



ACCOUNTS FROM INCOMPLETE RECORDS



LEARNING OUTCOMES

After studying this Chapter, you would 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

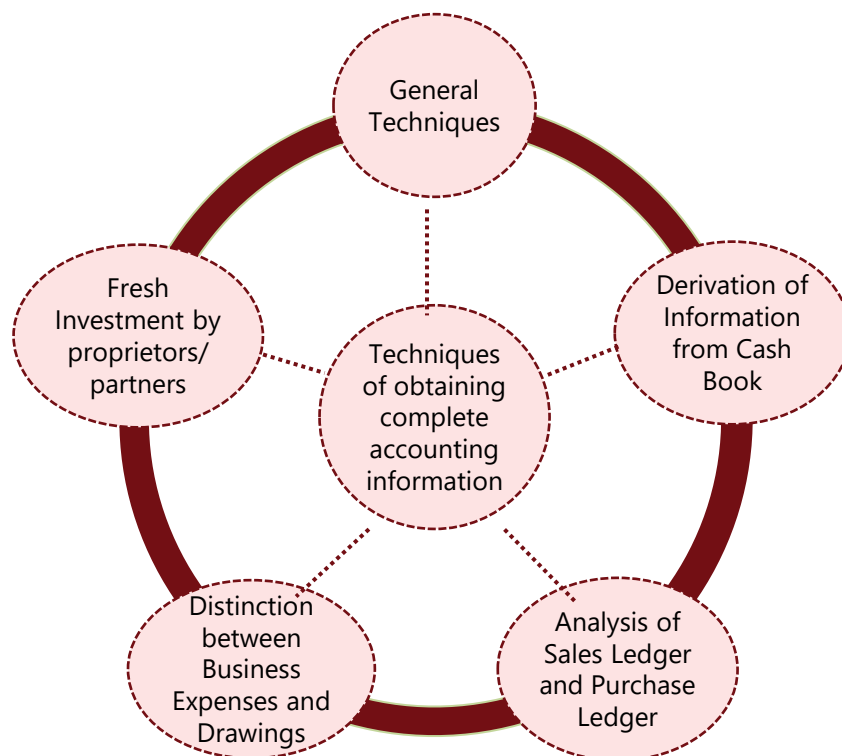
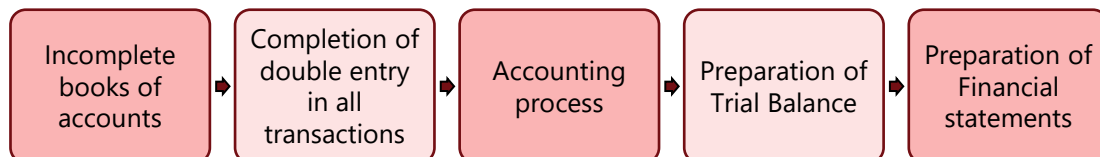
Understand of Single Entry System and its features

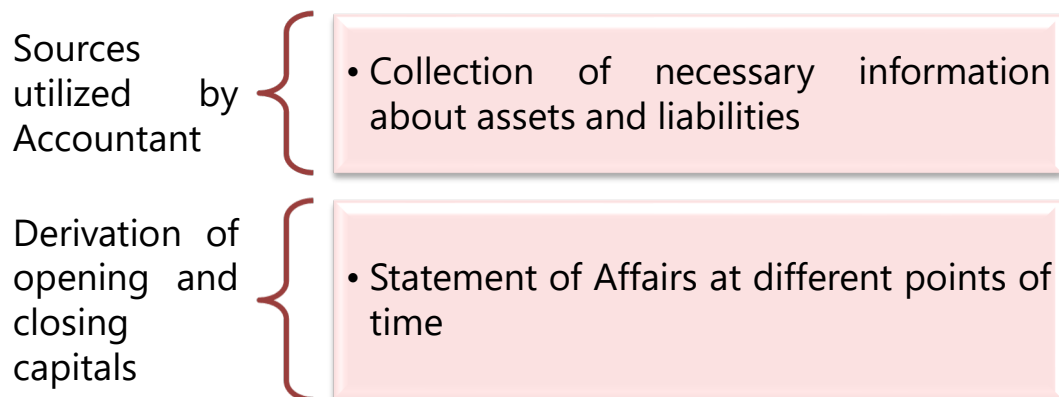
Types of Single entry system

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





1. INTRODUCTION

Very often small sole proprietorship and partnership businesses do not maintain double entry book keeping. There might be reasons like lack of knowledge of accounting, or the business is small and they do not wish to spend time or effort in maintaining the accounting records. As such, they might 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. Think of a grocery-vendor who sells vegetables on a street or runs a small shop. Is he expected to learn accounting formally? No, he is only looking at keeping a record of a few items including:

- What amount is he supposed to pay for items purchased on credit from his supplier?
- What cash has he collected by selling those vegetables?
- In case he runs a shop, how much amount has he paid for rent or electricity expenses?
- In case he sells some items on credit, how much is he supposed to receive from that customer?

