid to Creditors	60,000
Discount allowed by Creditors	1,000

Solution:

Total Creditors Account			
Dr.			Cr.
	Rs.		Rs.
To Cash Paid	60,000	By Balance b/d (opening creditors)	40,000
To Discount Received	1,000	By Credit Purchases (balancing figure)	54,000
To Balance c/d (closing creditors)	33,000		
	94,000		94,000

Note that credit purchases as worked out with the help of Total Creditors Account are the net of total credit purchases and purchases returns. In fact, with the help of Total Creditors Account we can find out any missing item like cash paid to creditors opening or closing creditors provided the figures of all other items including credit purchases are given.

16.3.4 Cash and Bank Balances

Cash and Bank balances as at the beginning are usually given. But the balances at the end may have to be worked out. This can be easily done by preparing the Receipts and Payments Account which is debited with all receipts of cash and cheques and credited with all payments by cash and cheques. The closing balance in Receipts and Payments Account represents both the cash and bank balances at the end. Cash in hand is generally known and so the remaining amount may be treated as cash at bank at the end. Look at Illustration 3 and see how Receipts and Payments Account is prepared and the closing bank balance worked out.

Illustration 3

From the following cash transactions of a firm for the year ending December 31, 1988 ascertain the amount of cash at bank at the end.

	Rs.		Rs.
Cash in hand 1.1.88	10,000	Salaries paid	36,000
Cash at bank 1.1.88	10,000	Other Expenses	13,000
Cash received from Debtors	80,000	Cash Purchases	8,000
Payments to Creditors	72,000	Cash Sales	16,000
Other Incomes	8,000	Drawings	8,000
Cash in hand 31.12.88	6,000	Furniture Purchased	6,000
		Sale of old Motor Car	16,000
		Bank Charges	1,000

Solution

Receipts & Payments Account			
Dr.			Cr.
	Rs.		Rs.
To Balance b/d		By Cash paid to Creditors	72,000
Cash in hand	10,000	By Salaries	36,000
Cash at bank	40,000	By other Expenses	13,000
To Cash received from Debtors	80,000	By Cash Purchases	8,000
To Other Incomes	8,000	By Drawings	8,000
To Cash Sales	16,000	By Furniture	6,000
To Sale of old Motor car	16,000	By Bank Charges	1,000
		By Balance c/d	
		Cash in hand	6,000
		Cash at bank (balancing figure)	20,000
	1,70,000		1,70,000

In Illustration 3 the combined cash and bank balance' at the end works out to be Rs. 26,000. The amount of cash in hand is given and so the remaining amount of Rs. 20,000 (Rs. 26000-Rs. 6,000) has been treated as cash at bank at the end. Sometimes, you may not be provided with the figure of cash in hand. In such a situation we can use the combined figure of cash and bank balances for preparing the Balance Sheet. The Receipts and Payments Account can also help in finding out any missing item of cash payments like cash paid to creditors, cash purchases, etc. or cash receipt like cash received from debtors, cash sales, etc., provided all other figures including opening and closing cash and bank balances are given. It can also be used for ascertaining the opening cash and bank balances provided their closing balances are given.

Check Your Progress-A

Fill in the blanks.

- 1
- Conversion method normally means converting accounts prepared under single entry system into system.
- 2
- Normally conversion method involves the preparation of.....
- 3
- The capital at the beginning can be ascertained by preparing opening
- 4
- Total Debtors Account is prepared mainly to ascertain
- 5
- Credit purchases can be ascertained by preparing..... Account.

- 6
- Cash sales can also be ascertained by preparing provided all other items are given.
- 7
- Closing balance of creditors can be ascertained by preparing Account.
- 8
- Given the opening and closing balances of debtors and the figure of credit sales, the balancing figure of Total Debtors Account will represent

3164 PREPARATION OF FINAL ACCOUNTS

By now you must have followed what information is usually missing from incomplete records and how it can be ascertained with the help of some accounts or statements. Let us now take up a few comprehensive illustrations and study how complete final accounts can be prepared from incomplete records. Look at Illustration 4 and 5 and see how Trading and Profit & Loss Account and the Balance Sheet have been prepared from the limited information available in such records.

