

Accounts from Incomplete Records: Single Entry System

Introduction and Distinction with Double Entry System

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning and Characteristics of Incomplete Records (Single Entry System)
- Benefits of Incomplete Records
- Drawbacks of Incomplete Records
- Difference between Double Entry and Incomplete Records

Introduction to Single Entry System

Till now, whatever we have studied whether it is Cash Book, BRS or it is Trial Balance, Final Accounts and NPO; all were based on a common accounting system. It was the Double Entry System of Accounting. But, let us think in this way- "Is it always necessary that every organisation will follow Double Entry System to maintain their records?" Well, the answer is no!! Infact, there are some business owners such as small traders, merchants, grocers, who do not maintain their accounts as per the Double Entry System. In this chapter of Accounts from Incomplete Records, we will be tackling how these small business owners maintain their books of accounts on the basis of Single Entry System.

Meaning of Single Entry System (or Incomplete Records)

As stated in the above section, we know that the Books of accounts can be maintained by Single Entry System. In this accounting system, the rule of debit and credit are not strictly followed. Unlike the Double Entry System, where we used to record the dual aspect of every transaction (i.e. every transaction affects two accounts simultaneously), here in this system, we record only the single aspect of a transaction. This is the reason, why Single Entry System is commonly termed as *Accounts from Incomplete Records or Defective Double Entry System*.

Under the Single Entry System, we maintain only the Cash and Personal Accounts. On the other hand, Real and Nominal Accounts are completely ignored. In other words, we can say that following the Single Entry System, we do not prepare Subsidiary Books (such as Purchase Day Book, Sales Day Book, Purchases Return and Sales Return Book) and Ledger Accounts. Often accountants regard Single Entry System as an unscientific way of maintaining records, as the practice that is followed in this system is unsystematic and unorganised.

Who maintains Accounts as per Single Entry System and Why?

Single Entry System is mostly preferred by the small business owners, traders and merchants. The reason behind opting for this system is lack of funds to hire an accountant, who can maintain their books of accounts. These small traders often have improper knowledge of accounting and maintain their accounts just to serve their own purpose. They prepare accounts as per their needs mainly to ascertain profit or loss at the end of an accounting year.

Characteristics of Incomplete Records

The following are the various characteristics of Incomplete Records.

- 1. *Unsystematic or Unscientific System-*** This is an unsystematic or unscientific method of maintaining the accounting records which leads to the volatile and inconsistent results.
- 2. *Ignorance of Double entry System-*** This system does not follow the Double Entry System for recording transactions in the books.
- 3. *Preparation of Personal Accounts-*** In this system, only Personal Accounts such as Debtors and Creditors Account are prepared. The Real and Nominal Accounts except Cash Book are ignored under this system.
- 4. *Adoption-*** Generally, this system is adopted by the Sole Proprietor and Partnership Firms who are comparatively small-sized as compared to the big companies, where the number of transactions is huge.
- 5. *Absence of Uniformity-*** The Books of accounts maintained under Single Entry System are not uniform because no set of universal rules are followed. The rules of maintaining Books of account may vary from person to person depending on their needs and desires.
- 6. *Maintenance of Cash Book -*** The Cash Book maintained under this system records both business as well as personal transactions of traders.
- 7. *Profit is not Accurate-*** The profit ascertained under this system is just an estimate and not accurate.
- 8. *Difficulty in Preparation of Final Accounts-*** As only personal accounts are maintained while completely ignoring the real and the nominal accounts, so, it results in difficulty in preparing final accounts.

Advantages of Incomplete Records

The given below are some of the advantages of Incomplete Records.

1. **Easy to Maintain-** This method of recording transactions in the books is simple. This is because no expert knowledge of Accounting is required to maintain books.
2. **Economical-** This system is less expensive in comparison of Double Entry System as there is no need to hire a specialised accountant for maintaining Accounting records.
3. **Small Business-** This system is suitable to the small business organisations that do not enter into large number of transactions.
4. **Less Time Consuming-** It is less time consuming as only fewer books are to be maintained.
5. **Flexible-** As the rules of Double Entry System are not strictly followed for maintaining the books, so, it can be easily adjusted or changed as per the requirement of the proprietor.
6. **Simple to Compute Profit or Losses-** The computation of profits or losses under this system is very simple. This is done merely by comparing the capital at the end by that of in the beginning.

Disadvantages of Incomplete Records

The mentioned below are the various disadvantages of incomplete records.

1. **Lack of Arithmetical Accuracy-** Under this system, Trial Balance is not prepared; therefore, it becomes extremely difficult in verifying and checking the arithmetical accuracy of the books of accounts so prepared. This in turn may encourage frauds and manipulations.
2. **Unsystematic or Unscientific System-** As the dual aspects of the transactions are not recorded, so this system is considered to be incomplete or unscientific.
3. **Lack of Control over the Assets-** As Real and Nominal Accounts are not prepared, so it is difficult to keep a proper account of the Assets. This may lead to misappropriations (overcasting of assets above their actual costs), frauds and embezzlement of Assets.
4. **Difficulty in Detection of Errors and Frauds-** Since proper Accounting system is not followed, so the books of accounts fail to reveal the clear financial picture of the business. This may further encourage the probability of undetectable errors and frauds.
5. **Accurate Profits or Losses cannot be determined-** Under this system, the profits or losses as determined are a mere approximation and are not the actual ones. Thus, the Single Entry System is not capable of depicting the clear Financial Position of the business.