There might be other reasons for incomplete records such as:

- Accounting records are destroyed by accident, such as fire;
- Some essential figure is unknown and must be calculated as a balancing figure (for example, due to inventory being damaged or destroyed).

Every person would like to know the profit generated by the business. What we expect to learn is how to use those records to arrive at the profit or loss earned by the business or understand the financial position of that business.

This chapter discusses how to complete the accounts from available incomplete records and addresses the problems faced in a single-entry system.

There is no such formal system as Single-Entry System as the accounts can only be prepared using Double Entry System. It might be appropriate to mention that a single-entry system is truly a system of incomplete or improper records.

The way “**Single Entry System**” operates is that for some transactions the book-keepers complete 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. The task of the accountant is to establish link among the available information and to finalize these accounts.

Normally, the businessmen keep a record of cash receipts and cash payments and personal accounts (receivables, payables, capital etc.) Also, information from bank statement (withdrawals, deposits) is easily available as well.

Features of Single Entry System

- 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 OF SINGLE ENTRY SYSTEM

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.

For example, M/s Small shop runs a retail shop. It keeps a register of amount receivable from people for items sold (bread, butter, milk etc). as under:

Mr. A – ₹ 300

Mr. B – ₹ 450

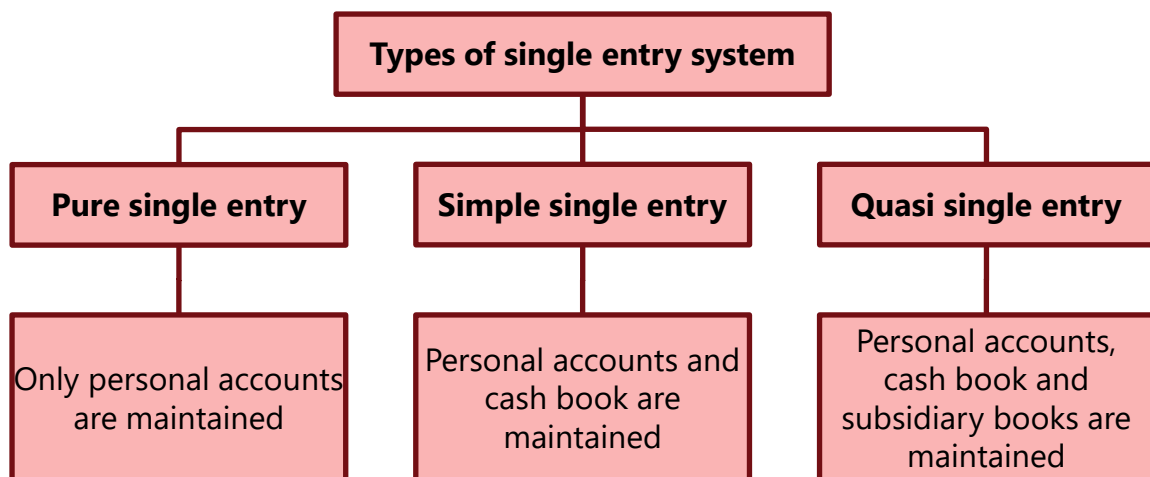
Mr. C – ₹ 260.

The business does not maintain a record of what item has been sold. It is only concerned about the amount receivable (personal account balance) from its customers.

- (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.

Some businesses may also maintain additional records like Bills book or Sales book. This might be required for tax or other purposes. For example, a shop selling t-shirts may want to issue a bill to each customer for the sales made to them. This will help them validate any returns of goods within reasonable time. In addition, they may keep a purchase book to record all purchases.

Also, organisations employing workers keep records of cash wages paid and take acceptance from the workers for the amount paid to them.





3. ASCERTAINMENT OF PROFIT BY CAPITAL COMPARISON

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

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)	XX
Add: Drawings	XX
Less: Fresh capital introduced	(XX)
Capital at the beginning (b)	<u>XX</u>
Profit (a-b)	<u>XX</u>

ILLUSTRATION 1

Raju does not maintain proper records of his business. However, he provides the following information:

	₹
Opening capital	10,000
Closing capital	12,500

<i>Drawings during the year</i>	3,000
<i>Capital added during the year</i>	3,750

You are required to calculate the profit or loss for the year.

SOLUTION

Computation of Profit or Loss during the year

	₹
Closing Capital	12,500
Add: Drawings during the year	<u>3,000</u>
	15,500
Less: Additional capital during the year	(3,750)
Less: opening capital	<u>(10,000)</u>
Net Profit for the year	<u>1,750</u>

ALTERNATIVELY

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

Particulars	₹	Particulars	₹
To drawings	3,000	By Balance b/d	10,000
To Balance c/d	12,500	By additional capital	3,750
		By Net Profit (Bal Fig)	1,750
	15,500		15,500

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 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.