Illustration 4
Aslam did not keep proper books of accounts. However, following information is available from his records for the year ending December 31, 1988.

	as on 1-1-88	as on 31-12-88
	Rs.	Rs.
Cash in hand and at bank	4,000	7,200
Stock in hand	60,000	52,000
Sundry Debtors	50,000	58,000
Machinery	80,000	80,000
Sundry Creditors	40,000	37,000

Summary of Cash Transactions			
Dr.		Cr.	
Receipts	Amount	Payments	Amount
	Rs.		Rs.
Balance b/d	4,000	Cash paid to Creditors	1,10,000
Cash received from Debtors	1,73,000	Wages	20,200
Cash Sales	8,400	Salaries and Expenses	13,200
Sale of old Newspaper	400	Buildings Purchased	30,000
Loan from Mrs. Aslam	4,000	Drawings	9,200
(@ 6% on 1-7-88)		Balance c/d	7,200
	1,89,800		1,89,800

- Additional Information:
- i)
- During the year Rs. 1,000 had to be written off as bad
- ii)
- Provide depreciation @ 15% on Machinery
- iii)
- Outstanding expenses were Rs. 1,600.

Prepare Aslam's Trading and Profit & Loss Account for the year ended December 31, 1988 and the Balance Sheet as on that date.

Solution:
Trading and Profit & Loss Account of Aslam for the year ended December 31,1988

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
	Rs.		Rs.
To Opening Stock	60,000	By Sales	
To Purchases	1,07,000	Cash	8,400
		Credit	1,81,000
			1,89,400
To Wages	20,200		
To Gross Profit c/d	54,200	By Closing Stock	52,000
	2,41,400		2,41,400

To Salaries and Expenses	13,200		By Gross Profit b/d	54,200
Add:				
Out standing	1,600	14,800	By Sale of Old Newspaper	400
To Bad Debts		1,000		
To Depreciation on Machinery		12,000		
To Interest on Loan (@ 6% .for 6 months)		120		
To Net Profit (transferred to Capital A/c)		26,680		
		54,600		54,600

Accountsfrom
Incomplete Records II

Balance Sheet of Aslam as on December 31,1988			
Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	37,000	Cash in hnmnd and bank	7,200
Outstanding Expenses	1,600	Stock	52,000
Loan from Mrs. Aslam	4,000	Sundry Debtors	58,000
Add	120	Less Bad Debts	1,000
Interest o/s			57,000
Capital (beginning)	1,54,000	Machinery	80,000
Add Net Profit	26,680	Less Depreciation	12,000
	1,80,680		68,000
Less Drawings	9,200	Buildings	30,000
	1,71,480		
	2,14,200		2,14,200

Working Notes:

The items in respect of which the information is missing are:

- Credit Sales
- Credit purchases
- Opening Capital

They have been worked as follows:

1 For Credit Sales

Trade Debtors Account			
Dr.			Cr.
	Rs.		Rs.
To Balance b/d	50,000	By Cash Received	1,73,000
To Credit Sales (balancing figure)	1,81,000	By Balance c/d	58,000
	2,31,000		2,31,000

2 For Credit Purchases:

Trade Creditors Account			
	Rs.		Rs.
To Cash Paid	1,10,000	By Balance b/d	40,000
To Balance c/d	37,000	By Credit Purchases (balancing figure)	1,07,000
	1,47,000		1,47,000

3 For Opening Capital

Statement of Affairs as at December 31,1987			
Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	40,000	Cash in hand and at bank	4,000
Capital as on 1-1-88	1,54,000	Stock	60,000
(balancing figure)		Sundry Debtors	50,000
		Machinery	80,000
	1,94,000		1,94,000

Illustration 5

Francis keeps his books on single entry system. From the following information prepare his Trading and Profit & Loss Account for the year ended December 31, 1988 and the Balance Sheet as on that date.