6. Comparative Study not Possible- One of the major drawbacks of this system is that it fails to compare the current year's performance with that of the previous year. Thus, meaningful comparative study and analysis cannot be laid.

7. Fails to Determine Growth of Business- The actual performance of a business is expressed and measured in terms of profits and losses. Since, the Single Entry System is incapable of revealing the actual profit or loss figures; therefore, this system fails to able the users to assess the actual performance of business and its growth prospects.

8. Unacceptable to Tax Authorities- The Books of accounts maintained by following Single Entry System is not acceptable by the tax authorities on any grounds. This is because these books are not maintained by following universally and lawfully accepted accounting principles.



Difference between Double Entry and Incomplete Records

The given below are some basis on which single entry system is differentiated from the double entry system.

Basis	Double Entry	Single Entry
Accounting Principle	It is based on certain Generally Accepted Accounting Principles	It is not based on any of the accepted Accounting Principles
Aspects of Transactions	Both the aspects of a transaction are recorded	Only one aspect of a transaction is recorded. Sometimes, both aspects are recorded and sometimes no aspect is recorded at all
Nature of Accounts	Under this system all- personal, real and nominal accounts are prepared	Under this system only personal accounts and cash account are prepared
Correctness of Accounts	Correctness of the books of accounts maintained under this system can be examined easily by preparing Trial Balance	Correctness of the books of accounts cannot be examined as Trial Balance is not prepared under this system
True Financial Position	True Financial Position can be assessed by preparing Balance Sheet at the end of the period	True Financial Position cannot be assessed as Balance Sheet is not prepared under this system
Suitable	This system is suitable for all organisations whether big or small	This system is suitable only for small organisations
Cost	Under this, the cost of maintaining books of accounts is high	Under this, the cost of maintaining books of accounts is comparatively low
Measurement of Performance	Trading Account, Profit and Loss Account and Balance Sheet are prepared for measuring the performance of the business	Statement of Affairs and Statement of Profit and Loss are prepared for measuring the performance of the business
Evidence	Books of accounts maintained under this system are acceptable as evidence in the Court of Law	Books of accounts maintained under this system are not accepted as evidence in the Court of Law
Frauds and Errors	Frauds and errors can be detected and prevented under this system	Frauds and errors cannot be easily detected and prevented under this system

Expert Knowledge	Person preparing and maintaining accounts under this system require specialised expert knowledge of accounts	Person preparing and maintaining accounts under this system does not require the expert knowledge of accounts
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Statement of Affairs Method

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Introduction
- Meaning of Statement of Affairs
- Distinction between Statement of Affairs and the Balance Sheet

Introduction

In the previous lesson, we understood the meaning of Single Entry System. Besides this, we also learnt that unlike the Double Entry System, in Single Entry System, the rules of debit and credit are not strictly followed. In other words, we can say that dual aspect of a transaction is ignored. In this sense, we can regard that there must exist a difference in the manner how the books of accounts are maintained in both the systems. In the forthcoming lessons, we will explore this difference and will also learn the procedure to prepare books as per the Single Entry System.

Meaning of Statement of Affairs

Did you remember that under the Double Entry System we prepare Balance Sheet? Yes, Balance Sheet is a financial statement, which enlists Liabilities on its left-hand side and assets on its right-hand side. Similarly, under the Single Entry System, we have a statement that is much similar to Balance Sheet. This statement of financial records is termed as Statement of Affairs. This statement also has two sides; while the left-hand side records all the liabilities, the right-hand side records all the assets.

However, you should note that Statement of Affairs cannot be called or regarded as Balance Sheet. The main difference between the two is on the basis of their preparation. While Statement of Affairs is prepared on the basis of the physical counts and improper source documents, whereas, Balance Sheet is prepared purely on the basis of ledger accounts and Trial Balance.

Objective of Statement of Affairs

The main purpose to prepare Statement of Affairs is to ascertain amount of capital. This is done by deducting the total of the left-hand side (Total Liabilities) *from* the total of the right-hand side (Total Assets). Algebraically, Capital can be represented as:

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

It should be noted that the objective of Statement of Affairs is not at all to reveal the financial status of the business. Infact, it is just to ascertain the capital amount that is invested in the business.

Format of Statement of Affairs

The format of the Statement of Affairs is given below. After going through the items in this format, you might promptly say that this is very similar to that of the Balance Sheet. But there does exist a difference between the two. In case of Balance Sheet, the amount of capital is often given to us, while in the Statement of Affairs; we need to ascertain the amount of capital.

Statement of Affairs

as on...

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable		Land and Building	
Bank Overdraft		Plant and Machinery	
Creditors		Furniture	
Outstanding Expenses		Stock	
Income Received in Advance		Debtors	
Capital (<i>Balancing Figure</i> - excess of assets over liabilities)		Bills Receivable	
		Cash in Hand	
		Cash at Bank	
		Prepaid Expenses	
		Accrued Income	

Important Note

If in a question, the opening balance of Capital is not given to us, then we need to prepare two Statements of Affairs- one in the beginning and another at the end of the accounting year. In this case, the format of both the statements (opening as well as closing) remains exactly the same. Also, here we should keep the following two important points in our mind.

- In the Opening Statement of Affairs, all the assets and liabilities are shown at their opening balances i.e. the balances as on April-01 or Jan-01.
- In the Closing Statement of Affairs, all the assets and liabilities are shown at their closing balances i.e. the balances as on Mar-31 or Dec-31. Also, these closing balances should be recorded in the Statement of Affairs after making appropriate adjustments. For example, fixed assets are shown in the Closing Statement only after deducting Depreciation, similarly, debtors are shown after deducting Bad-debts or Provision for doubtful-debts.

