

CBSE CLASS 11 ACCOUNTANCY

FINANCIAL ACCOUNTING-2

REVISION NOTES

CHAPTER-11

ACCOUNTS FROM INCOMPLETE RECORDS

➤ **Meaning of Incomplete Records**

Accounting records, which are not strictly kept according to double entry system are known as incomplete records

• **Features of Incomplete Records**

- 1) It is an unsystematic method of recording transactions.
- 2) Generally, records for cash transactions and personal accounts are properly maintained and there is no information regarding revenue and/ or gains, expenses and/or losses, assets and liabilities.
- 3) Personal transactions of owners may also be recorded in the cash book.
- 4) Different organisations maintain records according to their convenience and needs, and their accounts are not comparable due to lack of uniformity
- 5) To ascertain profit or loss or for obtaining any other information, necessary figures can be collected only from the original vouchers such as sales invoice or purchase invoice, etc. Thus, dependence on original vouchers is inevitable.
- 6) The profit or loss for the year cannot be ascertained under this system with high degree of accuracy as only an estimate of the profit earned or loss incurred can be made. The balance sheet also may not reflect the complete and true position of assets and liabilities.

• **Reasons of Incompleteness and Its Limitations**

It is observed, that many businessmen keep incomplete records because of the following reasons:

- 1) This system can be adopted by people who do not have the proper knowledge of accounting principles
- 2) It is an inexpensive mode of maintaining records. Cost involved is low as specialised accountants are not appointed by the organisations
- 3) Time consumed in maintaining records is less as only a few books are maintained
- 4) It is a convenient mode of maintaining records as the owner may record only important transactions according to the need of the business.

The limitations of incomplete records are as follows:

- 1) As double entry system is not followed, a trial balance cannot be prepared and accuracy of accounts cannot be ensured.
- 2) Correct ascertainment and evaluation of financial result of business operations cannot be made.
- 3) Analysis of profitability, liquidity and solvency of the business cannot be done. This may cause a problem in raising funds from outsiders and planning future business activities.
- 4) The owners face great difficulty in filing an insurance claim with an insurance company in case of loss of inventory by fire or theft.
- 5) It becomes difficult to convince the income tax authorities about the reliability of the computed income.

➤ **Statement of Affairs**

Statement of asset and liabilities as at the beginning and at the end of the relevant accounting period are prepared to ascertain the amount of change in the capital during the period. Such a statement is known as statement of affairs, shows assets on one side and the liabilities on the other just as in case of a balance sheet.

Statement of Affairs as at —

Liabilities	Amount Rs.	Assets	Amount Rs.
Bills payable		Land and Building	
Creditors		Machinery	

Outstanding expenses		Furniture	
Capital (balancing figure)		Stock	
		Debtors	
		Cash and Bank	
		Prepaid expenses	
		Capital (balancing figure)	
	XXXX		XXXX

➤ **Difference between Statement of Affairs and Balance Sheet**

Basis of difference	Statement of affairs	Balance sheet
1) Reliability	It is less reliable as it is prepared from incomplete records.	It is more reliable as it is prepared from double entry records.
2) Objective	The objective of preparing statement of affairs is to estimate the balance in capital account on a particular date	The objective of preparing balance sheet is to show the true financial position of an entity on a particular date.
3) Omission	Omission of assets or liabilities cannot be discovered easily.	Omissions of assets or liabilities can be discovered easily and can be traced from accounting records.

➤ **Statement of profit and loss**

Once the amount of capital, both at the beginning and at the end is computed with the help of statement of affairs, a statement of profit and loss is prepared to ascertain the exact amount of profit or loss made during the year.

Statement of Profit or Loss for the year ended

Particulars	Amount Rs.
Capital as at the end of year (computed from statement of affairs as at the end of year)	
<i>Add</i> Drawings during the year	
<i>Less</i> Additional capital introduced during the year	
Adjusted capital at the end of year	XXXX
Less Capital as at the beginning of year (computed from statement of affairs as at the beginning of year)	
Profit or Loss made during the year	XXXX

➤ **Preparing Trading and Profit and Loss Account and the Balance Sheet**

To prepare proper trading and profit and loss account and the balance sheet one needs complete information regarding expenses, incomes, assets and liabilities. In case of incomplete records, details of some items like creditors, cash purchases, debtors, cash sales, other cash payments and such receipts are easily available, but there are a number of items the details of which will have to be ascertained in an indirect manner by using the logic of double entry. The most common items that are missing and have to be worked out as such are:

- 1) Opening capital
- 2) Credit purchases
- 3) Credit sales
- 4) Bills payable accepted
- 5) Bills receivable received
- 6) Payments to creditors
- 7) Payments to debtors
- 8) Any other cash/bank related items

➤ **Ascertaining Credit Purchases**

The credit purchases figure is not usually available from the incomplete records. It is quite possible that some other information related to creditors may also be missing.

