CHAPTER 14

ACCOUNTS FROM INCOMPLETE RECORDS

LEARNING OUTCOMES

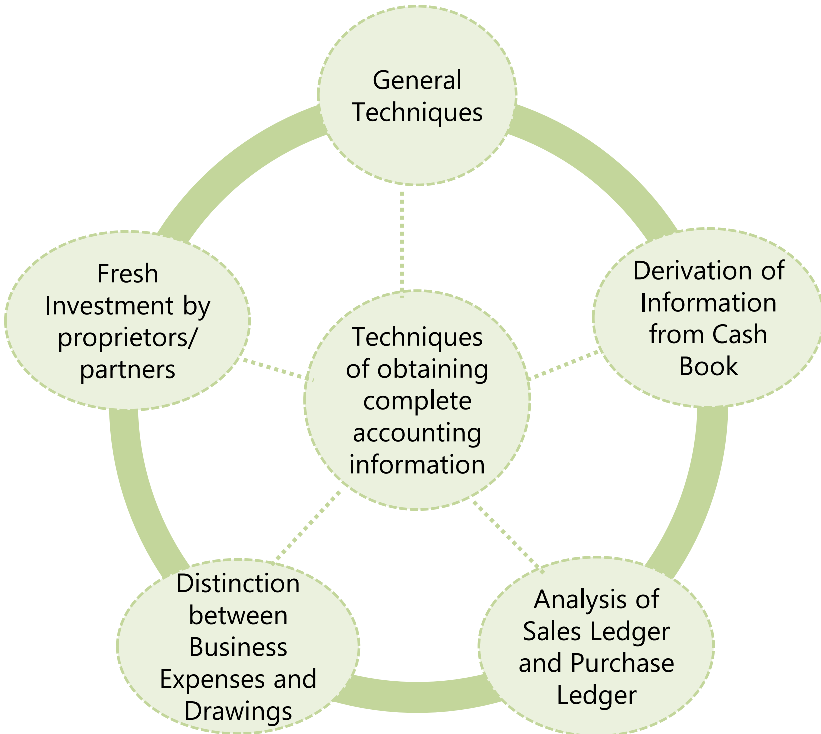
After studying this chapter, you will be able to–

- Learn how to derive capitals at two different points of time through statement of affairs.
- Learn the technique of determining profit by comparing capital at two different points of time.
- Prepare trading and profit and loss account and balance sheet from incomplete records.

CHAPTER OVERVIEW

- Definition of Single Entry System and its features
- Types of Single entry system
- Determination of profit by comparing capitals at different points of time
- Statement of Affairs and its comparison with Balance sheet
- Technique of obtaining complete information for Preparation of financial statements

Incomplete books of accounts → Completion of double entry in all transactions → Accounting process → Preparation of Trial Balance → Preparation of Financial statements



1. INTRODUCTION

Very often small sole proprietorship and partnership businesses do not maintain double entry book keeping system. They keep a record of the cash transactions and credit transactions only. But at the end of the accounting period, they will want to know the performance and financial position of their businesses. This creates some special problems to the accountants. This chapter discusses how to complete the accounts from available incomplete records and addresses the problems faced in a single entry system.

The term **"Single Entry System"** is popularly used to describe the problems of accounts from incomplete records. In practice, quack accountants follow some hybrid methods. For some transactions they complete double entries and for some others they complete just one aspect of the transaction. In fact, for some other transactions, they even do not pass any entry. Briefly, this may be stated as incomplete records. The task of the accountant is to establish link among the available information and to finalize these accounts.

Features

- It is an inaccurate, unscientific and unsystematic method of recording business transactions.
- There is generally no record of real and nominal accounts and, in most of the cases; a record is kept for cash transactions and personal accounts.
- Cash book mixes up business and personal transactions of the owners.
- There is no uniformity in maintaining the records and the system may differ from firm to firm depending on the requirements and convenience of each firm.
- Profit under this system is only an estimate based on available information and therefore true and correct profits cannot be determined. The same is the case with the financial position in the absence of a proper balance sheet.

2. TYPES

A scrutiny of many procedures adopted in maintaining records under single entry system brings forth the existence of following three types:

(i) **Pure single entry**: In this, only personal accounts are maintained with the result that no information is available in respect of cash and bank balances, sales and purchases, etc. In view of its failure to provide even the basic information regarding cash etc., this method exists only on paper and has no practical application.

(ii) **Simple single entry**: In this, only: (a) personal accounts, and (b) cash book are maintained. Although these accounts are kept on the basis of double entry system, postings from cash book are made only to personal accounts with no other account to be found in the ledger. Cash received from debtors or cash paid to creditors is simply noted on the bills issued or received as the case may be.

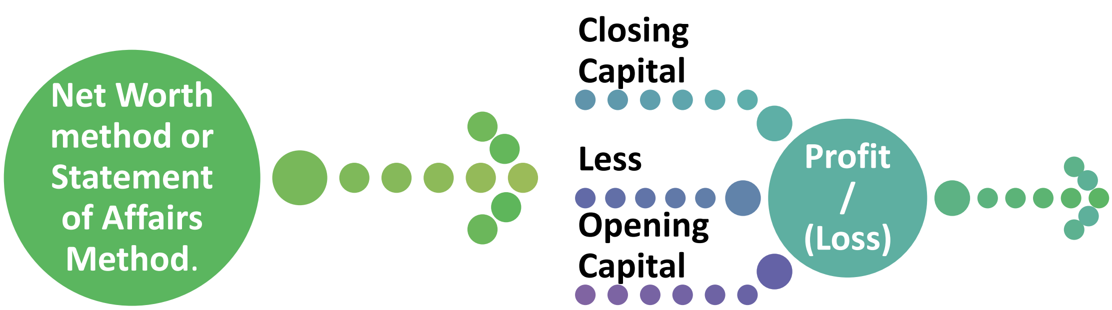
(iii) **Quasi single entry**: In this: (a) personal accounts, (b) cash book, and (c) some subsidiary books are maintained. The main subsidiary books kept under this system are Sales book, Purchases book and Bills book. No separate record is maintained for discounts, which are entered into the personal accounts. In addition, some scattered information is also available in respect of few important items of expenses like wages, rent, rates, etc. In fact, this is the method which is generally adopted as a substitute for double entry system.

Types of single entry system

- **Pure single entry**
  - Only personal accounts are maintained
- **Simple single entry**
  - Personal accounts and cash book are maintained
- **Quasi single entry**
  - Personal accounts, cash book and subsidiary books are maintained

3. ASCERTAINMENT OF PROFIT BY CAPITAL COMPARISON

This method is also known as **Net Worth method or Statement of Affairs Method**.



If detailed information regarding revenue and expenses is not known, it becomes difficult to prepare profit and loss account. Instead by collecting information about assets and liabilities, it is easier to prepare balance sheet at two different points of time. So, while preparing accounts from incomplete records, if sufficient information is not available, it is better to follow the method of capital comparison to arrive at the profit/loss for the current year.

3.1 Methods of Capital Comparison

Closing capital increases if there is profit, while it reduces if there is loss incurred during the year. However, if the proprietor/partners make fresh investments in the business, capital increases; and any withdrawal made by them, decreases the capital. The following points shall be considered while computing the profit/loss under capital comparison method-

Particulars	**₹**
Capital at the end (a)	....
Add: Drawings	....
Less: Fresh capital introduced	.....
Capital at the beginning (b)	.....
Profit (a-b)	.....

ALTERNATIVELY

Profit/Loss can also be ascertained as balancing figure by preparing capital account as follows:

Particulars	**₹**	**Particulars**	**₹**
		By Balance b/d	XX
To drawings	XX	By additional capital	XX
To Net Loss (Bal Fig)	**XX**	**By Net Profit (Bal Fig)**	**XX**
To Balance c/d	XX		
	XX		XX

It is clear from the above discussion that to follow the capital comparison method, one should know the opening capital and closing capital. This should be determined by preparing statement of affairs at the two respective points of time. Capital = Assets(-) liabilities.

Thus, the preparation of statement of affairs will require listing up of assets and liabilities and their amount. The accountant utilizes the following sources for the purpose of finding out the assets and liabilities of a business enterprise:

(i) Cash book for cash balance

(ii) Bank pass book for bank balance

(iii) Personal ledger for debtors and creditors

(iv) Inventory by actual counting and valuation.

(v) As regards fixed assets, he prepares a list of them. The proprietor would help him by disclosing the original cost and date of purchase. After deducting reasonable amount of depreciation, the written down value would be included in the Statement of Affairs.

After obtaining all necessary information about assets and liabilities, the next task of the accountant is to prepare statement of affairs at two different points in time.

The design of the statement of affairs is just like balance sheet as given below:

Statement of affairs as on...........

Liabilities	₹	***Assets***	₹
Capital (Bal. Fig.)	xx	Building	xx
Loans, Bank overdraft	xx	Machinery	xx
Sundry creditors	xx	Furniture	xx
Bills payable	xx	Inventory	xx
Outstanding expenses		Sundry debtors	xx
		Bills receivable	xx
		Loans and advances	xx
		Cash and bank	xx
		Prepaid expenses	xx
	xx		**xx**

Now from the statement of affairs prepared at two different dates, the opening and closing capital balances can be obtained.