ILLUSTRATION 2

Rakesh started his business on 1st of April 20X1. He invested a capital of Rs 1,00,000. On 31st March 20X2, he has the following information available as per the Single-entry system maintained by him.

	₹
Cash balance (counted)	3,200
Inventory (physically verified)	34,800
Receivable from Ajay against credit sales	31,000
Machine	85,000
Payable to Vinod towards credit purchase	12,000

Loan taken from Bank 10,000

Drawings made during the year 24,000

You are required to calculate the profit or loss earned by Rakesh for the year ended 31st March 20X2.

SOLUTION
Statement of Affairs as on 31st March, 20X2

Liabilities	Amount	Assets	Amount
Sundry Creditors	12,000	Cash balance	3,200
Loan from bank	10,000	Inventory	34,800
Capital (Bal fig)	1,32,000	Sundry Debtors	31,000
		Machine	85,000
	1,54,000		1,54,000

Statement of profit or loss for the year ended 31st March, 20X2

Capital as at 31st March 20X2	1,32,000
Add: Drawings made during the year	<u>24,000</u>
Total	1,56,000
Less: Opening Capital as at 1st April 20X1	<u>(1,00,000)</u>
Profit for the year ended 31st March 20X2	<u>56,000</u>

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	Capital is derived from the capital account in the ledger and therefore the total of

	being excess of assets over liabilities. Hence assets need not be equal to liabilities.	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 3

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		
<i>Building</i>	1,00,000	?
<i>Furniture</i>	50,000	?
<i>Inventory</i>	1,20,000	2,70,000
<i>Sundry debtors</i>	40,000	90,000
<i>Cash at bank</i>	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
Loans	1,00,000	80,000	Furniture	50,000	45,000
Sundry creditors	40,000	70,000	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
	3,81,200	5,90,700		3,81,200	5,90,700

ILLUSTRATION 4

Take figures given in Illustration 3. 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	₹
To drawings	24,000	By Balance b/d	2,41,200
To Balance c/d	4,40,700	By additional capital	40,000
		By Net Profit (Bal Fig)	1,83,500
	4,64,700		4,64,700

ILLUSTRATION 5

The Income Tax Officer, on assessing the income of Shri Moti for the financial years 20X1-20X2 and 20X2-20X3 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, 20X1 and 1st April, 20X3.

₹			
1-4-20X1	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
1-4-20X3	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 20X1-20X2 and ₹ 1,23,000 for 20X2-20X3 respectively.

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

SOLUTION
Calculation of Capital of Shri Moti

	₹	1-4-20X1₹	₹	1-4-20X3₹
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 1-4-20X3				5,65,000
Add: Drawings – Domestic Expenses for the two years (₹ 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-20X1				(3,13,000)
Income earned in 20X1-20X2 and 20X2-20X3				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 based on the information available



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 as drawings.

- (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 Debtors	-	10,000	By Sundry creditors	-	5,000
			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.)
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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

It 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.

ILLUSTRATION 6

Calculate the bad debts from the below information:

Opening balance of Debtors	₹ 5,00,000
Closing balance of Debtors	₹ 7,00,000
Amount received in Cash	₹ 6,00,000
Discount allowed	₹ 10,000
Credit Sales	₹ 11,40,000
Bills Receivable	₹ 3,00,000
Bad Debts	???

SOLUTION

Debtors Account

Particulars	Amount	Particulars	Amount
Balance b/f	5,00,000	Cash A/c	6,00,000
Credit Sales	11,40,000	Discount allowed	10,000
		Bills Receivable	3,00,000
		Bad Debts	30,000
		(Bal fig)	
		Balance c/f	7,00,000
	16,40,000		16,40,000

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	30,400
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	XXX
Closing balance of Creditors and Bills Payable	<u>XXX</u>
Total	XXX
Less: Opening balance of Creditors and Bills Payable	<u>XXX</u>
Net credit purchase during the period	<u>XXX</u>

Alternatively

Cash paid to creditors during the period	XXX
Add: Bills Payable issued to them	XXX
Closing balance of Creditors	XXX
Less: Opening balance of creditors	<u>XXX</u>
Credit Purchases during the period	<u>XXX</u>

ILLUSTRATION 7

Calculate the credit purchases from the below information:

Opening balance of creditors	₹ 4,00,000
Closing balance of creditors	₹ 5,00,000
Payments made in Cash	₹ 8,50,000
Discount received	₹ 20,000

SOLUTION**Total Creditors Account**

Particulars	Amount	Particulars	Amount
Cash paid	8,50,000	Balance b/d	4,00,000
Discount received	20,000	Credit Purchases (Bal. fig)	
Balance c/d	<u>5,00,000</u>		<u>9,70,000</u>
	<u>13,70,000</u>		<u>13,70,000</u>

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	12,300
To Discount (received)	1,130	(opening)	
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.

