**SINGLE ENTRY AND INCOMPLETE RECORDS**

The term “single entry” is applied to any system, which does not provide for the two fold aspect of transactions; while the alternative term „incomplete records‟ is often applied to books of account kept on such a single entry or incomplete double entry system. Pure “single entry” recognizes only the personal aspect of transactions, and, consequently, the only essential books are personal ledgers for recording transactions with receivables and creditors. In practice, however, a cashbook is invariably kept, but, with this exception, the impersonal aspect of transactions is usually left entirely unrecorded.

In this topic you will learn the procedure involved in preparing the statement of Comprehensive Income and statement of financial position for an enterprise that has only opening and closing net assets and perhaps capital as the only known figures. You will also understand and learn how to ascertain the proprietor’s drawings and any additional capital contribution during an accounting period from the scanty information provided by a cash book summary.

Questions on incomplete records and single entry are popular for examiners because they enable them to test techniques, which are also relevant for other topics such as ledger control accounts. It also provides the basic information necessary to prepare final accounts but without the examiner presenting it in the form of a Trial Balance .

**The Ascertainment of Profit from Incomplete**

Records Generally speaking, profits (or losses) are ascertained, under the single entry system, by a comparison of the values of the net assets at two specified dates, after taking into account additions to, or withdrawals from, capital during the period. The difference between these two values represents the profit or loss, according to whether there is an increase or decrease in the figures.

Remember the accounting equation, which states that:

Business Assets = Owner’s Capital + Business Liabilities

The equation above can be restated as:

Owner’s Capital = Business assets – Business Liabilities

If during an accounting period, the business realized an excess of income over expenditure, the additional cash or assets generated belong to the owner(s), thus increasing the capital. The accounting equation will now become: Opening capital + profit = opening net assets + increase in net assets.

The introduction or withdrawal of resources by the owner will also increase or decrease the owner’s capital respectively. As a result profit can be calculated using the format below:

N

Closing capital XXX

Less opening capital (XXX)

Increase in net assets XXX

Owners’ Drawings XXX

Additional Capital (XXX)

Net profit for the year **XXX\_**

**Preparation of detailed final accounts from Incomplete Records**

It is understandably certain that calculating the profit of an enterprise using the method as presented above is not satisfactory. It is important for you to note that the accountant does not only prepare the final accounts of an enterprise but also communicates accounting and financial information to stakeholders. It is therefore much more informative when statement of comprehensive Income is drawn. It is important for the accountant to convert these scanty and incomplete records into the acceptable double entry form.

For one to be able to prepare the Income statement and a statement of financial position from single entry and incomplete records, the procedures detailed below are recommended:

**Preparation of statement of affairs**

One must first construct a statement of financial position at the beginning of the accounting year. This means that the assets and liabilities of the business must be ascertained and calculated. The statement prepared to show the financial position of the business at the beginning of the year is technically called „statement of affairs‟.

In most practical situations the owner of the business will provide lists of values of non-current assets that he uses in the business together with the dates of acquisition. It should therefore be easy for one to calculate the accumulated provision for depreciation of the non-current assets from the date of their purchase to the date of reporting. Values of such items as inventories in trade, receivables and liabilities may have to be estimated with the help of the owner.

From the above information a journal should be opened and accounting entries with the aim of achieving the dual purpose of recording accounting transactions should be effected. This means that appropriate debit entries must be posted into assets account and credit entries entered into capital or liabilities accounts.

The difference between the assets and liabilities, which usually ends up with the assets exceeding the liabilities may be assumed to be the initial amount that the owner used in starting the business and therefore will be recorded as the capital of the business. It is possible that the owner may be able to mention the initial amount he used in commencing the business. Where this is the case then, any difference between such capital and the net assets estimated may be recorded as the balance on the Income statement retained in the business.

**Preparation of Cash and Bank Summary**

Ascertain the cash position of the business. This is usually done by carefully examining any available bank statement, any pay-in-slip and the cheque counterfoil. The bank statement together with the cheque counterfoil could reveal information concerning purchases, payment of rent, bank charges, wages, insurance, interest earned, the acquisition of non-current assets, and any personal withdrawals. Information extracted from the pay-in-slip will help determine the amount of money paid in by customers to whom goods were sold on credit and also direct sales by cheque instead of cash. The above information may be used to prepare a cash summary or a receipts and payments account for the business.

**Analysis of unbanked cash sales**

One must at this stage determine the amount of cash sales which have not been banked by the owner, but which might have been used by the owner to pay for business expenses, cash purchases, and personal drawings. It is possible that the owner might have made use of some of the physical inventories in trade for his or her personal use. In such a situation conducting an informal interview with the owner would confirm the existence of such occurrences and so will help the bookkeeper make an appropriate estimate for inventories drawings. Physical inventories taking by head counting of items in inventories at the close of business will give us the actual closing inventories figure and therefore may not need to be estimated.

**Posting from the Cash and Bank Summary**

After the analysis above has been made, one can now carry out the following postings into the ledger. Note that in step one opening entries were made through the ledger, and therefore some of these entries will be made into existing ledger accounts irrespective of how inaccurate they may be.