Example-1: Using the given information, prepare the Statement of Affairs in the beginning and at the end of the year.

Particulars	March 31, 2012 (Rs)	March 31, 2013 (Rs)
Cash in Hand	20,250	27,000
Stock	32,000	41,750
Furniture	27,000	27,000
Machinery	52,000	85,000
Land and Building	–	1,35,000
Debtors	28,300	42,500
Prepaid Expenses	10,200	15,000
Bank Balance	–	40,500
Bills Payable	28,000	35,000
Creditors	36,250	25,500
Bank Loan	–	67,500

Solution

Statement of Affairs as on March 31, 2012			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	28,000	Cash in Hand	20,250
Creditors	36,250	Stock	32,000
Capital (<i>Balancing Figure</i>)	1,05,500	Furniture	27,000
		Machinery	52,000
		Debtors	28,300

		Prepaid Expenses	10,200
	1,69,750		1,69,750

Statement of Affairs <i>as on March 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	35,000	Cash in Hand	27,000
Creditors	25,500	Stock	41,750
Bank Loan	67,500	Furniture	27,000
Capital (<i>Balancing Figure</i>)	2,85,750	Machinery	85,000
		Land and Building	1,35,000
		Debtors	42,500
		Prepaid Expenses	15,000
		Bank Balance	40,500
	4,13,750		4,13,750

Example 2: From the below given information, prepare the Statement of Affairs in the beginning and at the end of the year.

Particulars	March 31, 2012 (Rs)	March 31, 2013 (Rs)
Cash Balance	35,500	42,000
Bills Receivable	17,800	21,000
Stock	24,000	17,500
Machinery	78,000	78,000
Debtors	40,000	38,000
Bank Balance	25,000	32,500
Building	45,500	1,20,000
Furniture	25,000	25,000
Income Received in Advance	2,500	3,200
Advance from Customers	14,000	16,200

Rent Outstanding	4,300	3,950
Creditors	12,300	11,700

Additional Information-

- i. Depreciate machinery by 5% p.a.
- ii. Provide a reserve for bad debts @ 10% on debtors.
- iii. Interest of Rs 5,000 is accrued.
- iv. There is a prepaid insurance of Rs 2,500.

Solution

Statement of Affairs as on March 31, 2012			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Income Received in Advance	2,500	Cash Balance	35,500
Advance from Customers	14,000	Bills Receivable	17,800
Rent Outstanding	4,300	Stock	24,000
Creditors	12,300	Machinery	78,000
Capital (<i>Balancing Figure</i>)	2,57,700	Debtors	40,000
		Bank Balance	25,000
		Building	45,500
		Furniture	25,000
	2,90,800		2,90,800

Statement of Affairs as on March 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Income Received in Advance	3,200	Cash Balance	42,000

Advance from Customers	16,200	Bills Receivable	21,000
Rent Outstanding	3,950	Stock	17,500
Creditors	11,700	Machinery	78,000
Capital (<i>Balancing Figure</i>)	3,38,750	Less: Depreciation	(3,900)
		Debtors	38,000
		Less: Provision for Doubtful Debts	(3,800)
		Bank Balance	32,500
		Building	1,20,000
		Furniture	25,000
		Accrued Interest	5,000
		Prepaid Expenses	2,500
	3,73,800		3,73,800

Example 3: From the below given information, prepare the Statement of Affairs.

Particulars	March 31, 2012 (Rs)	March 31, 2013 (Rs)
Cash Balance	26,000	32,500
Bank Balance	18,800	21,300
Land and Building	1,05,000	1,05,000
Furniture	30,000	30,000
Stock	15,800	16,500
Debtors	36,500	40,000
Advance to Suppliers	24,000	28,000
Prepaid Expenses	5,200	6,500
Accrued Interest	2,800	3,500
Bank Loan	40,000	40,000
Bills Payable	2,160	3,050
Creditors	25,600	28,800
Capital	1,96,340	?

Additional Information-

- i. Depreciate Furniture by 10% p.a.
- ii. Provide bad debt of Rs 5,000 and also create provision for bad debts @ 10% on debtors.
- iii. Rent is Outstanding at Rs 800.
- iv. Income is received in advance Rs 350.

Solution

Statement of Affairs as on March 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bank Loan	40,000	Cash Balance	32,500
Bills Payable	3,050	Bank Balance	21,300
Creditors	28,800	Land and Building	1,05,000
Rent Outstanding	800	Furniture	30,000
Income Received in Advance	350	Less: Depreciation	(3,000)
Capital (<i>Balancing Figure</i>)	1,98,800	Stock	16,500
		Debtors	40,000
		Less: Bad Debts	(5,000)
			35,000
		Less: Provision for Doubtful Debts @10%	(3,500)
		Advance to Suppliers	28,000
		Prepaid Expenses	6,500
		Accrued Interest	3,500
	2,71,800		2,71,800

Note: As in the question we already have Opening Capital Balance, therefore, there is no requirement to prepare Opening Statement of Affairs (*i.e. Statement of Affairs as on March 31, 2012*).