ILLUSTRATION 8

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	<u>500</u>
	<u>68,000</u>		<u>68,000</u>

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 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		
		<u>67,800</u>		<u>67,800</u>

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

	₹	₹		₹
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 on 1 st April, 20X1	29,100		Machinery	7,500	
Add: Fresh Capital	6,000		Less : Depreciation	(750)	6,750
Add: Profit for the year	2,830		Furniture	1,200	
	37,930		Less : Depreciation	(120)	1,080
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
Sundry creditors		7,900	Sundry debtors	17,600	
			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

		₹			₹
31.03.X2	To Drawings	3,600	01.04. X1	By Balance b/d	29,100
			31.03.X2	By Net Profit	2,830
31.03.X2	To Balance c/d (b.f.)	34,330	31.03.X2	By Cash	6,000
		37,930			37,930

Sales Account

		₹			₹
31.03.X2	To Trading A/c (b.f.)	62,100	31.03.X2	By Cash	11,000
			31.03.X2	By Total Debtors (Credit Sales)	51,100
		62,100			62,100

Total Debtors Account

		₹			₹
01.04.X1	To Balance b/d	14,500	31.03.X2	By Cash	48,000
31.03.X2	To Credit sales (Balancing figure)	51,100	31.03.X2	By Balance c/d	17,600
		65,600			65,600

Purchases Account

		₹			₹
31.03.X2	To Cash A/c	12,000	31.03.X2	By Trading Account (b.f.)	49,100
	To total Creditors A/c (credit Purchases)	37,100			
		49,100			49,100

Total Creditors Account

		₹			₹
31.03.X2	To Cash	35,000	01.04.X1	By Balance b/d	5,800
31.03.X2	To Balance b/d	7,900	31.03.X2	By Credit Purchases (Balancing figure)	37,100
		42,900			42,900

ILLUSTRATION 9

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

<i>Paid by cheque for machinery purchased</i>		430
<i>Household expenses drawn from Bank</i>		3,180
<i>Cash paid into Bank</i>		5,000
<i>Cash drawn from Bank</i>		9,240
<i>Cash in hand on 31-3-20X2</i>		1,200
<i>Cheques issued to trade creditors</i>		60,270

SOLUTION

In the books of Mr. Manoj

Trading Account for the year ending 31st March, 20X2

	₹	₹		₹	₹
To Opening Inventory		8,040	By Sales		
To Purchases	59,030		Cash	4,600	
(58,000 + 1,030)			Credit	67,210	
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

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

	₹		₹
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	₹
<i>Capital</i>			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 (bal. fig.)	16,530	By Bank	62,500
To Sales (71,810–4,600 ¹)	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

¹ From combined cash and bank account

(iii)

Total Creditors Account

	₹		₹
To Bank	60,270	By Balance b/d	15,770
To Discount	700	By Purchases (bal. fig.)	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 (bal. fig.)	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

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

ILLUSTRATION 10

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
<i>Sundry debtors</i>	70,000	92,000
<i>Bills receivable</i>	15,000	6,000
<i>Bills payable</i>	12,000	14,000
<i>Sundry creditors</i>	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 discounted ₹ 20,000, discount ₹ 750.
- (vi) Bills matured and duly collected ₹ 16,000.
- (vii) Paid suppliers by cheque ₹ 3,20,000.
- (viii) Received ₹ 20,000 on maturity of one LIC policy of the proprietor by cheque.
- (ix) Rent received ₹ 14,000 by cheque for the premises owned by proprietor.
- (x) A building was purchased on 30-11-20X1 for opening a branch for ₹ 3,50,000 via cheque and some expenses were incurred on this building, details of which are not maintained.
- (xi) 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.
- (vii) Bills accepted by customers ₹ 40,000.

(viii) Bills endorsed ₹ 10,000.

(ix) Bills accepted ₹ 24,000.