Summary of Cash transactions;

	Rs.
Cash in hand	500
Bank Overdraft on 1-1-88	4,500
Cash received from Debtors	25,000
Interest Paid	100
Drawings	2,000
Cash Paid to Creditors	15,000
Cash Sales	15,000
Miscellaneous Expenses	7,900
Salaries	8,500
Cash in hand on 31-12-88	500

Further information available is:

	1-1-88	31-12-88
	Rs.	Rs.
Stock in hand	9,000	10,220
Furniture	1,000	1,000
Office Premises	15,000	15,000
Creditors	8,000	5,500
Debtors	22,000	?

The total sales for the year were Rs. 48,000.

Adjustments:

- i) Provide interest on Capital @ 5% per annum.
- ii) Provide Rs. 1,500 for bad and doubtful debts
- iii) Depreciation on fixed assets to be provided @ 5% per annum
- iv) Salanes outstanding are Rs. 770.

Solution:

Trading and Profit & Loss Account of Francis
for the year ended December 31,1988

Dr.			Cr.
Particulars	Amount	Particulars	Amount
	Ks.		Rs.
To Opening Stock	9,000	By Sales	
To Purchases	12,500	Cash 15,000	
		Credit <u>33,000</u>	48,000
To Gross Profit c/d	36,720	By Closing Stock	10,220
	58,220		58,220
To Interest	100	By Gross Profit b/d	36,720
To Miscellaneous Expenses	7,900		
To Salaries 8500			
Add Out-Standing 770	9,270		
To Interest on Capital	1,750		

To Bad & Doubtful Debts

To Depreciation

Furniture	50		
Office Premises	750	800	
To Net Profit (transferred to Capital A/c)		15,400	
		36,720	36,720

Balance Sheet of Francis
as on December 31,1988

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Creditors	5,500	Cash in hand	500
Outstanding Salaries	770	Cash at bank	2,000
Capital	35,000	Stock in hand	10,220
Add Interest	1,750	Debtors	30,000
		Less Provision for bad debts	1,500
	36,750	Furniture	1,000
Add Net Profit	15,400	Less Depreciation	950
	52,150	Office Premises	15,000
Less Drawings	2,000	Less Depreciation	750
	50,150		14,250
	56,420		56,420

Working Notes:

1 For Bank Balance

Receipts & Payments Account

Dr.			Cr.
	Rs.		Rs.
To Balance b/d		By Balance b/d	
Cash in hand	500	Bank Overdraft	4,500
To Debtors	25,000	By Interest	100
To Sales	15,000	By Drawings	2,000
		By Creditors	15,000
		By Miscellaneous Expenses	7,900
		By Salaries	8,500
		By Balance c/d	
		Cash in hand	500
		Cash at bank	2,000
		(balancing figure)	
	40,500		40,500

2 For Opening Capital

Statement of Affairs as on December 31,1987

	Rs.		Rs.
Creditors	8,000	Cash in hand	500
Bank Overdraft	4,500	Stock in hand	9,000
Capital		Debtors	22,000
(balancing figure)	35,000	Furniture	1,000
		Office Premises	15,000
	47,500		47,500

3 For Credit Sales

Trade Debtors Account			
Dr.			Cr.
	Rs.		Rs.
To Balance b/d	22,000	By Cash Received	25,000
To Credit Sales	33,000	By Balance c/d (balancing figure)	30,000
	55,000		55,000

Note: 1. Credit Sales have been found out by deducting cash sales from the total sales i.e., Rs. 48,000 — Rs. 15,000 = Rs. 33,000.
2. Closing balance of Total Debtors Account represents the closing debtors.

4 For Credit Purchases:

Trade Creditors Account			
	Rs.		Rs.
To Cash Paid	15,000	By Balance b/d	8,000
To Balance c/d	5,500	By Credit Purchases (balancing figure)	12,500
	20,500		20,500

16.5 LET US SUM UP

The Net Worth Method of **ascertaining** profits from incomplete records suffers from several drawbacks. Hence, when a **trader** maintains a Cash Book and the personal accounts of customers and suppliers, **most** of the **firms** adopt conversion method of ascertaining the profits which involves the **preparation of** proper final accounts. The final accounts can be prepared either after converting the records maintained on single **entry** system into double entry records or simply by ascertaining the **missing** figures. The first **method** is called Full Conversion Method and the second one Abridged Conversion Method.