Statement of Affairs versus Balance Sheet

A Statement of Affairs resembles like a Balance Sheet, but still it is not called Balance Sheet due to the given below points of differences

Points of Distinction	Statement of Affairs	Balance Sheet
Purpose	Prepared to ascertain the amount of capital	Prepared to assess the financial position of the business
Estimation/Actual	Assets and Liabilities are recorded at an estimated value on the basis of physical counts.	Assets and liabilities are recorded at their actual value
Accounting System	Prepared following Single Entry System	Prepared following Double Entry System
Basis of Preparation	Prepared without the help of Trial Balance	Prepared with the help of Trial Balance
Authenticity	Less reliable as the items recorded lack evidences and source documents	Highly reliable as the items are backed by evidences
Need of ledgers	Ledgers accounts are not required for its preparation	Ledgers are the prime inputs to prepare Balance Sheet
Aspects of Transactions	Books are maintained by completely ignoring one aspect of the transactions	Books are maintained as per the dual aspects of the transactions
Detection of Errors or Omissions	Very difficult to locate and rectify errors and omissions if committed	Comparatively easy to locate and rectify error. As often presence of errors leads to mismatch of the two sides of Balance Sheet

Statement of Profit or Loss

Objectives

After going through this lesson, you shall be able to understand the procedure of ascertaining profit or loss under Single Entry System.

- Statement of Affairs Method
- Statement of Profit and Loss

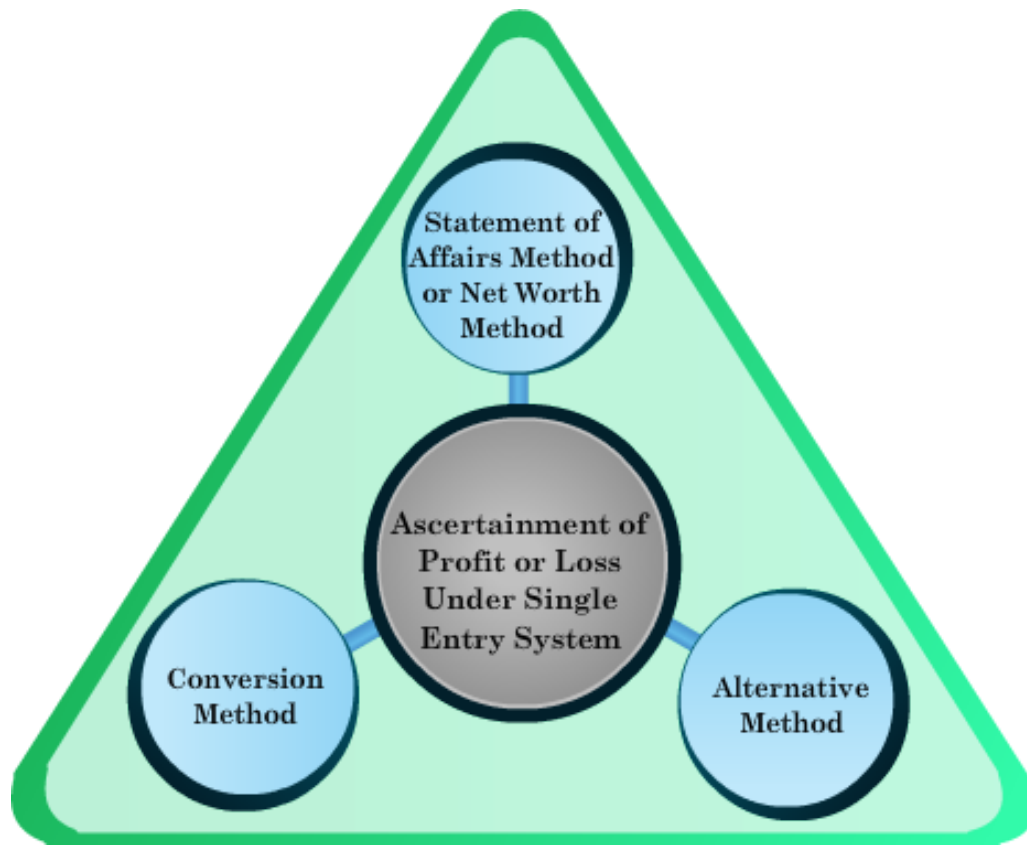
Introduction

In the previous lesson, we learnt the preparation of Statement of Affairs in order to determine the amount of opening capital and closing capital. Now, in this lesson, our main focus will be on ascertainment of profits or losses under Single Entry System. Like, every other business organisations, a small trader, who maintains his books under Single Entry System is also keenly interested in ascertaining the amount of profit earned or loss incurred during a year. In this way, he/she is not only able to ascertain the financial vitality of the business but can also measure the financial performance of the business.

Ascertainment of Profit or Loss

Under Single Entry System, the profit or loss can be determined by any of the following three methods.

1. Statement of Affairs Method or Net Worth Method
2. Alternative Method
3. Conversion Method



In this lesson, we will have an in-depth learning of the first method i.e. Statement of Affairs Method.