From the analysis of the debit side of the cash and bank summary and information obtained from the pay-in-slips:

1. All cash sales or takings should be credited to the trade receivables account in the sales ledger;
2. Any proceeds from the sale of non-current assets should be credited to the respective asset account;
3. Any interest or income from investment must also be credited to the appropriate revenue account;
4. Any other item should be posted to the credit of the relevant account;

From the analysis of the credit side of the cash and bank summary and information obtained from the cheque counterfoils:

1. All payments for goods purchased should be debited to the trade payables account in the purchases ledger account;
2. Payment of expenses should be debited to the relevant nominal account;
3. All purchases in connection with non-current assets should be debited to the appropriate asset accounts; d) Any charges should be posted to debit of the bank charges account;
4. Any other item should be posted to the debit of the relevant account;

Where any difference exists on the cashbook summary entries should be posted to make it balance. If the difference is on the credit side then the cashbook should be credited and the proprietor’s drawings account debited. If the difference is on the debit side then one can safely presume that the owner of the business has introduced additional capital. This difference should be debited to the cash and credited to the capital account of the business.

**Preparation of Trade receivables and payables Schedule**

At this stage one will have to determine year-end adjustment and balances. A schedule will have to be compiled detailing all customers who are owing the business, as a result of goods sold to them on credit. The total of the schedule of receivables therefore represent debts owed to the business and as such must be carried forward to the credit of the total sales ledger control account. There is likely to be a missing figure in the debit side of the total receivables account, which represent total sales on credit for the period and should be transferred to the credit of the Income Statement as sales or turnover.

Another schedule that must be prepared is a list of amount owing by the business to its suppliers for goods purchased on credit. The total of this schedule represent total liabilities by way of trade payables outstanding at the end of the period and should therefore be carried forward to the debit of the purchases ledger control account. The total of purchases for the period will be derived from the credit side of the purchases ledger control account as a balancing figure and should be transferred to the debit side of the Income Statement.

Similarly accruals and prepayments will be carried forward as closing balances in the appropriate expense accounts. The actual expense amount which has been incurred for the accounting period being accounted for as a balancing figure.

**Extraction of Trial Balance**

This is the final stage since all the transactions would have been recorded and the double entry will now have been completed and for that matter the business will be able to extract a Trial Balance which will form the basis for the preparation of the statement of comprehensive Income and statement of financial position.

**Illustration 1**

Calculate the net profit for the year ended 31 December 2001 from the following information:

31/12/2000 31/12/2001

**N N**

Property 200,000 200,000

Equipment 60,000 90,000

Trade Receivables 40,000 80,000

Cash 10,000 15,000

Overdraft 60,000 90,000

Trade Payables 50,000 30,000

Drawings during the year were N45, 000 and additional capital introduced during the year was N50, 000.

**Illustration 2**

The following is the statement of affairs of Ujo enterprises as at 01/01/2006

**N** **N**

Creditors 2,000 Plant & Equipment 3,000

Bills payable 600 Inventory 1,000

Capital 3,000 Receivables 500

Bills Receivables 1,000

\_\_\_\_ Cash 100

**5,600** **5,600**

On the 31/12/2006, the following were the ledger balances; payables **N**1,500, bills payable **N**800, plant and equipment **N**2,500, inventory **N**500, receivables **N**1,000, bills receivable **N**700 and cash **N**10. Drawings figure for the period stood at **N**800.

**Required:**

Prepare the statement of affairs to show the opening capital

**Illustration 3**

Kemo, a sole trader, did not keep proper books of account but from the following details. You are required to ascertain the profit or loss for the year ended 31/12/2021 and also prepare the statement of affairs as at that date.

31/12/2020 31/12/2021

**N** **N**

Inventory 1,670 1,850

Payables 1,540 1,400

Receivables 1,120 1,050

Cash in hand 25 120

Bank overdraft 2,020 1,940

Bills receivables 1,505 1,420

Fixtures and fittings 150 150

Motor van 190 190

The drawings during the year amounted to **N**260. Depreciate fixture and fittings by 10% and write-off **N**30, off motor van. As regards receivables, it is ascertained that **N**50 is irrecoverable and a further provision of 5% should be made. Also provide **N**70 in respect of bills receivable estimated to be irrecoverable.

**Illustration 4**

The following is the summary of cash book of Joe for the year ended 31/12/2015

**Cash book**

**N N**

Bal. b/f . 23,430 Cash paid to creditors 110,560

Cash from debtors 182,350 Salaries 10,800

Additional capital 60,000 Postage 2,400

General expenses 12,340

Drawings 25,000

Rent 5,700

\_\_\_\_\_\_ Bal. c/d 98,980\_

**265,780** **265,780**

Additional information

01/04/2014 31/03/2015

**N N**

Inventory 5,600 3,400

Receivables 12,020 9,880

Payables 9,800 10,510

Accrued salaries 4,200 750

Prepaid rent 440 670

**You are required to prepare;**

1. Statement of affairs as at 01/04/2014
2. Receivables and payables control accounts
3. Income statement for the year ended 31/03/2015
4. Statement of financial position as at 31/03/2015