Therefore, by preparing the total creditors account, credit purchases or any other missing figure related to creditors, as the case may be, can be ascertained as the balancing figure.

➤ **Ascertainment of Credit Sales**

The figure of credit sales is also not usually available from incomplete records. Some other information on related to debtors may also be missing. Therefore, if the total debtors account is prepared, credit sales or any other missing figure, as the case may be, can be traced out as the balancing figure.

➤ **Ascertainment of Bills Receivable and Bills payable**

Quite often, while all details relating to bills receivable and bills payable are available but the figures of the bills received and bills accepted during the year are not given. In such a situation, total bills receivable account and total bills payable account can be prepared and the missing figures ascertained as the balancing figures.

➤ **Ascertainment of Missing Information through Summary of Cash**

Sometimes, the amount paid to creditors or the amount received from debtors or the opening or closing cash or bank balance may be missing. To ascertain any missing item of receipt or payment, we may prepare a cash book summary showing all receipts and payments during the year and the balancing figure is taken as the amount of missing item.

Illustration: Mrs. Surabhi started business on April 01, 2016 with cash of Rs. 50,000, furniture of Rs. 10,000, goods of 2,000 and machinery worth 20,000. During the year she further introduced Rs. 20,000 in her business by opening a bank account. From the following information extracted from her books, you are required to prepare final accounts for the ended March 31, 2017.

Particulars	Amount Rs.
Receipt from debtors	57,500
Cash sales	45,000
Cash purchases	25,000
Wages paid	5,000
Salaries to staff	17,500
Trade expanses	6,500
Electricity bill of factory	7,500
Drawings of Surabhi	3,000
Cash paid to creditors	42,000
Discount allowed	1,200
Discount received	3,000
Bad debts written-off	1,300
Cash balance at end of year	20,000

Mrs. Surabhi used goods worth 2,500 for private purposes, which is not recorded in the books. Charge depreciation on furniture 10% and machinery 20% p.a. on March 31, 2017 her debtors were worth 70,000 and creditors Rs. 35,000, stock in trade was valued on that date at Rs. 25,000.

Solution:

Books of Mrs. Surabhi

**Trading and Profit and Loss Account
for the year ended March 31, 2017**

Dr.

Cr.

Expenses/Losses	Amount Rs.	Revenues/Gains	Amount Rs.
Opening stock	20,000	Sales	45,000
Purchases:		Credit	<u>1,30,000</u>
Cash	25,000	Closing stock	25,000
Credit	80,000		
	1,05,000		
Less Goods used for (2,500) private use	1,02,500		
Wages	5,000		
Electricity bill of factory	7,500		
Gross profit c/d	65,000		
	2,00,000		2,00,000
Salaries	17,500	Gross profit b/d	65,000
Trade expenses	6,500	Discount received	3,000
Discount allowed	1,200		
Bad debts	1,300		
Depreciation:			
Furniture	(1,000)		
Machinery	(4,000)		
Net profit (transferred to capital account)	36,500		
	68,000		68,000

Balance Sheet of Mrs. Surabhi as at March 31, 2017

Liabilities	Amount Rs.	Assets	Amount Rs.
Creditors	35,000	Cash	20,000

Capital	1,00,000		Bank	13,000
Add Net profit	36,500		Stock	25,000
	1,36,000		Debtors	70,000
Add Additional capital	20,000		Furniture	10,000
	1,56,500		Less Depreciation	(1,000)
Less Drawings			Machinery	20,000
Cash	36,000		Less Depreciation	(4,000)
Goods	2,500	(38,500)		16,000
		1,18,000		
		1,53,000		1,53,000

Working Notes:

Total Debtors Account

Dr.

Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
	Balance b/d		NIL		Cash		57,500
	Sales (credit)		1,30,000		Discount allowed		1,200
	(balancing figure)				Bad debts		1,300
					Balance c/d		70,000
			1,30,000				1,30,000

Total Creditors Account

Dr.

Cr.

Date	Particulars	JF	Amount Rs.	Date	Particulars	JF	Amount Rs.
	Cash		42,000		Balance b/d		NIL
	Discount received		3,000		Purchase credit		80,000
	Balance c/d		35,000		(balancing figure)		

			80,000				80,000
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Statement of Affair as on March 31, 2016

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital (balancing figure)	1,00,000	Cash	50,000
		Stock	20,000
		Furniture	10,000
		Machinery	20,000
	1,00,000		1,00,000

Summary of Cash

Dr.

Cr.

Receipt	Amount Rs.	Payments	Amount Rs.
Balance b/d	50,000	Purchases	25,000
Capital(bank)	20,000	Wages	5,000
Debtors	57,000	Salaries	17,500
Sales	45,000	Trade expenses	6,500
		Electric bill	7,500
		Drawings	36,000
		Creditors	42,000
		Balance c/d—cash	20,000
		Closing bank	13,000
		(balancing figure)	
	1,72,500		1,72,500