3.2 Difference between Statement of Affairs and Balance Sheet

Basis	*Statement of affairs*	*Balance sheet*
Source	It is prepared on the basis of transactions partly recorded under the double entry book keeping and partly under the single entry. Most of the assets are recorded based on the estimates, assumptions, information gathered from memory rather from the records.	It is based on transactions recorded strictly on the basis of double entry book keeping; each item in the balance sheet can be verified from the relevant subsidiary books, ledger and documentary evidences.
Capital	In this statement, capital is merely a balancing figure being excess of assets over liabilities. Hence assets need not be equal to liabilities.	Capital is derived from the capital account in the ledger and therefore the total of assets side will always be equal to the total of liabilities side.
Omission	Since this statement is prepared from incomplete records, it is very difficult, to identify and record those assets and liabilities, if omitted from the books.	There is no possibility of omission of any item of asset and liability since all items are properly recorded. Moreover, it is easy to locate the missing items since the balance sheet will not agree.
Basis of Valuation	The valuation of assets is generally done in an arbitrary manner; therefore no method of valuation is disclosed.	The valuation of assets is done on scientific basis, fixed assets are shown at the original costs less depreciation till date.. Any change in the method of valuation is properly disclosed.
Objective	The objective of preparing this statement is to identify the capital figures in the beginning and at the end of the accounting period respectively.	The objective of preparing the balance sheet is to ascertain the financial position on a particular date.

3.3 Preparation of Statement of Affairs and Determination of Profit

It has been discussed in Para 3.1 that figures of assets and liabilities should be collected for preparation of statement of affairs. Given below an example:

Illustration 1

Assets and Liabilities of Mr. X as on 31-03-20X1 and 31-03-20X2 are as follows:

	31-03-20X1	**31-03-20X2**
	₹	₹
Assets		
Building	*1,00,000*	*?*
Furniture	*50,000*	*?*
Inventory	*1,20,000*	*2,70,000*
Sundry debtors	*40,000*	*90,000*
Cash at bank	*70,000*	*85,000*
Cash in hand	*1,200*	*3,200*
Liabilities		
Loans	*1,00,000*	*80,000*
Sundry creditors	*40,000*	*70,000*

Decided to depreciate building by 2.5%p.a. and furniture by 10% p.a. One Life Insurance Policy of the Proprietor was matured during the period and the amount ₹ 40,000 is retained in the business. Proprietor took @ ₹ 2,000 p.m. for meeting family expenses.

Prepare Statement of Affairs as on 31-03-20X1 and 31-03-20X2.

Solution

Mr. X

Statement of Affairs
as on *31-03-20X1* & *31-03-20X2*

Liabilities	***31-03-20X1*** ₹	***31-03-20X2*** ₹	**Assets**	***31-03-20X1*** ₹	***31-03-20X2*** ₹
Capital	2,41,200	4,40,700	Building	1,00,000	97,500
			Furniture	50,000	45,000
Loans	1,00,000	80,000	Inventory	1,20,000	2,70,000

Sundry creditors	40,000	70,000	Sundry debtors	40,000	90,000
			Cash at bank	70,000	85,000
			Cash in hand	1,200	3,200
	3,81,200	5,90,700		3,81,200	5,90,700

Illustration 2

Take figures given in Illustration 1. Find out profit of Mr. X for the year ended 31-03-20X2.

Solution

Determination of Profit by applying the method of the capital comparison

	₹
Capital Balance as on 31-03-20X2	4,40,700
Less: Fresh capital introduced	(40,000)
	4,00,700
Add: Drawings (₹ 2000 × 12)	24,000
	4,24,700
Less: Capital Balance as on 31-03-20X1	(2,41,200)
Profit	1,83,500

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

ALTERNATIVELY

Capital account can be prepared as follows:

Particulars	**₹**	**Particulars**	**₹**
		By Balance b/d	2,41,200
To drawings	24,000	By additional capital	40,000
		By Net Profit (Bal Fig)	1,83,500
To Balance c/d	4,40,700		
	4,64,700		4,64,700

Illustration 3

A and B are in Partnership having Profit sharing ratio 2:1. The following information is available about their assets and liabilities:

	31-3-20X1	31-3-20X2
	₹	₹
Furniture	1,20,000	?
Advances	70,000	50,000
Creditors	32,000	30,000
Debtors	40,000	45,000
Inventory	60,000	74,750
Loan	80,000	—
Cash at Bank	50,000	1,40,000

The partners are entitled to salary @ ₹ 2,000 p.m. They contributed proportionate capital. Interest is paid @ 6% on capital and charged @ 10% on drawings.

Drawings of A and B

	A	B
	₹	₹
April 30	2,000	—
May 31	—	2000
June 30	4,000	—
Sept. 30	—	6,000
Dec. 31	2,000	—
Feb. 28	—	8,000

On 30th June, they took C as 1/3rd partner who contributed ₹ 75,000. C is entitled to share of 9 months' profit. The new profit ratio becomes 1:1:1. A withdrew his proportionate share. Depreciate furniture @ 10% p.a., new purchases ₹ 10,000 may be depreciated for 1/4th of a year.

Current account as on 31-3-20X1: A ₹ 5,000 (Cr.), B ₹ 2,000 (Dr.)

Prepare Statement of Profit, Current Accounts of partners and Statement of Affairs as on 31-3-20X2.

Solution

Statement of Affairs
As on 31-3-20X1 and 31-3-20X2

Liabilities	*31-3-20X1*	*31-3-20X2*	*Assets*	*31-3-20X1*	*31-3-20X2*
	₹	₹		₹	₹
Capital A/cs:			Furniture	1,20,000	1,17,750
A	1,50,000	75,000	Advances	70,000	50,000
B	75,000	75,000	Inventory	60,000	74,750
C	—	75,000	Debtors	40,000	45,000
Loan	80,000	—	Cash at bank	50,000	1,40,000
Creditors	32,000	30,000	Current A/c B	2,000	—
Current A/c's					
A	5,000	74,036*			
B	—	48,322*			
C		50,142*			
	3,42,000	4,27,500		3,42,000	4,27,500

**See* current A/cs.

Notes:

(i)	Depreciation on Furniture	
	10% on ₹ 1,20,000	12,000
	10% on ₹ 10,000 for 1/4 year	250
		12,250
(ii)	Furniture as on 31-3-20X1	
	Balance as on 31-3-20X1	1,20,000
	Add: new purchase	10,000
		1,30,000
	Less: Depreciation	(12,250)
		1,17,750

(iii)	Total of Current Accounts as on 31-3-20X2	
	Total of Assets (1,17,750 + 50,000 + 74,750 + 45,000 + 1,40,000)	4,27,500
	Less: Fixed Capital (75,000 + 75,000 + 75,000) + Liabilities (30,000)	(2,55,000)
		1,72,500

This is after adding salary, interest on capital and deducting drawings and interest on drawings.

(*iv*)	*Interest on Capital* :				₹
	A :	on	1,50,000	@ 6% for 3 months	2,250
		on	75,000	@ 6% for 9 months	3,375
					5,625
	B :	on	75,000	@ 6% for 1 year	4,500
	C :	on	75,000	@ 6% for 9 months	3,375
					7,875
(*v*)	*Interest on Drawings* :				
	A :	on	2,000	@ 10% for 11 months	183
		on	4,000	@ 10% for 9 months	300
		on	2,000	@ 10% for 3 months	50
					533
	B :	on	2,000	@ 10% for 10 months	167
		on	6,000	@ 10% for 6 months	300
		on	8,000	@ 10% for 1 month	67
					534

Allocation of Profit	₹1,15,067	
3 months Profit	₹ 28,767	
9 months Profit	₹ 86,300	
A : 2/3 × ₹ 28,767 + 1/3 ×₹86,300		= ₹ 47,944
B : 1/3 × ₹ 1,15,067		= ₹ 38,356
C: 1/3 × ₹ 86,300		= ₹28,767
		₹ 1,15,067

Current Accounts

	A	B	C		A	B	C
To Balance b/d	—	2,000	—	By Balance b/d	5,000	—	—
To Drawings	8,000	16,000	—	By Salary	24,000	24,000	18,000
To Interest on drawings	533	534	—	By Interest on capital	5,625	4,500	3,375
To Balance c/d (b.f.)	74,036	48,322	50,142	By Share of Profit	47,944	38,356	28,767
	82,569	66,856	50,142		82,569	66,856	50,142

Statement of Profit

			₹
Current Account Balances as on 31-3-20X2			1,72,500
Less: Salary			
A ₹ 2,000 × 12	=	24,000	
B ₹ 2,000 × 12	=	24,000	
C ₹ 2,000 × 9	=	18,000	(66,000)
Less: Interest on Capital			
	A	5,625	
	B	4,500	
	C	3,375	(13,500)
Add: Drawings			
	A	8,000	
	B	16,000	24,000
Add: Interest on Drawings			
	A	533	
	B	534	1,067
			1,18,067
Less: Current A/c Balances as on 31-3-20X1 (₹ 5,000 – ₹ 2,000)			(3,000)
NET PROFIT FOR THE YEAR			1,15,067

Illustration 4

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 20X0-20X1 and 20X1-20X2 feels that Shri Moti has not disclosed the full income. He gives you the following particulars of assets and liabilities of Shri Moti as on 1st April, 20X0 and 1st April, 20X2.

				₹
1-4-20X0	*Assets*	:	*Cash in hand*	*25,500*
			Inventory	*56,000*
			Sundry debtors	*41,500*
			Land and Building	*1,90,000*
			Wife's Jewellery	*75,000*
	Liabilities	:	*Owing to Moti's Brother*	*40,000*
			Sundry creditors	*35,000*
1-4-20X2	*Assets*	:	*Cash in hand*	*16,000*
			Inventory	*91,500*
			Sundry debtors	*52,500*
			Land and Building	*1,90,000*
			Motor Car	*1,25,000*
			Wife's Jewellery	*1,25,000*
			Loan to Moti's Brother	*20,000*
	Liabilities	:	*Sundry creditors*	*55,000*

During the two years the domestic expenditure was ₹ 4,000 p.m. The declared incomes of the financial years were ₹ 1,05,000 for 20X0-20X1 and ₹ 1,23,000 for 20X1-20X2 respectively.

State whether the Income-tax Officer's contention is correct. Explain by giving your workings.