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 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

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

	₹		₹
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			
Maturity value from LIC	20,000	Furniture	25,000

Rent	14,000		Inventory	1,90,000
Add : Net Profit	2,57,700		Sundry debtors	92,000
	5,29,900		Bills receivable	6,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash at Bank	87,000
Rent outstanding		20,000	Cash in Hand	5,300
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 b/d	40,000
To Cash	77,200	By Credit purchase	
To Bill Payable A/c	24,000	(Balancing figure)	4,54,100
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance c/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 (Bal. Fig)	8,97,150		By Cash		1,21,000
To Cash		7,62,750	By Shop exp. (600 x 12)	7,200	
To Bank	1,21,000		By Salary (9,200 x 12)	1,10,400	
To Sundry Debtors		5,700	By Drawing A/c	16,800	
To Bills receivable		19,250	(1,400 x 12)		
To Bills receivable		16,000	By Bills Payable		22,000
To Capital (maturity value of LIC policy)		20,000	By Sundry creditors	77,200	3,20,000
To Capital (Rent received)		14,000	By Furniture	25,000	
			By Sundry Debtors		5,700
			By Electricity & Tel. Charges	18,700	
			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

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

True and False

1. *A Trial Balance cannot be drawn up from books kept under Single Entry.*
2. *Nominal Accounts are kept under Single Entry System.*
3. *Single Entry System can be adopted by small firms.*
4. *Profit under single entry system is always correct and accurate.*
5. *Profits computed under single entry system by different business entities are not comparable.*

Multiple Choice Questions

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.*
 - (d) *Comparing the cash balance at the beginning with the cash balance 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.*
 - (d) *Government departments.*
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.
- (d) 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.
- (d) Complete set of real and nominal accounts is 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;
- (d) ₹ 60,000
6. Given information:
- | | |
|---------------------------------------|--------|
| Opening capital: | 60,000 |
| Drawings: | 5,000 |
| Capital introduced during the period: | 10,000 |
| Closing capital: | 90,000 |
| Profit earned during the period | ? |
- (a) ₹ 20,000
- (b) ₹ 25,000
- (c) ₹ 30,000
- (d) ₹ 15,000

Theoretical Questions

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

2. Differentiate between Statement of Affairs and Balance Sheet.

Practical Questions

1. A Firm 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.
2. 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 20X0-20X1 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 by cheques only.
- (4) Depreciation 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 31 st 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.

3. Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained ₹ 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	As on 1.4.20X1	As on 31.3.20X2
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?
Ram's capital	3,00,000	?

Analysis of his bank pass book reveals the following information:

- Payment to creditors ₹ 7,00,000
- Payment for business expenses ₹ 1,20,000
- Receipts from debtors ₹ 7,50,000
- Loan ₹ 1,00,000 taken on 1.10.20X1 at 10% per annum
- Cash deposited in the bank ₹ 1,00,000

He informs you that he paid creditors for goods ₹ 20,000 in cash and salaries ₹ 40,000 in cash. He has drawn ₹ 80,000 in cash for personal expenses. During the year Ram had

not introduced any additional capital. Surplus cash if any, to be taken as cash sales. All purchases are on credit basis.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.3.20X2 and Balance Sheet as at 31st March, 20X2.

4. Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are required to prepare his final accounts for the year 20X2:

Particulars	1.1.20X2 ₹	31.12.20X2 ₹
Debtors	1,02,500	—
Creditors	—	46,000
Stock	50,000	62,500
Bank Balance	—	50,000
Fixed Assets	7,500	9,000

Details of his bank transactions were as follows:

	₹
Received from debtors	3,40,000
Additional capital brought in	5,000
Sale of fixed assets (book value ₹ 2,500)	1,750
Paid to creditors	2,80,000
Expenses paid	49,250
Personal drawings	25,000
Purchase of fixed assets	5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000

5. From the following particulars furnished by Mr. Wye, prepare his Trading and Profit & Loss Account for the year ended on 31st March, 20X2. Also prepare his Balance Sheet as on 31st March, 20X2:

	01.04.20X1 (₹)	31.03.20X2 (₹)
Creditors	6,30,800	4,96,000
Expenses Outstanding	24,000	13,200

<i>Fixed Assets (including machinery)</i>	<i>4,64,400</i>	<i>4,81,600</i>
<i>Stock in hand</i>	<i>3,21,600</i>	<i>4,44,800</i>
<i>Cash in hand</i>	<i>1,18,400</i>	<i>48,000</i>
<i>Cash at bank</i>	<i>1,60,000</i>	<i>2,75,200</i>
<i>Sundry Debtors</i>	<i>6,61,200</i>	<i>?</i>

Details of the year's transactions are as follows:

	(₹)
<i>Cash and discount credited to debtors</i>	<i>25,60,000</i>
<i>Returns from debtors</i>	<i>58,000</i>
<i>Bad debts</i>	<i>16,800</i>
<i>Gross Sales (Both cash and credit)</i>	<i>28,72,400</i>
<i>Discount allowed by creditors</i>	<i>28,000</i>
<i>Returns to creditors</i>	<i>16,000</i>
<i>Capital introduced by cheque</i>	<i>3,40,000</i>
<i>Collection from debtors deposited into bank after receiving cash</i>	<i>25,00,000</i>
<i>Cash purchases</i>	<i>41,200</i>
<i>Expenses paid by cash</i>	<i>3,82,800</i>
<i>Drawings by cheque</i>	<i>17,200</i>
<i>Machinery acquired by cheque</i>	<i>1,27,200</i>
<i>Cash deposited into bank</i>	<i>2,00,000</i>
<i>Cash withdrawn from bank</i>	<i>3,69,600</i>
<i>Cash sales</i>	<i>1,84,000</i>
<i>Payment to creditors by cheque</i>	<i>24,10,800</i>