Full conversion method involves a series of steps to convert the incomplete records into proper double entry records. This requires a lot of time, labour and expense. Hence the firms mostly adopt the Abridged Conversion Method which is known as the Conversion Method. Under this method, first of all a summary of all cash transactions is prepared in the **form** of Receipts and Payments Account, This helps in the ascertainment of **all** items of incomes and expenses and the closing cash and bank balances. Then the Total Debtors **Account** and the Total Creditors Account may be **prepared** for ascertaining the missing figures of credit sales and credit purchases respectively, Opening capital is another item which is usually missing. This can be ascertained by preparing the Opening Statement of Affairs. Having thus ascertained the **missing** figures, the Trading and **Profit & Loss** Account and the Balance Sheet can be prepared without much difficulty.

16.6 SOME USEFUL BOOKS

- Gupta, R.L. and M. Radhaswaniy, 1986. Advanced Accountancy, Sultan Chand & Sons: New Delhi. (Chapter 15 Section II).
Maheshwari, S.N., 1986. *Introduction* to Accounting, Vikas Publishing House : New Delhi. (Chapter 16).
Patil, V.A. and J.S. Korlahalli, 1986. Principles and Practice of Accounting, **R.Chand & Co.:** New Delhi. (Chapter 6, Section II).
Shukla, M.C. and T.S. Grewal, 1987. *Advanced Accounts*, **S.Chand & Co.,** New Delhi (Chapter 8 Volume I).
William Pickles, 1982. Accountancy, **E.L.B.S. and Pitman.** London. (Chapter 2).

16.7 ANSWERS TO CHECK YOUR PROGRESS

- A 1 Double entry
2 Receipts and Payments Account
3 Statement of Affairs
4 Credit sales
5 Total Creditors Account
6 Receipts and Payments Account
7 Total Creditors Account
8 Cash received from debtors

16.8 TERMINAL QUESTIONS/EXERCISES

Questions

- 1 What do you mean by Conversion Method? What steps will you take to convert the accounts kept under the single entry system into double entry system?
2 What do you mean by 'Missing Items'? Name some probable missing items and state how will you ascertain them.
3 Explain the steps you will take to ascertain the profits under Conversion Method.

Exercises

- 1 Prepare Total Debtors Account and Total Creditors Accounts from the following information and ascertain the amounts of credit sales and credit purchases,

	Rs.		Rs.
Opening Debtors	15,500	Discount Allowed	960
Opening Creditors	10,200	Discount Received	740
Cash received from customers	33,030	Closing Debtors	16,350
		Closing Creditors	6,835
Cash paid to suppliers	21,865	Bad Debts	850

(Answer: Credit Sales Rs. 35,690; Credit Purchases Rs. 19,240)

- 2 Prepare Receipts and Payments Account from the following information for the year ended December 31, 1988 and calculate the closing bank balance.

	Rs.		Rs.
Bank Overdraft as on 1-1-1988	4,980	Receipt of fire claim from Insurance Co.	2,700
Cash in hand	700	Stationary	220
Interest and Bank Charges	120	Freight & Duty, etc.	625
Drawings	2,600	Carriage Inwards	1,250
Salaries	3,200	Carriage Outwards	775
Payments to Creditors	52,775	Machinery Repairs	620
Receipts from Debtors	26,025	Income Tax Refunds	625
Cash Sales	32,730	Rent	375
Insurance Charges	300	Cash in hand	450

(Answer: Bank Overdraft as on 31-12-88 Rs. 5,510)

- 3 Ramesh keeps his books on single entry system. From the information furnished below prepare the Trading and Profit & Loss Account for the year ended December 31, 1988 and the Balance Sheet as on that date.