Solution

Capital Account of Shri Moti

		1-4-20X0		***1-4-20X2***
	₹	₹	₹	₹
Assets				
Cash in hand		25,500		16,000

Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		—		1,25,000
Loan to Moti's Brother		—		20,000
		3,88,000		6,20,000
Liabilities:				
Owing to Moti's Brother	40,000		—	
Sundry creditors	35,000	75,000	55,000	55,000
Capital		3,13,000		5,65,000
Income during the two years:				
Capital as on 1-4-20X2				5,65,000
Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-20X0				(3,13,000)
Income earned in 20X0-20X1 and 20X1-20X2				3,48,000
Income declared (₹ 1,05,000 + ₹ 1,23,000)				2,28,000
Suppressed Income				1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by ₹ 1,20,000.

4. TECHNIQUES OF OBTAINING COMPLETE ACCOUNTING INFORMATION

When books of accounts are incomplete, it is essential to complete double entry in respect of all transactions. The whole accounting process should be carefully followed and Trial Balance should be drawn up.

4.1 General Techniques

Where the accounts of a business are incomplete, it is advisable to convert them first to the double entry system and then to draw up the Profit and Loss Account and the Balance Sheet, instead of determining the amount of profit/loss by preparing the statement of affairs. As books of accounts of different firms being incomplete in varying degrees, it is not possible to suggest a formula which could uniformly be applied for preparing final accounts therefrom. As a general rule, it is essential to first start the ledger accounts with the opening balances of assets, liabilities and the capital. Afterwards, each book of original entry should be separately dealt with, so as to complete the double entry by posting into the ledger all entries which have not been posted. For example, If only personal accounts have been posted from the Cash Book, debits and credits pertaining to nominal accounts and real accounts that are not posted, should be posted into the ledger. If there are Discount Columns in the Cash Book, the totals of discounts paid and received should be posted to Discounts Allowed and Discounts Received Accounts respectively, for completing the double entry.

Afterwards, the other subsidiary books, i.e., Purchases Day Book, Sales Day Book, Purchase Return Book, Sales Return Book, Bills Receivable and Bills Payable, etc. should be totaled up and their totals posted into the ledger to the debit or credit of the appropriate nominal or real accounts, as the personal aspect of the transactions have been posted already.

When an Accountant is engaged in posting the unposted items from the Cash Book and other subsidiary books, he may be confronted with a number of problems. The manner in which some of them may be dealt with is described below:

(1) In the Cash Book, there can be several receipt entries which have no connection with the business but which belong to the proprietor, e.g., interest collected on his private investment, legacies received by him, amount contributed by the proprietor from his private resources, etc. All those amounts should be credited to his capital account. Also the Cash Book may contain entries in respect of payments for proprietor's purchases and his personal expenses. All such items should be taken to his capital account on the debit side.

(2) Amounts belonging to the business after collection may have been directly utilised for acquiring business assets or for meeting certain expenses instead of being recorded in the Cash Book. On the other hand, the proprietor may have met some of the business expenses from his private resources. In that case, the appropriate asset or expense account should be debited and the source of obtaining funds to be credited.

(3) If cash is short, because the proprietor had withdrawn amount without any entry having been made in the cash book the proprietor's capital account

should be debited. In fact, it will be necessary to debit or credit the proprietor's capital account in respect of all unidentified amounts which cannot be adjusted anywhere else.

(4) Where the benefit of an item of an expense is received both by the proprietor and business, then it should be allocated between the two on some equitable basis e.g. rent of premises when the proprietor lives in the same premises, should be allocated on the basis of the area occupied by him for residence.

In the end, it will be possible to draw a Trial Balance. Students are advised to prepare a Trial balance as it will bring out any mistakes committed while making the above adjustments.

4.2 Derivation of Information from Cash Book

The analysis of cash as well as bank receipts and payments, should be extensive but under significant heads, so that various items of income and expenditure can be posted therefrom into the ledger. However before posting the information into the ledger the same should be collected in the form of an account, the specimen whereof is shown below:

Cash and Bank Summary Account for the year ended (assumed figures)

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance in hand (opening)	590	7,400	By Expenses (Sundry payments)	3,000	-
To Sales	6,500	-	By Purchases	100	6,000
To Collection from			By Sundry creditors	-	5,000
Debtors	-	10,000	By Drawings	1,500	-
			By Petty expenses	800	-
			By Rent	-	1,000
			By Electricity and water	350	-
			By Repairs	350	-
			By Wages	-	1,000
			By Balance in Hand	990	4,400
	7,090	17,400		7,090	17,400

The important point about incomplete records is that much of the information may not be readily available and that the relevant information has to be ascertained. A good point is to prepare Cash and Bank Summary (if not available in proper form with both sides tallied). The cash and bank balance at the end should be reconciled with the cash and bank books. Having done so, the various items detailed on the Summary Statements, should be posted into the ledger.

It is quite likely that some of the missing information will then be available. Consider the following about a firm relating to 31st March 20X2.

	₹
Cash Balance on 1st April, 20X1	250
Bank overdraft on 1st April, 20X1	5,400
Cash purchases	3,000
Collection from Sundry debtors	45,600
Sale of old furniture	750
Purchase of Machinery	12,000
Payment of Sundry creditors	26,370
Expenses	8,450
Fresh Capital brought in	5,000
Drawings	3,230
Cash Balance on 31st March, 20X2	310
Bank balance on 31st March, 20X2	1,180

Now prepare the cash and Bank Summary.

Cash and Bank Summary

Dr.			***Cr.***
	₹		₹
Cash Balance on 1-4-20X1	250	Bank overdraft on 1-4-20X1	5,400
Collection from Sundry debtors	45,600	Cash purchases	3,000
Sale of old furniture	750	Purchase of Machinery	12,000
Fresh Capital brought in	5,000	Payment to Sundry creditors	26,370

Balancing figure- (Cash sales)	8,340	Expenses	8,450
		Drawings	3,230
		Cash balance on 31-03-20X2	310
		Bank balance on 31-03-20X2	1,180
	59,940		59,940

See that debit side is short by ₹ 8,340. What may be the possible source of cash inflow?- It can be cash sales.

4.3 Analysis of Sales Ledger and Purchase Ledger

***Sales Ledger*:** It would disclose information pertaining to the opening balances of debtors, transactions made with them during the year such as goods sold to them on credit, bills receivable drawn on them, bills dishonored, if any; cash received from them, sales returns, discount, rebate or any other concession allowed to them, receipts of bills receivable, bad debts written off and transfers. Journal entries must be made by debiting or crediting the impersonal accounts concerned with contra credit or debit given to total debtors account.

Analysis of Sales Ledger of the year

Op. Customer Balance	Sales	Bills Disho-nored	Total Debits	Cash Recd.	Dis-counts Allw.	Bills Recd.	Sales Returns	Bad Debts	Total Credit	Balance (cl.)

From the aforementioned, it will be possible to build up information about sales and other accounts which can then be posted in totals, if so desired. It would also be possible to prepare Total Debtors

Account in the following form:

Proforma of Total Debtors Account (assumed figures)

	₹		₹
To Opening balance	5,000	By Cash/Bank	10,000
To Sales	38,000	By Discount	500
To Bills dishonoured	280	By Bills receivable	20,000
To Interest	100	By Bad debts	280
		By Closing balance	12,600
	43,380		43,380

In can be seen from the above format that, if any one figure is not given it can be found out easily as the balancing figure. It can be opening balance, credit sales, cash collected or closing balance etc. For instance, if the information about sales is not available it could be ascertained as the balancing figure, *i.e.,* in the total Debtors Account given above, if all other figures are given, amount of sales on credit basis can be easily ascertained.

Purchases Ledger: Generally speaking, a Purchases Ledger is not as commonly maintained as the Debtors Ledger for it being convenient to make entries in respect of outstanding liabilities at the time they are paid rather than when they are incurred. The information is available in respect of opening balance of the creditors, goods purchased on credit, bills payable accepted, bills payable dishonored; cash paid to the creditors during the year, discount and other concessions obtained, returns outwards and transfers. Here also, journal entries must be made by debiting or crediting the respective impersonal accounts. Contra credit or debit being given to total creditor's account.

From the available information total creditors account can be prepared as follows

Proforma of Total Creditors Account (assumed figures)

	₹		₹
To Cash/bank	25,000	By Opening Balance	10,000
To Purchase Returns	400	By Purchases	30400
To Bills Payable	8,700	By Bill payable dishonoured	450
To discount received	100		
To Closing Balance	6,650		
	40,850		40,850

If a proper record of return to creditors, discount allowed by them etc., has not been kept, it may not be possible to write up the Total Creditors A/c. In such a case, net credit purchase can be ascertained as follows:

Cash paid to Creditors including on account of bills

payable during the period ....

Closing balance of Creditors and Bills Payable ....

Total ___________

Less: Opening balance of Creditors and Bills Payable	....
Net credit purchase during the period	....
Alternatively	
Cash paid to creditors during the period	....
Add: Bills Payable issued to them	....
Total	_________
Closing balance of Creditors	
Less: Opening balance of creditors	....
Credit Purchases during the period	....

Nominal Accounts: It is quite likely that the total expenditure shown by balance of nominal account may contain items of expenditure which do not relate to the year for which accounts are being prepared and, also, there may exist certain items of expenditure incurred but not paid, which have not been included therein. On that account, each and every account should be adjusted in the manner shown below (figures assumed):

	Cash and Particulars	***Amount Bank Payment***	***Paid out of Accrued***	***Total Private Fund***	***Pre Payment***	***Expenses for the period***
1	*2*	*3*	*4*	*5 (2+3+4)*	*6*	*7 (5-6)*
	₹	₹	₹	₹	₹	₹
Rent & Rates	2,200	300	100	2,600	150	2,450
Salaries	4,500	500	1,000	6,000	250	5,750

Only the amount entered as "expenses for the period" should be posted to the respective nominal accounts. A similar adjustment of nominal accounts in respect of revenue receipt should be made.