Note: No Fixed Asset has been sold during the year

ANSWERS/ SOLUTIONS

True and False

1. True: Since incomplete records are maintained, trial balance cannot be prepared
2. False: Under the single entry system of bookkeeping, generally cash book and personal accounts of creditors and debtors are maintained, and no other ledger is maintained.

3. True: A single entry system is the one where financial transactions are recorded as a single entry in a log and is usually used by new small businesses.
4. False: Profit under single entry system is only an estimate based on available information and correct profits cannot be determined.
5. True: Since entry system has no fixed set of principles for recording the financial transaction, different organisations maintain records as per their needs. Hence their accounts are not comparable.

Multiple Choice Questions

1.	(b)	2.	(a)	3.	(b)	4.	(a)	5.	(b)	6.	(b)
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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.
2. To understand the difference between Statement of Affairs and Balance Sheet, refer para 3.2 of the chapter.

Practical Questions

1. Calculation of Credit Sales and Total sales

$$\begin{aligned}
 \text{Credit Sales for the year ended 20X1-20X2} &= \text{Debtors} \times \frac{12 \text{ months}}{1.5 \text{ months}} \\
 &= ₹1,25,000 \times \frac{12 \text{ months}}{1.5 \text{ months}} \\
 &= ₹ 10,00,000 \\
 \text{Total sales for the year ended 20X1-X2} &= \text{Credit sales} \times \frac{100\%}{80\%} \\
 &= ₹ 10,00,000 \times \frac{100\%}{80\%} = ₹ 12,50,000
 \end{aligned}$$

2. **In the books of Mr. A**

Trading 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 <u>1,20,000</u>	6,00,000
		By Closing stock	1,60,000
	7,60,000		7,60,000

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

Particulars	₹	Particulars	₹
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 <u>(4,000)</u>	36,000
Less: Drawings		Stock	1,60,000
(500 x 12) <u>(6,000)</u>	4,32,000	Debtors	1,20,000
Creditors	1,46,000	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 1 st 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 31 st March 20X2 (defalcated by the cashier)		23,600

3.

Trading Account of Ram
for the year ended 31st March, 20X2

	₹		₹
To Opening stock	2,80,000	By Sales	
To Purchases	7,70,000	Cash 2,40,000	
To Gross Profit @ 25%	3,10,000	Credit <u>10,00,000</u>	12,40,000
		By Closing Stock (bal. fig.)	1,20,000
	13,60,000		13,60,000

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

	₹		₹
To Salaries	40,000	By Gross Profit	3,10,000
To Business expenses	1,20,000		
To Interest on loan (10% of 1,00,000 x 6/12)	5,000		
To Net Profit	1,45,000		
	3,10,000		3,10,000

Balance Sheet of Ram as at 31st March, 20X2

Liabilities	₹	₹	Assets	₹
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	(80,000)	3,65,000		
Loan (including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

Working Notes:
1. Sundry Debtors Account

	₹		₹
To Balance b/d	1,00,000	By Bank A/c	7,50,000
To Credit sales (Bal. fig)	10,00,000	By Balance c/d	3,50,000
	11,00,000		11,00,000

2. Sundry Creditors Account

	₹		₹
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		8,10,000

3. Cash and Bank Account

	Cash ₹	Bank ₹		Cash ₹	Bank ₹
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

4. Trading and Profit and Loss Account
for the year ended 31st December, 20X2

	Amount		Amount
	₹		₹
To Opening stock	50,000	By Sales (₹ 2,60,000 × 125/ 100)	3,25,000
To Purchases (balancing figure)	2,72,500	By Closing stock	62,500
To Gross profit c/d			

(₹ 2,60,000 × 25/ 100)	<u>65,000</u>		
	<u>3,87,500</u>		<u>3,87,500</u>
To Expenses	49,250	By Gross profit b/d	65,000
To Loss on sale of fixed assets	750		
To Depreciation on fixed assets (W.N.1)	1,000		
To Net profit	<u>14,000</u>		
	<u>65,000</u>		<u>65,000</u>

Balance Sheet as on 31st December, 20X2

		Amount		Amount
<i>Liabilities</i>		₹	<i>Assets</i>	₹
Capital (W.N. 5)	1,69,000		Fixed assets	9,000
Add: Additional capital	5,000		Debtors (W.N. 3)	87,500
Net profit	<u>14,000</u>		Stock	62,500
	1,88,000		Bank balance	50,000
Less: Drawings	<u>(25,000)</u>	1,63,000		
Creditors		<u>46,000</u>		
		<u>2,09,000</u>		<u>2,09,000</u>