Statement of Affairs Method or Net Worth Method

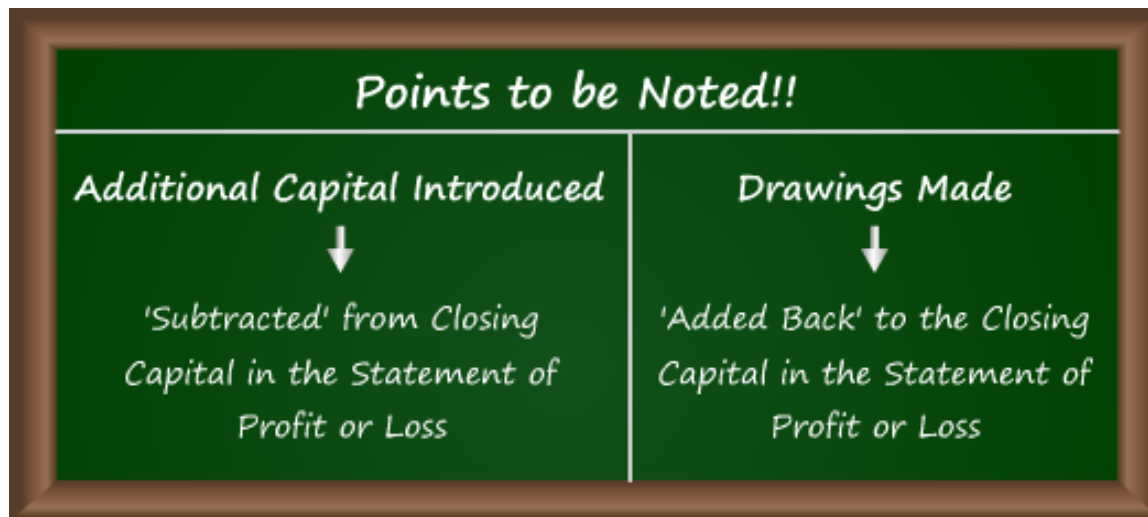
As stated above, this method is used to ascertain the amount of profit or loss under Single Entry System. We can easily infer from the name of this method that here we need to prepare the Statement of Affairs (which we already have learnt in the previous lesson). We also know that by preparing Statement of Affairs, we get the capital balance (opening or closing balance). Now, we will use this method to determine profit or loss. This is simply done by comparing the opening capital with the closing capital of a business.

Simply, if capital at the end (i.e. closing capital) is *more than* the capital in the beginning (i.e. opening capital), then, the difference is regarded as profit. On the contrast, if capital at the end (i.e. closing capital) is *less than* the capital in the beginning (i.e. opening capital), then the difference is regarded as loss.

However, before comparing the opening and the closing capital balances, we need to make necessary

adjustments for the following two points.

- 1. Introduction of fresh capital-** Fresh capital refers to the amount of additional capital (or new capital) that has been invested by the trader during the year. In order to ascertain profit or loss (using Statement of Affairs Method), **we deduct fresh capital** from the closing capital balance. This is simply because the addition in the capital balance is due to introduction of fresh capital and not because of the profits.
- 2. Drawings-** We know this refers to the amount of capital withdrawn by the trader (either in cash or in form of goods) from the business for his/her private use. **We add drawings** made during the year to the closing capital in order to ascertain profit or loss. This is simply because the reduction in the capital balance is due to withdrawal of money and not because of the losses.



Algebraically, the equation to ascertain profit or loss can be represented as:

$\text{Profit} = \text{Closing Capital} + \text{Drawings made} - \text{Additional Capital} - \text{Opening Capital}$ <p style="text-align: center;"><i>In case of Positive Balance</i></p>
$\text{Loss} = \text{Closing Capital} + \text{Drawings made} - \text{Additional Capital} - \text{Opening Capital}$ <p style="text-align: center;"><i>In case of Negative Balance</i></p>

Statement of Profit or Loss

The above formula (tabulated above) for ascertaining the profits or losses can also be represented in form of a statement

and is known as 'Statement of Profit or Loss'. The above formula is presented below in the statement form.

Format of Statement of Profit or Loss

Statement of Profit or Loss <i>for the year ended...</i>	
Particulars	Amount (Rs)
Capital at the end of the year (Closing Capital)	
<i>Add:</i> Drawings made during the year	
<i>Less:</i> Additional Capital introduced during the year	
Adjusted Capital at the end of the year	
<i>Less:</i> Capital in the beginning of the year (Opening Capital)	
Profit (or Loss) for the year	

Steps to prepare Statement of Profit or Loss

The following are some steps that are followed to prepare the Statement of Profit or Loss.

Step 1: First of all, opening capital is ascertained by preparing Opening Statement of Affairs. In this statement, all the opening balances of various assets and liabilities are shown.

Step 2: Next, closing capital is ascertained by preparing Closing Statement of Affairs. In this statement, we record all the closing balances of various assets and liabilities only after making necessary adjustments such as depreciation, outstanding expenses, accrued incomes, prepaid expenses, incomes received in advance, etc.

Step 3: After this, closing capital (*as computed in the Step 2*) is shown in the Statement of Profit or Loss.

Step 4: Then, we calculate the Adjusted Closing Capital by **adding** drawings and **subtracting** additional capital.

Step 5: Lastly, from the Adjusted Closing Capital (*as computed in the Step 4*), we deduct the Opening Capital (*as computed in the Step 1*).

Step 6: If the Adjusted Closing Capital **exceeds** the Opening Capital, then the balancing figure is regarded as profit, else, it is regarded as loss.

Adjusted Closing Capital > Opening Capital \Rightarrow **Profit**

Adjusted Closing Capital < Opening Capital \Rightarrow **Loss**

Example 1: Mr. Jojo maintains his books under Single Entry System. He started business on April 01, 2012 with capital of Rs 1,60,000. At the end of the year i.e. on March 31, 2013 his capital amounted to Rs 2,85,000. During the year, he introduced further capital of Rs 96,000. He also made drawings of Rs 42,000 during the year. Calculate the amount of profit or loss made by Mr. Jojo by preparing the Statement of Profit or Loss for the year ended March 31, 2013.