Let us continue with the example given in para 4.2. Given some other information, how to compute credit purchase and credit sale is discussed below:

Opening balance (1-4-20X1)	₹
Inventory	20,000
Sundry creditors	12,300

Sundry debtors	15,000
Closing Balance (31-03-20X2)	
Inventory	15,000
Sundry creditors	13,800
Sundry debtors	25,600
Cash paid to creditors	26,370
Cash received from debtors	45,600
Cash sales	8,340
Cash purchases	3,000
Discount received during the year	1,130
Discount allowed	1,870

What are the purchases for 20X1-20X2? Let us prepare the Sundry Creditors Account.

Sundry Creditors Account

	₹		₹
To Cash	26,370	By Balance b/d (opening)	12,300
To Discount (received)	1,130		
To Balance c/d (closing)	13,800	By Purchases (balancing figure)	29,000
	41,300		41,300

The credit purchases are ₹ 29,000; cash purchases are ₹ 3,000: hence total purchases are ₹ 32,000.

Likewise prepare the Sundry Debtors Account:

Sundry Debtors Account

	₹		₹
To Balance b/d	15,000	By Cash	45,600
To Credit sales (balancing figure)	58,070	By Discount (allowed)	1,870
		By Balance c/d	25,600
	73,070		73,070

So total sales = credit sales + cash sales

= ₹ 58,070 + ₹ 8,340 = ₹ 66,410

4.4 Distinction between Business Expenses and Drawings

It has been already stated that often the distinction is not made between business expenses and drawings. While completing accounts from incomplete records, it is necessary to scan the business transactions carefully to identify the existence of drawings.

The main items of drawings are (illustrative):

- Rent of premises commonly used for residential as well as business purposes.
- Common electricity and telephone bills.
- Life insurance premiums of proprietor/partners paid from business cash.
- Household expenses met from business cash.
- Private loan paid to friends and relatives out of business cash.
- Personal gifts made to any friends and relatives out of business cash.
- Goods or services taken from the business for personal consumption.
- Cash withdrawals to meet family expenses.
- Amount collected from debtors directly used for meeting personal expenses.

So it is necessary to scan the summary of cash transactions, business resources and their utilization to assess the nature of drawings and its amount.

4.5 Fresh Investment by proprietors / partners

Like drawings, often fresh investments made by proprietors' /partners are not readily identifiable. It becomes necessary to scan the business transactions carefully. Apart from direct cash investment, fresh investments may take the following shape:

- Money collected and put in the business on maturity of Life Insurance Policy of the proprietors.
- Interest and dividend of personal investment of the proprietors collected and put in the business.
- Income from non-business property collected and put in the business.
- Payments made to creditors out of personal cash.

Unless these items are properly identified and segregated, business income will be affected and proper statement of affairs cannot be prepared.

From exam point of view

In the examination we would be given:

1. Opening and closing assets and liabilities
2. Cash transactions
3. Other information

From this we have to prepare

1. Trading Account
2. Profit and loss account
3. Balance Sheet

How to proceed

STEP I: Prepare format of

1. Trading Account for the year
2. Profit and loss account for the year
3. Balance Sheet at the end of the year

And various other accounts as working notes as follows

a. Opening Balance Sheet

b. Cash Book (with two separated Cash and Bank column if possible)

c. Total Debtors Account

d. Bills Receivable Account (if required)

e. Total creditors Account

f. Bills payable Account (if required)

g. Any particular fixed asset (if required)

h. Any other account as required

STEP II

a. Do the posting of opening balances in the opening balance sheet and as opening balance in concerned account

b. Do the posting of all the transactions on the basis of double entry.

c. Take in to account all the information given

d. Close all the accounts one by one logically, finding out missing figures and posting them to second account concerned. e.g. you can find cash collected from debtors from cash account , then post it to debtors account and find closing debtors etc.

e. Complete the trading account, profit and Loss account and then balance sheet.

Single entry problem is just like su do ku, one must be able to find out missing figures logically and sequentially

Illustration 5

The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 20X2 and Balance Sheet as on that date:

(a)

		Balance as on 31st March, 20X1 ₹	Balance as on 31st March, 20X2 ₹
	Building	3,20,000	3,60,000
	Furniture	60,000	68,000
	Motorcar	80,000	80,000
	Inventory	?	40,000
	Bills payable	28,000	16,000
	Cash and bank balances	1,80,000	1,04,000
	Sundry debtors	1,60,000	?
	Bills receivable	32,000	28,000
	Sundry creditors	1,20,000	?

(b) Cash transactions during the year included the following besides certain other items:

	₹		₹
Sale of old papers and miscellaneous income	20,000	Cash purchases Payment to creditors	48,000 1,84,000

Miscellaneous Trade expenses (including salaries etc.)	*80,000*	*Cash sales*	*80,000*
Collection from debtors	*2,00,000*		

(c) *Other information:*

- *Bills receivable drawn during the year amount to ₹ 20,000 and Bills payable accepted ₹ 16,000.*
- *Some items of old furniture, whose written down value on 31st March, 20X1 was ₹ 20,000 was sold on 30th September, 20X1 for ₹ 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.*
- *Of the Debtors, a sum of ₹ 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be created @ 2%.*
- *Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.*
- *Outstanding salary on 31st March, 20X1 was ₹ 8,000 and on 31st March, 20X2 was ₹ 10,000. On 31st March, 20X1, Profit and Loss Account had a credit balance of ₹ 40,000.*
- *20% of total sales and total purchases are to be treated as for cash.*
- *Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.*

Solution

Mr. Shiv Kumar

Trading and Profit and Loss Account
for the year ended 31st March, 20X2

	₹		₹
To Opening inventory (balancing figure)	80,000	By Sales (3,20,000 x 100/80)	4,00,000
		By Closing inventory	40,000
To Purchases (1,92,000 x 100/80)	2,40,000		

To	Gross profit c/d @ 30% on sales	1,20,000			
		4,40,000			4,40,000
To	Miscellaneous expenses (₹ 80,000 – ₹ 8,000 + ₹ 10,000)	82,000	By	Gross profit b/d	1,20,000
			By	Miscellaneous receipts	20,000
			By	Net loss transferred to Capital A/c (b.f.)	25,840
To	Depreciation: Building ₹ 36,000 Furniture ₹ 7,800 (₹6,800 + ₹ 1,000) Motor Car ₹ <u>16,000</u>	59,800			
To	Loss on sale of furniture	11,000			
To	Bad debts	8,000			
To	Provision for doubtful debts	5,040			
		1,65,840			1,65,840

Balance Sheet as on 31st March, 20X2

Liabilities	**₹**	**₹**	***Assets***	**₹**	**₹**
Capital as on 1st April, 20X1		7,16,000	Building	3,20,000	
			Add: Addition during the year	40,000	
Profit and Loss A/c				3,60,000	
Opening balance	40,000		*Less:* Provision for depreciation	(36,000)	3,24,000
Less: Loss for the year	(25,840)	14,160	Furniture	60,000	
			Less: Sold during		
Sundry creditors		1,12,000	the year	(20,000)	
Bills payable		16,000		40,000	

Outstanding salary		10,000	*Add:* Addition during the year	28,000	
				68,000	
			Less: Depreciation	(6,800)	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	(16,000)	64,000
			Inventory in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	(5,040)	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		1,04,000
		8,68,160			8,68,160

Working Notes:

(i) Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c (credit)[1]	3,20,000	By Bills Receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (bal. fig.)	2,52,000
	4,80,000		4,80,000

(ii) Sundry Creditors Account

	₹		₹
To Cash/Bank A/c	1,84,000	By Balance b/d	1,20,000
To Bills Payable A/c	16,000	By Purchases A/c[2]	1,92,000

[1] Total sales (80,000 x 100/ 20) – cash sales (80,000)

[2] Total purchases (48,000 x 100/ 20) – cash purchases (48,000)

To Balance c/d (bal. fig.)	1,12,000		
	3,12,000		3,12,000

(iii) Bills Receivable Account

	₹		₹
To Balance b/d	32,000	By Cash/ Bank A/c(bal. fig.)	24,000
To Sundry Debtors A/c	20,000	By Balance c/d	28,000
	52,000		52,000

(iv) Bills Payable Account

	₹		₹
To Cash/Bank A/c (bal. fig.)	28,000	By Balance b/d	28,000
To Balance c/d	16,000	By Sundry Creditors A/c	16,000
	44,000		44,000

(v) Furniture Account

	₹		₹
To Balance b/d	60,000	By Bank/Cash A/c	8,000
To Bank A/c (b.f.)	28,000	By Depreciation A/c (on furniture sold)	1,000
		By Profit and loss A/c (loss on sale) (20,000 – 1,000 – 8,000)	11,000
		By Depreciation A/c (68,000 x 10%)	6,800
		By Balance c/d (68,000 – 6,800)	61,200
	88,000		88,000

(vi) Cash/Bank Account

	₹		₹
To Balance b/d	1,80,000	By Misc. trade expenses A/c	80,000
To Miscellaneous receipts A/c	20,000	By Purchases A/c	48,000
To Sundry debtors A/c	2,00,000	By Furniture A/c	28,000
To Sales A/c	80,000	By Sundry creditors A/c	1,84,000
To Furniture A/c (sale)	8,000	By Bills payable A/c	28,000
To Bills receivable A/c	24,000	By Building A/c (3,60,000 – 3,20,000)	40,000
		By Balance c/d	1,04,000
	5,12,000		5,12,000

(vii) Opening Balance Sheet as on 31st March, 20X1

Liabilities	₹	Assets	₹
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Inventory in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	1,80,000
	9,12,000		9,12,000

Illustration 6

A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st March, 20X2 is given below:

Receipts	₹	***Payments***	₹
Bank Balance as on 1st April, 20X1	*2,800*	*Payments to Sundry creditors*	*35,000*
Received from Sundry Debtors	*48,000*	*Salaries*	*6,500*
Cash Sales	*11,000*	*General expenses*	*2,500*

Capital brought during the year	*6,000*	*Rent and Taxes*	*1,500*
Interest on Investments	*200*	*Drawings*	*3,600*
		Cash purchases	*12,000*
		Balance at Bank on 31st March, 20X2	*6,400*
		Cash in hand on 31st March, 20X2	*500*
	68,000		*68,000*

Particulars of other assets and liabilities are as follows:

	1st April, 20X1	***31st March, 20X2***
Sundry debtors	*14,500*	*17,600*
Sundry creditors	*5,800*	*7,900*
Machinery	*7,500*	*7,500*
Furniture	*1,200*	*1,200*
Inventory	*3,900*	*5,700*
Investments	*5,000*	*5,000*

Prepare final accounts for the year ending 31st March, 20X2 after providing depreciation at 10 per cent on machinery and furniture and ₹ 800 against doubtful debts.