Cash transactions during the year were:

	Rs.		Rs.
Cash received from Debtors	72,740	Advertising	870
Cash sales	17,725	Distribution Expenses	680
Cash paid to Creditor	63,960	Repairs	1,810
Salaries	8,750	Sundry Expenses	700
Rates and Taxes	1,500	Drawings	4,885
Rent	6,000	Electricity Charges	1,250

The Position of assets and liabilities was, as follows

	1-1-88	31-12-88
	Rs.	Rs.
Cash in hand	1,975	?
Machinery	1,000	1,000
Furniture	7,500	7,500
Stock	11,275	10,180
Debtors	12,750	7,475
Creditors	8,820	5,370

Adjustments:

- Outstanding Electricity Charges were Rs. 260, Advertising Rs. 130, and Sundry Expenses Rs. 200.
- Depreciate Furniture @ 5% and Machinery @ 20%
- Provide Rs. 300 for bad debts.

(Answer: Gross Profit Rs. 23,585; Net Profit Rs. 560; Balance Sheet Total 27,315; Closing Cash Balance Rs. 2,035; Credit Purchases Rs. 60,510; Credit Sales Rs. 67,465; Opening Capital Rs. 25,680).

- Ram Prasad keeps his books on single entry system. From the information given below prepare his Trading and Profit & Loss Account for the year ending March 31, 1988 and the Balance Sheet as on that date.

On April 1, 1987 he had Stock worth Rs. 40,000, Creditors Rs. 24,000, Debtors Rs. 60,000; Land & Buildings Rs. 45,000, and Furniture Rs. 3,000.

His cash transactions for the year were as follows:

	Rs.
Received from Debtors	75,000
Cash Sales	20,000
Paid to Creditors	44,000
Cash Purchases	12,500
Salaries and Wages	9,000
Rent and Taxes	1,700
Drawings	1,000
General Expenses	750

Additional Information:

- He allowed Rs. 4,500 as discount to his debtors and received a discount of Rs. 3,000 from his creditors.
- Total Purchases for the year were Rs. 55,500
- On March 31, 1988 his stock was valued at Rs. 40,000; Debtors 67,000; Cash in hand, Rs. 14,050.
- Expenses Outstanding were Rs. 400
- Create a provision of Rs. 4,800 for doubtful debts.
- Depreciate Furniture and Land & Buildings @ 5% per annum.
- 5% interest on Capital is to be given to the Proprietor

(Answer: Overdraft on April 1, 1987 Rs. 12,000; Credit Sales Rs. 86,500; Closing Creditors Rs. 20,000; Opening Capital Rs. 1,12,000; Gross Profit Rs. 51,000; Net Profit Rs. 24,850; Balance Sheet Total Rs. 1,61,850.

- Shanker maintains his books of account on single entry system. Prepare his final accounts from the information supplied for the year ended September 30, 1988 as follows:

Cash transactions during the Year:

	Rs.
Bank Charges	150
Drawings	4,000
Carriage Inwards	2,000
Salaries and Wages	15,000
Office Expenses	15,800
Paid to Creditors	30,000
Received from Debtors	50,000
Cash Sales	20,000

His assets and liabilities in the beginning and in the end were:

	1-10-87	30-9-88
	Rs.	Rs.
Stock	18,000	20,440
Cash in hand	950	150
Cash at bank	1,000	?
Creditors	16,000	10,000
Debtors	44,000	?
Furniture	2,000	2,000
Land & Buildings	30,000	30,000

Additional Information

- i) Credit sales for the year Rs. 18,100.
- ii) Discount allowed to Debtors Rs. 2,100.
- iii) Returns Outwards during the year Rs. 500.
- iv) Salaries Outstanding on 30-9-88 Rs. 3,000.
- v) Provision for doubtful debts is to be created to the extent of Rs. 3,000.
- vi) 5% depreciation is to be provided on Furniture and Land & Building.

(Answer: Cash at bank on 30-9-88 Rs. 4,850; Opening Capital Rs. 79,950; Closing Debtors Rs. 60,000; Credit Purchases Rs. 25,500; Gross Profit Rs. 63,540; Net Profit Rs. 22,890; Balance Sheet Total Rs. 1,12,840).

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.