Statement of Profit or Loss <i>for the year ended March 31, 2013</i>	
Particulars	Amount (Rs)
Capital at the end of the year	2,85,000
<i>Add:</i> Drawings made during the year	42,000
<i>Less:</i> Additional capital introduced during the year	(96,000)
Adjusted capital at the end of the year	2,31,000
<i>Less:</i> Capital in the beginning of the year	(1,60,000)
Profit for the year	71,000

Example 2: Ramakant maintains the books under Single Entry System. His books reveal the following information.

Particulars	March 31, 2012 (Rs)	March 31, 2013 (Rs)
Cash in Hand	21,500	24,600
Cash at Bank	19,000	16,000
Machinery	74,000	83,000
Building	1,02,500	98,000
Bills Receivable	30,000	33,250
Prepaid Expenses	7,800	7,500
Bills Payable	46,700	44,250
Outstanding Expenses	5,600	5,200

Ramkant withdrew Rs 6,300 quarterly for his private use. During the year, he also introduced Rs 35,000 as new capital. Prepare Statement of Profit or Loss in order to ascertain profit made by Ramakant.

Solution

Statement of Affairs <i>as on March 31, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	46,700	Cash in Hand	21,500
Outstanding Expenses	5,600	Cash at Bank	19,000
Capital (<i>Balancing Figure</i>)	2,02,500	Machinery	74,000
		Building	1,02,500
		Bills Receivable	30,000
		Prepaid Expenses	7,800
	2,54,800		2,54,800

Statement of Affairs <i>as on March 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Bills Payable	44,250	Cash in Hand	24,600
Outstanding Expenses	5,200	Cash at Bank	16,000
Capital (<i>Balancing Figure</i>)	2,12,900	Machinery	83,000
		Building	98,000
		Bills Receivable	33,250
		Prepaid Expenses	7,500
	2,62,350		2,62,350

Statement of Profit or Loss <i>for the year ended March 31, 2013</i>	
Particulars	Amount

	(Rs)
Capital at the end of the year	2,12,900
<i>Add:</i> Drawings made during the year (6,300 × 4)	25,200
<i>Less:</i> Additional capital introduced during the year	(35,000)
Adjusted capital at the end of the year	2,03,100
<i>Less:</i> Capital in the beginning of the year	(2,02,500)
Profit for the year	600

Example 3: From the given below information prepare Statement showing the Profit or Loss during the year.

Particulars	March 31, 2012 (Rs)	March 31, 2013 (Rs)
Investments	80,000	84,000
Inventory	62,800	70,900
Cash in Hand	28,000	25,400
Debtors	62,000	60,000
Furniture	85,000	85,000
Income Accrued	12,600	10,700
Creditors	48,500	43,000
Bank Overdraft	33,000	37,500

Additional Information-

- Depreciate furniture by 10% p.a.
- Provide reserve for doubtful debts @ 8%.
- Capital introduced during the year Rs 16,500.
- Amount withdrawn for personal use Rs 44,000.

Solution

Statement of Affairs

as on March 31, 2012

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	48,500	Investments	80,000
Bank Overdraft	33,000	Inventory	62,800
Capital (<i>Balancing Figure</i>)	2,48,900	Cash in Hand	28,000
		Debtors	62,000
		Furniture	85,000
		Income Accrued	12,600
	3,30,400		3,30,400

Statement of Affairs

as on March 31, 2013

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	43,000	Investments	84,000
Bank Overdraft	37,500	Inventory	70,900
Capital (<i>Balancing Figure</i>)	2,42,200	Cash in Hand	25,400
		Debtors	60,000
		<i>Less: Provision for Doubtful</i>	
		Debts @ 8%	(4,800)
		Furniture	85,000
		<i>Less: Depreciation @ 10%</i>	(8,500)
		Income Accrued	10,700
	3,22,700		3,22,700

Statement of Profit or Loss

for the year ended March 31, 2013

Particulars	Amount (Rs)
Capital at the end of the year	2,42,200
Add: Drawings made during the year	44,000

Less: Additional capital introduced during the year	(16,500)
Adjusted capital at the end of the year	2,69,700
Less: Capital in the beginning of the year	(2,48,900)
Profit for the year	20,800

Example 4: Mehta Ji does not maintain the books of accounts by following the Double Entry System. The following are the information provided by him for the year ended March 31, 2013. You are required to prepare a Statement of Profit and Loss for the year ended March 31, 2013.

Particulars	April 01, 2012 (Rs)	March 31, 2013 (Rs)
Building	2,35,000	3,10,000
Stock-in-Trade	1,20,900	1,45,700
Cash in Hand	45,000	38,000
Cash at Bank	78,000	81,500
Debtors	56,000	63,000
Income Received in Advance	15,500	19,800
Creditors	39,400	31,700

Additional Information-

- i. Goods worth Rs 5,700 withdrawn for personal use.
- ii. Paid income tax of Rs 13,300.
- iii. Paid personal telephone bill of Rs 2,500 from business account.
- iv. Amount withdrawn from business account to pay house rent of Rs 1,800 each quarter.
- v. He brought his car worth Rs 30,000 which was used in the business.
- vi. He sold his wife's jewellery worth Rs 18,000 and brought that money into the business.