Solution

A. Adamjee

Trading and Profit & Loss Account for the year ended 31st March 20X2

	₹	₹		₹
To Opening Inventory		3,900	By Sales	62,100
To Purchases		49,100	By Closing Inventory	5,700
To Gross profit c/d (b.f.)		14,800		
		67,800		67,800
To Salaries		6,500	By Gross Profit b/d	14,800
To Rent and Taxes		1,500	By Interest on investment	200

To General expenses		2,500		
To Dep:				
Machinery@ 10%	750			
Furniture @ 10%	120	870		
To Provision for doubtful debts		800		
To Net profit carried to Capital A/c (b.f.)		2,830		
		15,000		15,000

Balance Sheet as on 31st March 20X2

Liabilities	**₹**	**₹**	***Assets***	**₹**	**₹**
A. Adamjee's Capital			Machinery	7,500	
on 1st April, 20X1	29,100		*Less :* Depreciation	(750)	6,750
Add: Fresh Capital	6,000		Furniture	1,200	
Add: Profit for the year	2,830		*Less :* Depreciation	(120)	1,080
	37,930				
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
			Sundry debtors	17,600	
Sundry creditors		7,900	*Less :* Provision for		
			Doubtful debts	(800)	16,800
			Investment		5,000
			Cash at bank		6,400
			Cash in hand		500
		42,230			42,230

Working Notes:

1. Balance sheet of A. Adamjee as on 1st April 20X1

Liabilities	**₹**	**Assets**	**₹**
Sundry creditors	5,800	Machinery	7,500

A. Adamjee's capital (balancing figure)	29,100	Furniture	1,200
		Inventory	3,900
		Sundry debtors	14,500
		Investments	5,000
		Bank balance (from Cash statement)	2,800
	34,900		34,900

2. Ledger Accounts

A. Adamjee's Capital Account

		₹			₹
March 31	To Drawings	3,600	April 1	By Balance b/d	29,100
			March 31	By Net Profit	2,830
March 31	To Balance c/d (b.f.)	34,330	March 31	By Cash	6,000
		37,930			37,930

Sales Account

		₹			₹
March 31	To Trading A/c (b.f.)	62,100	March 31	By Cash	11,000
			March 31	By Total Debtors Account (Credit Sales)	51,100
		62,100			62,100

Total Debtors Account

		₹			₹
April 1	To Balance b/d	14,500	March 31	By Cash	48,000
March 31	To Credit sales (Balancing figure)	51,100	March 31	By Balance c/d	17,600
		65,600			65,600

Purchases Account

		₹			₹
March 31	To Cash A/c To total Creditors A/c (credit Purchases)	12,000 37,100	March 31	By Trading Account (b.f.)	49,100
		49,100			49,100

Total Creditors Account

		₹			₹
March 31	To Cash	35,000	April 1	By Balance b/d	5,800
March 31	To Balance b/d	7,900	March 31	By Credit Purchases (Balancing figure)	37,100
		42,900			42,900

Illustration 7

From the following data furnished by Mr. Manoj, you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 20X2 and Balance Sheet as at that date. All workings should form part of your answer.

Assets and Liabilities	***As on 1st April 20X1***	***As on 31st March 20X2***
	₹	*₹*
Creditors	*15,770*	*12,400*
Sundry expenses outstanding	*600*	*330*
Sundry Assets	*11,610*	*12,040*
Inventory in trade	*8,040*	*11,120*
Cash in hand and at bank	*6,960*	*8,080*
Trade debtors	*?*	*17,870*
Details relating to transactions in the year:		
Cash and discount credited to debtors		*64,000*

Sales return		*1,450*
Bad debts		*420*
Sales (cash and credit)		*71,810*
Discount allowed by trade creditors		*700*
Purchase returns		*400*
Additional capital-paid into Bank		*8,500*
Realisations from debtors-paid into Bank		*62,500*
Cash purchases		*1,030*
Cash expenses		*9,570*
Paid by cheque for machinery purchased		*430*
Household expenses drawn from Bank		*3,180*
Cash paid into Bank		*5,000*
Cash drawn from Bank		*9,240*
Cash in hand on 31-3-20X2		*1,200*
Cheques issued to trade creditors		*60,270*

Solution

In the books of Mr. Manoj

Trading and Profit & Loss Account for the year ending 31st March, 20X2

	₹	₹		₹	₹
To Opening Inventory		8,040	By Sales		
			Cash	4,600	
To Purchases	59,030		Credit	67,210	
(58,000 + 1,030)					
Less: Returns	(400)	58,630		71,810	
To Gross profit c/d		14,810	*Less:* Returns	(1,450)	70,360
			By Closing inventory		11,120
		81,480			81,480
To Sundry expenses (W.N.(v))		9,300	By Gross profit b/d		14,810

To Discount		1,500	By Discount		700
To Bad Debts		420			
To Net Profit transfer to Capital		4,290			
		15,510			15,510

Balance Sheet of Mr. Manoj
as on 31st March, 20X2

Liabilities	₹	₹	***Assets***	₹
Capital			Sundry assets	12,040
Opening balance	26,770		Inventory in trade	11,120
Add: Addition	8,500		Sundry debtors	17,870
Net Profit	4,290		Cash in hand & at bank	8,080
	39,560			
Less: Drawings	(3,180)	36,380		
Sundry creditors		12,400		
Outstanding expenses		330		
		49,110		49,110

Working Notes:

(i) Cash sales

Combined Cash & Bank Account

	₹		₹
To Balance b/d	6,960	By Sundry creditors	60,270
To Sundries (Contra)	5,000	By Sundries (Contra)	5,000
To Sundries (Contra)	9,240	By Sundries (Contra)	9,240
To Sundry debtors	62,500	By Drawings	3,180
To Capital A/c	8,500	By Machinery	430
To Sales (Cash Sales-Balancing Figure)	4,600	By Sundry expenses	9,570
		By Purchases	1,030
		By Balance c/d	8,080
	96,800		96,800

(ii) Total Debtors Account

	₹		₹
To Balance b/d	16,530	By Bank	62,500
To Sales (71,810–4,600[3])	67,210	By Discount(64,000 - 62,500)	1,500
		By Return Inward	1,450
		By Bad Debts	420
		By Balance c/d	17,870
	83,740		83,740

(iii) Total Creditors Account

	₹		₹
To Bank	60,270	By Balance b/d	15,770
To Discount	700	By Purchases	58,000
To Return Outward	400		
To Balance c/d	12,400		
	73,770		73,770

(iv) Balance Sheet as on 1st April, 20X1

Liabilities	₹	***Assets***	₹
Capital	26,770	Sundry Assets	11,610
Sundry Creditors	15,770	Inventory in Trade	8,040
Outstanding Expenses	600	Sundry Debtors (from total debtors A/c)	16,530
		Cash in hand & at bank	6,960
	43,140		43,140

(v)

Expenses paid in Cash	9,570
Add: Outstanding on 31-3-20X2	330
	9,900
Less: Outstanding on 1-4-20X1	(600)
	9,300

[3] From combined cash and bank account

(vi) Due to lack of information, depreciation has not been provided on fixed assets.

Illustration 8

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31st March 20X1	***31st March 20X2***
Sundry debtors	*70,000*	*92,000*
Bills receivable	*15,000*	*6,000*
Bills payable	*12,000*	*14,000*
Sundry creditors	*40,000*	*56,000*
Inventory	*1,10,000*	*1,90,000*
Bank	*90,000*	*87,000*
Cash	*5,200*	*5,300*

Summary of cash transactions during the year 20X1- 20X2:

(i) *Deposited to bank after payment of shop expenses @ ₹ 600 p.m., salary @ ₹ 9,200 p.m. and personal expenses @ ₹ 1,400 p.m. ₹ 7,62,750.*

(ii) *Cash Withdrawn from bank ₹ 1,21,000.*

(iii) *Cash payment to suppliers ₹ 77,200 for supplies and ₹ 25,000 for furniture.*

(iv) *Cheques collected from customers but dishonoured ₹ 5,700.*

(v) *Bills accepted by customers ₹ 40,000.*

(vi) *Bills endorsed ₹ 10,000.*

(vii) *Bills discounted ₹ 20,000, discount ₹ 750.*

(viii) *Bills matured and duly collected ₹ 16,000.*

(ix) *Bills accepted ₹ 24,000.*

(x) *Paid suppliers by cheque ₹ 3,20,000.*

(xi) *Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.*

(xii) *Rent received ₹ 14,000 by cheque for the premises owned by proprietor.*

(xiii) *A building was purchased on 30-11-20X1 for opening a branch for ₹ 3,50,000 and some expenses were incurred on this building, details of which are not maintained.*

(xiv) *Electricity and telephone bills paid by cash ₹ 18,700, due ₹ 2,200.*

Other transactions:

(i) *Claim against the firm for damage ₹ 1,55,000 is under legal dispute. Legal expenses ₹ 17,000. The firm anticipates defeat in the suit.*

(ii) *Goods returned to suppliers ₹ 4,200.*

(iii) *Goods returned by customers ₹ 1,200.*

(iv) *Discount offered by suppliers ₹ 2,700.*

(v) *Discount offered to the customers ₹ 2,400.*

(vi) *The business is carried on at the rented premises for an annual rent of ₹ 20,000 which is outstanding at the year end.*

Prepare Trading and Profit & Loss Account of Mr. Anup for the year ended 31st March 20X2 and Balance Sheet as on that date.