Working Notes:**1. Fixed assets Account**

	₹		₹
To Balance b/d	7,500	By Bank (sale)	1,750
To Bank	5,000	By Loss on sale of fixed asset (2,500-1,750)	750
		By Depreciation (balancing figure)	1,000
		By Balance c/d	<u>9,000</u>
	<u>12,500</u>		<u>12,500</u>

2. Bank Account

	₹		₹
To Balance b/d (balancing figure)	62,500	By Creditors	2,80,000
To Debtors	3,40,000	By Expenses	49,250

To Capital	5,000	By Drawings	25,000
To Sale of fixed assets	1,750	By Fixed assets	5,000
	_____	By Balance c/d	<u>50,000</u>
	<u>4,09,250</u>		<u>4,09,250</u>

3. Debtors account

	₹		₹
To Balance b/d	1,02,500	By Bank	3,40,000
To Sales	3,25,000	By Balance c/d	87,500
$\left(₹ 2,60,000 \times \frac{125}{100} \right)$		(balancing figure)	
	<u>4,27,500</u>		<u>4,27,500</u>

4. Creditors account

	₹		₹
To Bank	2,80,000	By Balance b/d (balancing figure)	53,500
To Balance c/d	46,000	By Purchases (from trading account)	2,72,500
	<u>3,26,000</u>		<u>3,26,000</u>

5. Balance Sheet as on 1st January, 20X2

Liabilities	₹	Assets	₹
Creditors (W.N. 4)	53,500	Fixed assets	7,500
Capital (balancing figure)	1,69,000	Debtors	1,02,500
		Stock	50,000
		Bank balance (W.N. 2)	62,500
	<u>2,22,500</u>		<u>2,22,500</u>

5. In the Books of Mr. Wye
Trading Account for the year ended 31st March, 20X2

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	3,21,600	By Sales (Gross)	28,72,400
To Purchases (Net) (WN 2)	23,45,200	By Less: Sales Returns	<u>(58,000)</u>
(41,200 + 23,20,000 - 16000)			28,14,400

To Gross Profit c/d (bal. fig)	5,92,400	By Closing Stock	4,44,800
	32,59,200		32,59,200

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

Particulars	Amount	Particulars	Amount
To Expenses (net of o/s adj.) (WN. 5)	3,72,000	By Gross Profit b/d	5,92,400
To Depreciation on Fixed Assets (WN. 4)	1,10,000	By Discount Received	28,000
To Bad Debts	16,800		
To Discount allowed to Debtors (WN 1)	60,000		
To Net Profit transferred to Capital A/c	<u>61,600</u>		
	<u>6,20,400</u>		<u>6,20,400</u>

Balance Sheet as at 31st March, 20X2

Particulars		Amount	Particulars	Amount
Wye's capital			Fixed assets (incl. machinery)	4,81,600
Opening (WN 3)	10,70,800		Stock-in-hand	4,44,800
Add: Net Profit	61,600		Sundry debtors (WN 1)	7,14,800
Capital introduced	3,40,000		Cash-in-hand	48,000
Less: Drawings	<u>(17,200)</u>		Cash at bank	2,75,200
Capital (closing)		14,55,200		
Creditors		4,96,000		
Expenses outstanding		13,200		
		<u>19,64,400</u>		<u>19,64,400</u>

Working Notes:**1. Sundry Debtors Account**

Particulars	₹	Particulars	₹
To Balance b/d	6,61,200	By Cash A/c	25,00,000
To Sales A/c	26,88,400	By Discount Allowed A/c (₹ 25,60,000 - 25,00,000)	60,000
(₹ 28,72,400 - ₹ 1,84,000)		By Bad Debts A/c	16,800
		By Return Inwards A/c	58,000
		By Balance c/d (Bal. fig)	7,14,800
	<u>33,49,600</u>		<u>33,49,600</u>

2. Sundry Creditors Account (Calculation of Purchases on Credit)

Particulars	₹	Particulars	₹
To Bank A/c	24,10,800	By Balance b/d	6,30,800
To Discount Recd. A/c	28,000	By Purchases A/c (Bal fig)	23,20,000
To Returns to Creditors A/c	16,000		
To Balance c/d	4,96,000		
	29,50,800		29,50,800

3. Balance Sheet as on 1st April, 20X1

Liabilities	Amount (₹)	Assets	Amount (₹)
Opening Capital (bal. fig)	10,70,800	Fixed assets (incl. machinery)	4,64,400
Creditors	6,30,800	Stock in hand	3,21,600
Expenses outstanding	24,000	Sundry debtors	6,61,200
		Cash in hand	1,18,400
		Cash at bank	1,60,000
	17,25,600		17,25,600