Solution

Statement of Affairs <i>as on April 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Income Received in Advance	15,500	Building	2,35,000
Creditors	39,400	Stock-in-Trade	1,20,900
Capital (<i>Balancing Figure</i>)	4,80,000	Cash in Hand	45,000
		Cash at Bank	78,000
		Debtors	56,000
	5,34,900		5,34,900

Statement of Affairs <i>as on March 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Income Received in Advance	19,800	Building	3,10,000
Creditors	31,700	Stock-in-Trade	1,45,700
Capital (<i>Balancing Figure</i>)	6,16,700	Cash in Hand	38,000
		Cash at Bank	81,500
		Debtors	63,000
		Car	30,000
	6,68,200		6,68,200

Statement of Profit or Loss <i>for the year ended March 31, 2013</i>		
Particulars		Amount (Rs)
Capital at the end of the year		6,16,700
<i>Add:</i> Drawings made during the year		
Withdrawn Goods for Personal Use	5,700	

Income Tax	13,300	
Personal Telephone Bill	2,500	
House Rent (1,800 × 4)	7,200	28,700
<i>Less: Additional capital introduced during the year</i>		
Personal Car used in the Business	(30,000)	
Sold wife's jewellery and used that cash in business	(18,000)	(48,000)
Adjusted capital at the end of the year		5,97,400
<i>Less: Capital in the beginning of the year</i>		(4,80,000)
Profit for the year		1,17,400

Example 5: Sonali, a sole trader does not keep proper books of accounts. From the given below information, compute the profit or loss for the year ended March 31, 2013.

Particulars	April 01, 2012 (Rs)	March 31, 2013 (Rs)
Machinery	3,75,000	4,20,000
Furniture and Fittings	2,45,000	1,95,500
Closing Stock	1,24,000	1,13,800
Cash at Bank	1,60,200	1,33,300
Debtors	1,85,400	1,87,100
Motor Car	2,20,500	1,97,000
Outstanding Rent	35,000	42,000
Creditors	1,30,800	1,25,000

Sonali sold her investments of Rs 1,50,000 at a premium of 5% and invested that money into business. She paid school fee of Rs 35,000 of her daughter from the business account. On October 01, 2012, she took a bank loan of Rs 1,00,000 @ 8% p.a. During the year, debtors of Rs 7,100 were proved bad and a provision of 5% is to be made on debtors. Machinery and motor car depreciated by 10% p.a. and 5% p.a. respectively.

Solution

Statement of Affairs as on April 01, 2012		

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Outstanding Rent	35,000	Machinery	3,75,000
Creditors	1,30,800	Furniture and Fittings	2,45,000
Capital (<i>Balancing Figure</i>)	11,44,300	Closing Stock	1,24,000
		Cash at Bank	1,60,200
		Debtors	1,85,400
		Motor Car	2,20,500
	13,10,100		13,10,100

Statement of Affairs as on March 31, 2013				
Liabilities	Amount (Rs)	Assets		Amount (Rs)
Outstanding Rent	42,000	Machinery	4,20,000	3,78,000
Creditors	1,25,000	Less: Depreciation	(42,000)	
Bank Loan	1,00,000	Furniture and Fittings		1,95,500
Add: Outstanding Interest (WN)	4,000	Closing Stock		1,13,800
Capital (<i>Balancing Figure</i>)	9,07,750	Cash at Bank		1,33,300
		Debtors	1,87,100	1,71,000
		Less: Bad Debts	(7,100)	
		Less: Provision for Doubtful Debts	(9,000)	
		Motor Car	1,97,000	1,87,150
		Less: Depreciation	(9,850)	
	11,78,750			11,78,750

Working Note: Calculation of Interest on Bank Loan

$$\text{Interest on Bank Loan} = 1,00,000 \times \frac{8}{100} \times \frac{6}{12} = \text{Rs } 4,000$$

Statement of Profit or Loss
for the year ended March 31, 2013

Particulars	Amount (Rs)
Capital at the end of the year	9,07,750
Add: Drawings made during the year (School Fee)	35,000
Less: Additional Capital (1,50,000 + 7,500)	(1,57,500)
Adjusted capital at the end of the year	7,85,250
Less: Capital in the beginning of the year	(11,44,300)
Loss during the year	3,59,050

Example 6: Mr. Das maintains the books under single entry system. Statement of Affairs of his business as on April 01, 2012 was as follows.

Statement of Affairs <i>as on April 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	36,000	Bank Balance	80,000
Loan from Mr. Roy	45,000	Cash Balance	55,000
Capital	3,34,200	Investments	91,200
		Office Equipments	1,05,000
		Debtors	56,000
		Loan to Mrs. Das	28,000
	4,15,200		4,15,200

His position at the end of the period was-

Particulars	Amount (Rs)
Bank Balance	96,000
Cash Balance	48,200

Investments	88,800
Office Equipment	1,20,500
Debtors	52,500
Income Received in Advance	6,600
Creditors	43,000

Additional Information-

- i. Life Insurance Policy (LIP) of Mr. Das matured for Rs 28,000 and the amount was brought into the business.
- ii. He withdrew Rs 2,500 per month from the business for personal use.
- iii. Depreciate office equipment by 8% p.a.
- iv. Bad debts during the year Rs 1,500
- v. During the year, 60% of the loan from Mr. Roy was repaid on which interest outstanding was Rs 2,700.
- vi. 50% of loan granted to Mrs. Das was received during the year.
- vii. Accrued interest on investments Rs 4,200.
- viii. Rent of office @ Rs 2,500 for 3 months was not yet paid.