Solution

Trading and Profit & Loss Account of Mr. Anup
for the year ended 31st March 20X2

	₹	₹		₹	₹
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		*Less:* Sales Return	(1,200)	9,58,550
Less: Purchases Return	(4,200)	4,49,900	By Closing Inventory		1,90,000
To Gross Profit (b.f.)		5,88,650			
		11,48,550			11,48,550
To salary (9,200 x 12)		1,10,400	By Gross Profit		5,88,650
To Electricity & Tel. Charges (18,700 + 2,200)		20,900	By Discount		2,700

To Legal expenses		17,000			
To Discount (2,400 + 750)		3,150			
To Shop exp. (600 x 12)		7,200			
To Provision for claims for damages		1,55,000			
To Shop Rent		20,000			
To Net Profit (b.f.)		2,57,700			
		5,91,350			5,91,350

Balance-Sheet as on 31st March 20X2

Liabilities	**₹**		***Assets***	**₹**
Capital A/c (W.N.vi)	2,38,200		Building (from summary cash and bank A/c)	3,72,000
Add : Fresh capital introduced			Furniture	25,000
Maturity value from LIC	20,000		Inventory	1,90,000
Rent	14,000		Sundry debtors	92,000
Add : Net Profit	2,57,700		Bills receivable	6,000
	5,29,900		Cash at Bank	87,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash in Hand	5,300
Rent outstanding		20,000		
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity &				
Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

(i) Sundry Debtors Account

	₹		₹
To Balance b/d	70,000	By Bill Receivable A/c	
To Bill receivable A/c-Bills dishonoured	3,000	Bills accepted by customers	40,000
To Bank A/c-Cheque dishonoured	5,700	By Bank A/c - Cheque received	5,700
To Credit sales (Balancing Figure)	9,59,750	By Cash (from summary cash and bank account)	8,97,150
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(ii) Bills Receivable Account

	₹		₹
To Balance b/d	15,000	By Sundry creditors A/c	
To Sundry Debtors A/c	40,000	(Bills endorsed)	10,000
(Bills accepted)		By Bank A/c (20,000 – 750)	19,250
		By Discount A/c	750
		(Bills discounted)	
		By Bank	
		Bills collected on maturity	16,000
		By Sundry debtors	
		Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

(iii) Sundry Creditors Account

	₹		₹
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase	
		(Balancing figure)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(iv) Bills Payable A/c

	₹		₹
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c	
		Bills accepted	24,000
	36,000		36,000

(v) Summary Cash and Bank A/c

	Cash	*Bank*		*Cash*	*Bank*
	₹	₹		₹	₹
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors			By Cash		1,21,000
(Bal. Fig)	8,97,150		By Shop exp. (600 x 12)	7,200	
To Cash		7,62,750	By Salary (9,200 x 12)	1,10,400	
To Bank	1,21,000		By Drawing A/c	16,800	
			(1,400 x 12)		
			By Bills Payable		22,000
To Sundry Debtors		5,700	By Sundry creditors	77,200	3,20,000
To Bills receivable		19,250	By Furniture	25,000	
To Bills receivable		16,000	By Sundry Debtors		5,700

To Capital (maturity value of LIC policy)		20,000	By Electricity & Tel. Charges	18,700	
To Capital (Rent received)		14,000	By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(vi) Statement of Affairs as on 31st March 20X1

Liabilities	**₹**	***Assets***	**₹**
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

Illustration 9

Ms. Rashmi furnishes you with the following information relating to her business:

(a) ***Assets and liabilities as on 1.4.20X1 31.03.20X2***

	₹	*₹*
Furniture (w.d.v)	*12,000*	*12,700*
Inventory at cost	*16,000*	*14,000*
Sundry Debtors	*32,000*	*?*
Sundry Creditors	*22,000*	*30,000*
Prepaid expenses	*1,200*	*1,400*
Unpaid expenses	*4,000*	*3,600*
Cash in hand and at bank	*2,400*	*1,250*

(b) *Receipts and payments during the year:*

Collections from debtors, after allowing discount of ₹ 3,000 amounted to ₹ 1,17,000.

Collections on discounting of bills of exchange, after deduction of discount of ₹ 250 by the bank, totaled to ₹ 12,250.

Creditors of ₹ 80,000 were paid ₹ 78,400 in full settlement of their dues.

Payment for freight inwards ₹ 6,000.

Amount withdrawn for personal use ₹ 14,000.

Payment for office furniture ₹ 2,000.

Investment carrying annual interest of 4% were purchased at ₹ 192 (face value ₹ 200) on 1st October, 20X1 and payment made thereof.

Expenses including salaries paid ₹ 29,000.

Miscellaneous receipts ₹ 1,000.

(c) *Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 20,000. Of these, bills of exchange of ₹ 4,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 800 was dishonoured.*

(d) *Goods costing ₹ 1,800 were used as advertising materials.*

(e) *Goods are invariably sold to show a gross profit of 33-1/3% on sales.*

(f) *Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi.*

(g) *Provide at 2.5% for doubtful debts on closing debtors.*

Rashmi asks you to prepare trading and profit and loss account for the year ended 31st March, 20X2 and the balance sheet as on that date.

Solution

Trading and Profit and Loss Account of Ms. Rashmi
for the year ended 31st March , 20X2

		₹		₹
To Opening Inventory		16,000	By Sales (W.N.3)	1,46,100
To Purchases (W.N.2)	91,200		By Closing inventory	14,000
Less : For advertising	(1,800)	89,400		
To Freight inwards		6,000		
To Gross profit c/d @ 33-1/3%		48,700		
		1,60,100		1,60,100

To Sundry expenses (W.N.6)		28,400	By Gross profit b/d	48,700
To Advertisement		1,800	By Interest on investment (200x 4/100 x ½)	4
To Discount allowed				
Debtors	3,000		By Discount received	1,600
Bills Receivable	250	3,250	By Miscellaneous income	1,000
To Depreciation on furniture (12,000 + 2,000 – 12,700)		1,300		
To Provision for doubtful debts		972		
To Net Profit (b.f.)		15,582		
		51,304		51,304

Balance Sheet as on 31st March, 20X2

Liabilities	***Amount***		***Assets***		***Amount***
	₹	₹		₹	₹
Capital as on 1.1.20X1 (W.N.1)	37,600		Furniture (w.d.v.) Additions during the	12,000	
Less: Drawings	(15,808)		Year	2,000	
	21,792		*Less:* Depreciation (b.f.)	(1,300)	12,700
Add: Net Profit	15,582	37,374	Investment		192
Sundry creditors		30,000	Interest accrued (200 x 4% x 6/12)		4
Outstanding expenses		3,600	Closing Inventory		14,000
			Sundry debtors	38,900	
			Less: Provision for doubtful debts @ 2.5%	972	37,928

			Bills receivable (W.N.7)		3,500
			Cash in hand and at bank		1,250
			Prepaid expenses		1,400
		70,974			70,974

Working Notes:

(1) Capital on 1st April, 20X1

Balance Sheet As On 1st April , 20X1

Liabilities	₹	***Assets***	₹
Capital (Bal. fig.)	37,600	Furniture (w.d.v.)	12,000
Creditors	22,000	Inventory at cost	16,000
Outstanding expenses	4,000	Sundry debtors	32,000
		Cash in hand and at bank	2,400
		Prepaid expenses	1,200
	63,600		63,600

(2) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	78,400	By Balance b/d	22,000
To Discount received A/c (80,000 – 78,400)	1,600	By Sundry debtors A/c	800
To Bills Receivable A/c	4,000	By Purchases A/c	91,200
To Balance c/d	30,000	(Balancing figure)	
	1,14,000		1,14,000

(3) Sales made during the year

		₹
Opening inventory		16,000
Purchases	91,200	

Less: For advertising	(1,800)	89,400
Freight inwards		6,000
		1,11,400
Less: Closing inventory		(14,000)
Cost of goods sold		97,400
Add: Gross profit (@ 50% on cost)		48,700
		1,46,100

(4) Debtors on 31st March , 20X2

Sundry Debtors Account

	₹		₹
To Balance b/d	32,000	By Cash and bank A/c	1,17,000
To Sales A/c (W.N.3)	1,46,100	By Discount allowed A/c	3,000
To Sundry creditors A/c		By Bills receivable A/c	20,000
(bill dishonoured)	800	By Balance c/d (Bal. fig.)	38,900
	1,78,900		1,78,900

(5) Additional drawings by Ms. Rashmi

Cash and Bank Account

	₹		₹
To Balance b/d	2,400	By Freight inwards A/c	6,000
To Sundry debtors A/c	1,17,000	By Furniture A/c	2,000
To Bills Receivable A/c	12,250	By Investment A/c	192
To Miscellaneous income A/c	1,000	By Expenses A/c	29,000
		By Creditors A/c	78,400
		By Drawings A/c [14,000 + 1,808 (b.f.) (Additional drawings)]	15,808
		By Balance c/d	1,250
	1,32,650		1,32,650

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.4.20X1)	1,200	By Outstanding expenses A/c (on 1.4.20X1)	4,000
To Bank A/c	29,000	By Profit and Loss A/c (Balancing figure)	28,400
To Outstanding expenses A/c (on 31.03.20X2)	3,600	By Prepaid expenses A/c	1,400
	33,800		33,800

(7) Bills Receivable on 31st March, 20X2

Bills Receivable Account

	₹		₹
To Debtors A/c	20,000	By Creditors A/c	4,000
		By Bank A/c	12,250
		By Discount on bills receivable A/c	250
		By Balance c/d (Balancing figure)	3,500
	20,000		20,000

SUMMARY

- Single entry system is generally found in sole trading concerns or even in partnership firms to some extent but never in case of limited liability companies on account of legal requirements.
- There are basically 3 types of single entry systems:
  - (i) Pure Single Entry
  - (ii) Simple Single Entry
  - (iii) Quasi Single Entry
- Single entry system ignores the concept of duality and therefore, transactions are not recorded in their two-fold aspects.