4. Fixed Assets A/c

Particulars	₹	Particulars	₹
To Balance b/d	4,64,400	By Depreciation A/c (Bal fig)	1,10,000
To Bank A/c	1,27,200	By Balance c/d	4,81,600
	5,91,600		5,91,600

5. Expenses Payable A/c

Particulars	₹	Particulars	₹
To Bank A/c	3,82,800	To Balance b/d	24,000
To Balance c/d	13,200	By Profit & Loss A/c (Bal Fig)	3,72,000
	3,96,000		3,96,000

Case Scenarios for Practice

1. Rohan runs a small mobile shop in Noida, selling smartphones, chargers, earphones, and mobile covers. He does not maintain double-entry books of account; instead, he keeps only a cash book and personal accounts of customers and suppliers.

On 1 April 20X1, the capital invested in the business was ₹1,20,000. During the year, Rohan withdrew ₹18,000 to pay for his younger brother's coaching classes. In December 20X1, he introduced an additional ₹12,000 from his personal savings to purchase extra mobile accessories for the New Year sale.

At the end of the year, on 31 March 20X2, an accountant prepared a Statement of Affairs based on the available records. This statement showed that Rohan's closing capital amounted to ₹1,58,000. As no Trading Account or Profit and Loss Account had been prepared, Rohan now wishes to ascertain the actual profit earned by his mobile shop during the year.

Multiple Choice Questions

- 1.1 What is Rohan's profit for the year ended 31 March 20X2?
- (a) ₹26,000
 - (b) ₹38,000
 - (c) ₹44,000
 - (d) ₹56,000
- 1.2 If Rohan had not introduced the additional capital of ₹12,000, what would the closing capital have been (assuming profit remains the same)?
- (a) ₹1,46,000
 - (b) ₹1,58,000
 - (c) ₹1,70,000
 - (d) ₹1,52,000
- 1.3 Which of the following best explains why drawings are added back while calculating profit under the Statement of Affairs method?
- (a) Drawings represent sales made on credit
 - (b) Drawings increase assets of the business
 - (c) Drawings reduce business capital but are not business expenses
 - (d) Drawings are treated as liabilities in the Statement of Affairs

Answer to Multiple Choice Questions

Question No	Correct Option	Reasoning
1.1	(c)	Profit = Closing Capital + Drawings - Additional Capital Introduced - Opening Capital = 1,58,000 + 18,000 - 12,000 - 1,20,000 = ₹44,000
1.2	(a)	Closing capital includes fresh capital introduced. If ₹12,000 had not been introduced: Closing Capital without introduction = 1,58,000 - 12,000 = ₹1,46,000
1.3	(c)	Drawings are amounts withdrawn by the owner for personal use. They reduce the closing capital, but they are not expenses of the business. Therefore, drawings are added back to determine the true profit earned during the year.

2. Meera owns a boutique in Ghaziabad. She does not maintain complete double-entry books of account and keeps only limited records. To know her financial results for the year, a Statement of Affairs is prepared.

On 31 March 20X2, the business had the following assets: Inventory (stock) ₹45,000, Debtors ₹28,000, Cash ₹7,000, and Furniture ₹20,000. The liabilities on that date were: Creditors ₹16,000 and a Bank Loan ₹10,000.

On 1 April 20X1, Meera's opening capital was ₹52,000. During the year, she withdrew ₹9,000 for personal use and did not introduce any additional capital.

Multiple Choice Questions

- 2.1 What is the closing capital as per Statement of Affairs?

- (a) ₹74,000
- (b) ₹81,000
- (c) ₹90,000
- (d) ₹68,000

- 2.2 What is the total value of assets?

- (a) ₹90,000
- (b) ₹96,000

(c) ₹1,00,000

(d) ₹1,10,000

2.3 What is the profit earned during the year?

(a) ₹13,000

(b) ₹22,000

(c) ₹31,000

(d) ₹41,000

2.4 If Meera had introduced ₹5,000 as fresh capital, the profit would be

(a) ₹31,000

(b) ₹26,000

(c) ₹36,000

(d) ₹21,000

Answer to Multiple Choice Questions

Question No	Correct Option	Reasoning
2.1	(a)	Closing Capital = Total assets (1,00,000) – Total liabilities (26,000) = ₹74,000.
2.2	(c)	$45,000 + 28,000 + 7,000 + 20,000 = ₹1,00,000$.
2.3	(c)	$\text{Profit} = 74,000 + 9,000 - 52,000 = ₹31,000$.
2.4	(b)	$\text{Profit} = 74,000 + 9,000 - 5,000 - 52,000 = ₹26,000$.