TEST YOUR KNOWLEDGE

MCQs

1. In case of net worth method, profit is determined by
   (a) Preparing a trading and profit and loss account.
   (b) Comparing the capital in the beginning with the capital at the end of the accounting period.
   (c) Comparing the net assets in the beginning with the net assets at the end of the accounting period.
2. Single entry system can be followed by
   (a) Small firms.
   (b) Joint stock companies.
   (c) Co-operative societies.
3. Closing capital is calculated as
   (a) Opening capital +Additional capital -Drawings.
   (b) Opening capital +Additional capital –Drawings + Profit.
   (c) Opening capital +Additional capital +Drawings - Profit.
4. Under single entry system, only personal accounts are kept and in some cases
   (a) Cash book is maintained
   (b) Fixed assets' accounts are maintained
   (c) Liabilities' accounts are maintained.
5. The closing capital of Mr. B as on 31.3.20X2 was ₹4,00,000. On 1.4.20X1 his capital was ₹ 3,50,000. His net profit for the year ended 31.3.20X2 was ₹ 1,00,000. He introduced ₹30,000 as additional capital in February, 20X2 Find out the amount drawn by Mr. B for his domestic expenses.
   (a) ₹1,00,000;
   (b) ₹80,000;
   (c) ₹1,20,000;

Theory Questions

1. What is meant by Single entry System? What are the types of procedures adopted for this system?

Practical Questions

Question1

A company sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.20X1 is ₹ 1,25,000. Assume that the sale is uniform throughout the year. Calculate the credit sales and total sales of the company for the year ended 31.03.20X2.

Question 2

The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 20X1:

Liabilities	**₹**	**Assets**	**₹**
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at bank	14,500
		Cash in hand	2,000
	1,21,500		1,21,500

You are furnished with the following information:

(1) Sri Srinivas sells his goods at a profit of 20% on sales.

(2) Goods are sold for cash and credit. Credit customers pay by cheques only.

(3) Payments for purchases are always made by cheques.

(4) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of ₹ 300 to the clerk, Sundry expenses of ₹ 50 and personal expenses ₹ 100.

Analysis of the Bank Pass–Book for the 13 weeks period ending 31st March, 20X2 disclosed the following:

	₹
Payments to creditors	75,000
Payments of rent up to 31.3.20X2	4,000

Amounts deposited into the bank	1,25,000
(include ₹ 30,000 received from debtors by cheques)	
The following are the balances on 31st March, 20X2:	₹
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March, 20X2 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 20X2 and a Balance Sheet as on that date.

Question 3

Mr. A runs a business of readymade garments. He closes the books of accounts on 31st March. The Balance Sheet as on 31st March, 20X1 was as follows:

Liabilities	₹	Assets	₹
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	38,000
	4,86,000		4,86,000

You are furnished with the following information:

(1) His sales, for the year ended 31st March, 20X2 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.

Total sales during the year 20X0-X1 were ₹ 5,00,000.

(2) Payments for all the purchases were made by cheques only.

(3) Goods were sold for cash and credit both. Credit customers pay be cheques only.

(4) Deprecation on furniture is to be charged 10% p.a.

(5) Mr. A sent to the bank the collection of the month at the last date of the each month after paying salary of ₹ 2,000 to the clerk, office expenses ₹ 1,200 and personal expenses ₹ 500.

Analysis of bank pass book for the year ending 31st March 20X2 disclosed the following:

	₹
Payment to creditors	3,00,000
Payment of rent up to 31st March, 20X2	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 20X2:

	₹
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 20X2, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 20X2 and Balance Sheet as on that date. All the workings should form part of the answer.

Question 4

Mr. Anil, a trader keeps his books of account under single entry system. On 31st March, 20X1 his statement of affairs stood as follows :

Liabilities	₹	**Assets**	₹
Trade Creditors	5,80,000	Furniture, Fixtures and Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account	2,50,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash in Hand and at Bank	80,000
	10,00,000		10,00,000

The following was the summary of Cash–book for the year ended 31st March, 20X2:

Receipts	₹	Payments	₹
Cash in Hand and at Bank on		Payments to Trade Creditors	75,07,000
1st April, 20X1	80,000	Payments for Bills payable	8,15,000
Cash Sales	73,80,000	Sundry Expenses paid	6,20,700
Receipts from Trade Debtors	15,10,000	Drawings	2,40,000
Receipts for Bills Receivable	3,40,000	Cash in Hand and at Bank	
		on 31st March, 20X2	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance premium of ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balance method.

You are also informed about the following balances as on 31st March, 20X2:

	₹
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trader maintains a steady gross profit ratio of 10% on sales.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 20X2 and Balance Sheet as at that date.

Question 5

The following is the Balance Sheet of a Tony Pharma as on 31st March, 20X1 :

	₹		₹
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000

Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		12,00,000

The management estimates the purchases and sales for the year ended 31st March, 20X2 as under:

	Up to 28.2.20X2	March 20X2
	₹	₹
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest ₹ 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March, 20X2 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. Assume that all sales and purchases are on credit basis.

Question 6

From the following information, prepare Trading and Profit & Loss Account for the year ended 31.03.20X2 and the Balance Sheet as at 31.03.20X2 of M/s Prasad & Co., a proprietorship firm.

Assets & Liabilities	As on 01.04.20X1	As on 31.03.20X2
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand & at bank	10,000	12,000
Debtors	?	18,000

Details of the year's transactions are as follows:

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Fixed Assets by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Cash in hand at 31.03.20X2	2,000
(15)	Payments to creditors by cheque	60,000

No assets were sold during the year.

ANSWERS/ SOLUTIONS

MCQs

1. (b) **2.** (a) **3.** (b) **4.** (a) **5.** (b)

Theoretical Questions

1. Single entry system is an inaccurate and unsystematic method of recording business transactions. The procedures adopted are: Pure single entry; Simple entry and Queasy single entry. For details, Refer Para 1 and 2 of the chapter.

Practical Questions

Answer 1

Calculation of Credit Sales and Total sales

$$\text{Credit Sales for the year ended 20X1-X2} = \text{Debtors} \times \frac{12 \text{ months}}{1.5 \text{ months}}$$

$$= ₹1,25,000 \times \frac{12 \text{ months}}{1.5 \text{ months}}$$

$$= ₹\ 10,00,000$$

Total sales for the year ended 20X1-X2 $= \text{Credit sales} \times \frac{100\%}{80\%}$

$$= ₹\ 10,00,000 \times \frac{100\%}{80\%}$$

$$= ₹\ 12,50,000$$

Answer 2

Statement showing the amount of cash defalcated by the Cashier

	₹	₹
Cash balance as on 1.1.20X2	2,000	
Add : Cash sales (W.N.2 and W.N.4)	1,16,250	1,18,250
Less : Salary to clerk (₹ 300 × 13)	3,900	
Sundry expenses (₹ 50 × 13)	650	
Drawings of Sri Srinivas (₹ 100 × 13)	1,300	
Deposit into bank (₹ 1,25,000 – ₹ 30,000)	95,000	(1,00,850)
Cash balance as on 31.3.20X2 (defalcated by cashier)		17,400

Trading and Profit and Loss Account of Sri Srinivas for the 13 week period ended 31st March, 20X2

	₹		₹	₹
To Opening stock	70,000	By Sales :		
To Purchases	91,000	Cash (W.N.2 and W.N.4)	1,16,250	
To Gross Profit c/d	30,250	Credit (W.N.3)	35,000	1,51,250
		By Closing stock		40,000
	191,250			1,91,250
To Salaries (300 x 13)	3,900	By Gross profit b/d		30,250
To Rent (₹ 4,000 – ₹ 1,000)	3,000			
To Sundry Expenses (50 x 13)	650			

To Loss of cash by theft	17,400			
To Net Profit (b.f.)	5,300			
	30,250			30,250

Balance Sheet of Sri Srinivas

as on 31st March, 20X2

Liabilities		₹	***Assets***	₹
Capital as on 1.1.20X2	1,00,000		Furniture	10,000
Add : Profit	5,300		Stock	40,000
	1,05,300		Debtors	30,000
Less : Drawings	(1,300)	1,04,000	Cash at bank	60,500
Liabilities for goods		36,500		
		1,40,500		1,40,500

Working Notes:

(1) ***Purchases***

Creditors Account

		₹		₹
To Bank A/c	75,000		By Balance b/d	20,500
To Balance c/d	36,500		By Purchases A/c (Bal. fig.)	91,000
	1,11,500			1,11,500

(2) ***Total sales***

	₹
Opening stock	70,000
Add : Purchases	91,000
	1,61,000
Less : Closing stock	(40,000)
Cost of goods sold	1,21,000
Add : Gross profit @ 25% on cost	30,250
Total Sales	1,51,250

(3) *Credit Sales*

Debtors Account

	₹		₹
To Balance b/d	25,000	By Bank A/c	30,000
To Sales A/c (Bal. fig.)	35,000	By Balance c/d	30,000
	60,000		60,000

(4) *Cash Sales*

	₹
Total sales	1,51,250
Less : Credit Sales	(35,000)
Cash sales	1,16,250

(5) Bank balance as on 31.3.20X2

	₹		₹
To Balance b/d	14,500	By Creditors A/c	75,000
To Debtors A/c	30,000	By Rent A/c	4,000
To Cash A/c (1,25,000 – 30,000)	95,000	By Balance c/d (b.f.)	60,500
	1,39,500		1,39,500

Notes:

1. All purchases are taken on credit basis.
2. In the absence of information about the rate of depreciation, no depreciation has been charged on furniture.
3. The amount defalcated by the cashier may be treated as recoverable from him. In that case, ₹ 17,400 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13 week period ending 31st March, 20X2 would amount ₹ 22,700.

Answer 3

In the books of Mr. A

Trading and Profit and Loss Account for the year ending 31st March 20X2

Particulars	**₹**	***Particulars***		**₹**
To Opening stock	2,80,000	By Sales (W.N. 3)		
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000	
To Gross profit (b.f.)	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			7,60,000
To Salary (2,000 x 12)	24,000	By Gross profit		1,16,000
To Rent	16,000			
To Office expenses (1,200 x 12)	14,400			
To Loss of cash (W.N. 6)	23,600			
To Depreciation on furniture	4,000			
To Net Profit (b.f.)	34,000			
	1,16,000			1,16,000

Balance Sheet as on 31st March, 20X2

Liabilities		**₹**	***Assets***		**₹**
A's Capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		*Less*: Depreciation	(4,000)	36,000
Less: Drawings (500 x 12)	(6,000)	4,32,000	Stock		1,60,000
Creditors		1,46,000	Debtors		1,20,000
			Cash at bank		2,62,000
		5,78,000			5,78,000

Working Notes:

(1) Calculation of purchases

Creditors Account

Particulars	₹	*Particulars*	₹
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases (Bal. fig.)	3,64,000
	4,46,000		4,46,000

(2) Calculation of total sales

	₹
Sales for the year 20X0-X1	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 20X1-X2	6,00,000

(3) Calculation of credit sales

	₹
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

(4) Calculation of cash collected from debtors

Debtors Account

Particulars	₹	*Particulars*	₹
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		5,80,000

(5) Calculation of closing balance of cash at bank

Bank Account

Particulars	₹	*Particulars*	₹
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000

To Cash A/c	80,000	By Balance c/d (b.f.)	2,62,000
	5,78,000		5,78,000

(6) Calculation of the amount of cash defalcated by the cashier

		₹
Cash balance as on 1st April 20X1		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (₹2,000x12)	24,000	
Office expenses (₹1,200 x 12)	14,400	
Drawings of A (₹500x12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 20X2 (defalcated by the cashier)		23,600

Answer 4

In the books of Mr. Anil
Trading and Profit and Loss Account
for the year ended 31st March, 20X2

		₹			₹
To	Opening Stock	6,10,000	By Sales		
To	Purchases (W.N. 3)	84,10,000	Cash	73,80,000	
To	Gross profit c/d (10% of 93,00,000)	9,30,000	Credit (W.N. 2)	19,20,000	93,00,000
			By Closing stock		6,50,000
		99,50,000			99,50,000
To	Sundry expenses (W.N. 6)	5,80,700	By Gross profit b/d		9,30,000
To	Discount allowed	36,000	By Discount received		28,000
To	Depreciation (15% ₹ 1,00,000)	15,000			
To	Net Profit (b.f.)	3,26,300			
		9,58,000			9,58,000

Balance Sheet as at 31st March, 20X2

Liabilities		***Amount*** ₹	***Assets***		***Amount*** ₹
Capital			Furniture & Fittings	1,00,000	
Opening balance	2,50,000		*Less* : Dep.	(15,000)	85,000
Less: Drawing	(2,40,000)		Stock		6,50,000
	10,000		Trade Debtors		1,52,000
Add: Net profit for the years	3,26,300	3,36,300	Bills receivable		75,000
Bills payable		1,40,000	Unexpired insurance		2,000
Trade creditors		6,10,000	Cash in hand & at bank		1,27,300
Outstanding expenses		5,000			
		10,91,300			10,91,300

Working Notes:

1. Bills Receivable Account

	₹		₹
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors (b.f.)	3,70,000	By Trade creditors (Bills endorsed)	15,000
		By Balance c/d	75,000
	4,30,000		4,30,000

2. Trade Debtors Account

	₹		₹
To Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales (Bal. fig.)	19,20,000	By Discount allowed	36,000
		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		20,68,000

3. Memorandum Trading Account

	₹		₹
To Opening stock	6,10,000	By Sales	93,00,000
To Purchases (Balancing figure)	84,10,000	By Closing stock	6,50,000
To Gross Profit (10% on sales)	9,30,000		
	99,50,000		99,50,000

4. Bills Payable Account

	₹		₹
To Cash/Bank	8,15,000	By Balance b/d	1,25,000
To Balance c/d	1,40,000	By Creditors (balancing figure)	8,30,000
	9,55,000		9,55,000

5. Trade Creditors Account

	₹		₹
To Cash/Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases (as calculated in W.N. 3)	84,10,000
To Bills receivable	15,000		
To Bills payable	8,30,000		
To Balance c/d (balancing figure)	6,10,000		
	89,90,000		89,90,000

6. Computation of sundry expenses to be charged to Profit & Loss A/c

	₹
Sundry expenses paid (as per cash book)	6,20,700
Add : Prepaid expenses as on 31–3–20X1	2,000
	6,22,700
Less: Outstanding expenses as on 31–3–20X1	(45,000)
	5,77,700

Add : Outstanding expenses as on 31–3–20X2	5,000
	5,82,700
Less : Prepaid expenses as on 31–3–20X2 (Insurance paid till July, 20X2) (6,000 x 4/12)	(2,000)
	5,80,700

Answer 5

In the books of Tony Pharma
Projected Balance Sheet
as on 31st March, 20X2

	₹		₹
Capital	10,00,000	Fixed Assets 4,00,000	
Profit & Loss Account		Additions 1,00,000	
as on 1st April, 20X1 60,000		5,00,000	
Add: Profit for the year		*Less:* Dep.	
3,74,000	4,34,000	@ 10% (50,000)	4,50,000
Creditors (Trade)	1,10,000	Stock in trade	3,36,000
		Sundry Debtors	2,00,000
		Cash & Bank Balances (working note)	5,58,000
	15,44,000		15,44,000

Working Notes:

1. Projected Trading and Profit and Loss Account for the year ended 31st March, 20X2

	₹		₹
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (balancing figure)	3,36,000
To Gross Profit c/d (30% on sales)	6,36,000		
	24,56,000		24,56,000

To Sundry Expenses (10% on sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To Net Profit (b.f.)	3,74,000		
	6,36,000		6,36,000

Cash and Bank Account
1st April, 20X1 to 31st March, 20X2

		₹		₹
To	Balance b/d	3,50,000	By Sundry Creditors	15,50,000
To	Sundry Debtors	20,70,000	(₹ 1,40,000+₹ 14,10,000)	
	(₹ 1,50,000+₹ 19,20,000)		By Expenses	2,12,000
			By Fixed Assets	1,00,000
			By Balance c/d (b.f.)	5,58,000
		24,20,000		24,20,000

Answer 6

In the books of M/s Prasad & Co.

Trading and Profit and Loss Account

for the year ended 31st March, 20X2

		₹	₹			₹	₹
To	Opening stock		10,000	By	Sales:		
To	Purchases:				Cash	500	
	Cash	1,000			Credit	71,500	
	Credit (W.N. 3)	56,100			*Less:* Returns	(1,450)	70,550
		57,100		By	Closing stock		12,000
	Less: Returns	(400)	56,700				
To	Gross Profit c/d		15,850				
			82,550				82,550
To	Discount allowed		4,000	By	Gross profit b/d		15,850
To	Bad debts		500	By	Discount received		700

To	General expenses (W.N. 5)	9,200	By	Net Loss (balancing fig.)		150
To	Depreciation (W.N. 4)	3,000				
		16,700				16,700

Balance Sheet as at 31st March, 20X2

Liabilities		₹	***Assets***		₹
Capital (W.N. 1)	39,850		Fixed Assets	12,000	
Less: Net loss	150		*Add:* New asset	4,000	
	39,700			16,000	
Less: Drawings	(500)	39,200	*Less:* Dep.	(3,000)	13,000
Sundry creditors		15,000	Stock in trade		12,000
Expenses outstanding		800	Sundry debtors (W.N. 2)		18,000
			Cash in hand		2,000
			Cash in Bank		10,000
		55,000			55,000

Working Notes:

(1) Ascertainment of Opening Capital - Statement of Affairs as at 1.4.20X1

Liabilities	₹	***Assets***	₹
Sundry creditors	20,000	Fixed Assets	12,000
Outstanding expenses	600	Stock	10,000
Prasad's Capital		Debtors	28,450
(Balancing figure)	39,850	Cash in hand	7,500
		Cash at Bank	2,500
	60,450		60,450

(2) Sundry Debtors Account

		₹			₹
To	Balance b/d (bal. fig)	28,450	By	Cash	76,000
To	Sales (72,000 – 500)	71,500	By	Discount	4,000

		By	Returns (sales)	1,450
		By	Bad debts	500
		By	Balance c/d (given)	18,000
	99,950			99,950

(3) Sundry Creditors Account

		₹			₹
To	Bank – Payments	60,000	By	Balance b/d	20,000
To	Discount	700	By	Purchases - credit	56,100
To	Returns	400		(Balancing figure)	
To	Balance c/d (closing balance)	15,000			
		76,100			76,100

(4) Depreciation on Fixed Assets

	₹
Opening balance of fixed assets	12,000
Add: Additions	4,000
	16,000
Less: Closing balance of fixed assets	(13,000)
Depreciation	3,000

(5) Expenses to be shown in profit and loss account

Expenses (in cash)	9,000
Add: Outstanding of 20X2	800
	9,800
Less: Outstanding of 20X1	600
	9,200

(6) **Cash and Bank Account**

	Cash	***Bank***		***Cash***	***Bank***
	₹	**₹**		**₹**	**₹**
To Balance b/d	7,500	2,500	By Purchases	1,000	–
To Debtors	-	76,000	By Expenses	9,000	
To Bank (C)	9,000	-	By Fixed Asset		4,000
To Cash (C)	-	5,000	By Drawings		500
To Sales (balancing figure considered as cash sales)	500	-	By Creditors		60,000
			By Cash (C)		9,000
			By Bank (C)	5,000	
			By Balance c/d	2,000	10,000
	17,000	83,500		17,000	83,500