Ascertain the profit or loss for the year ended March 31, 2013 by preparing the Statement of Profit or Loss.

Solution

Statement of Affairs as on March 31, 2013			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	43,000	Bank Balance	96,000
Income Received in Advance	6,600	Cash Balance	48,200
Loan from Mr. Roy (40% remaining)	18,000	Investments	88,800
Outstanding Interest on Loan	2,700	Office Equipment	1,20,500
Outstanding Office Rent (2,500 × 3)	7,500	Less: Depreciation	(9,640)
			1,10,860

Capital (<i>Balancing Figure</i>)	3,35,260	Debtors	52,500	
		Less: Bad Debts	(1,500)	51,000
		Loan to Mrs. Das (50% received)		14,000
		Accrued Interest on Investments		4,200
	4,13,060			4,13,060

Statement of Profit or Loss
for the year ended March 31, 2013

Particulars	Amount (Rs)
Capital at the end of the year	3,35,260
Add: Drawings made during the year ($2,500 \times 12$)	30,000
Less: Additional Capital introduced	(28,000)
Adjusted capital at the end of the year	3,37,260
Less: Capital in the beginning of the year	(3,34,200)
Profit during the year	3,060

Example 7: Mrs. Mahima does not follow proper Double Entry System for maintaining the books of accounts. The following are the particulars furnished by her during the year.

Particulars	April 01, 2012 (Rs)	March 31, 2013 (Rs)
Inventory	84,800	90,900
Building	2,95,000	3,20,000
Machinery	2,40,000	2,80,000
Bills Receivable	63,000	55,000
Sundry Debtors	84,000	80,000
Prepaid Insurance	10,200	10,900
Sundry Creditors	57,000	62,000
Bank Overdraft	70,000	69,800

Additional Information-

- i. Mrs. Mahima sold her motor bike of Rs 52,000 for Rs 33,000 and introduced that money into business.
- ii. During the year, she withdrew Rs 65,000 out of which she bought furniture for Rs 24,000 for business.
- iii. Bad debts written-off during the year Rs 5,000 and provision for doubtful debts amounted to Rs 3,000.
- iv. Depreciation on Building and Machinery @ 10% p.a. Machinery of Rs 40,000 was purchased on July 01, 2012.
- v. Outstanding Salary Rs 2,200.
- vi. Interest on capital to be provided at 5% p.a. on the opening capital balance.

Solution

Statement of Affairs <i>as on April 01, 2012</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Sundry Creditors	57,000	Inventory	84,800
Bank Overdraft	70,000	Building	2,95,000
Capital (<i>Balancing Figure</i>)	6,50,000	Machinery	2,40,000
		Bills Receivable	63,000
		Sundry Debtors	84,000
		Prepaid Insurance	10,200
	7,77,000		7,77,000

Statement of Affairs <i>as on March 31, 2013</i>			
Liabilities	Amount (Rs)	Assets	Amount (Rs)
Sundry Creditors	62,000	Inventory	90,900
Bank Overdraft	69,800	Building	3,20,000
Outstanding Salary	2,200	Less: Depreciation	<u>(32,000)</u>
			2,88,000

Interest on Capital (on opening capital)	32,500	Machinery	2,80,000	
Capital (<i>Balancing Figure</i>)	6,27,300	Less: Depreciation	(27,000)	2,53,000
		Bills Receivable		55,000
		Sundry Debtors	80,000	
		Less: Bad Debts	(5,000)	
		Less: Provision for Doubtful Debts	(3,000)	72,000
		Prepaid Insurance		10,900
		Furniture		24,000
	7,93,800			7,93,800

Working Note: *Calculation of Depreciation on Machinery*

Depreciation on Rs 2,40,000 for Full Year = $2,40,000 \times \frac{10}{100} = 24,000$

Depreciation on Rs 40,000 for 9 months = $40,000 \times \frac{10}{100} \times \frac{9}{12} = 3,000$

Total Depreciation on Machinery = $24,000 + 3,000 = 27,000$

Statement of Profit or Loss
for the year ended March 31, 2013

Particulars	Amount (Rs)
Capital at the end of the year	6,27,300
Add: Drawings made during the year (65,000 – 24,000)	41,000
Less: Additional Capital introduced	(33,000)
Adjusted capital at the end of the year	6,35,300
Less: Capital in the beginning of the year	(6,50,000)
Loss during the year	14,700

Example 8: Sandeep started business with a capital of Rs 95,000 on April 01, 2012. On the same date, he purchased machinery worth Rs 90,000 and furniture worth Rs 55,000. On July 01, 2012, he took a loan of Rs 75,000 @ 8% p.a. from his brother-in-law on which interest is still outstanding. On March 31, 2013 stock was valued at Rs 26,000. There were debtors amounting to Rs 42,000 out of which Rs 3,000 becomes irrecoverable. Creditors were amounted to Rs 28,000 and discount from creditors was Rs 1,000. Bank Pass Book showed a Debit Balance of Rs 16,500. Sandeep withdrew Rs 15,500 half-yearly from the business. Besides this, he sold his car for 95,000 out of which he invested Rs 42,000 in the business. He also granted a loan of Rs 30,000 to Mrs. Nair. Machinery depreciated by 5%. You need to prepare a Statement of Profit or Loss by using the above information.

Solution

Statement of Affairs as on 31 March, 2013					
Liabilities		Amount (Rs)	Assets		Amount (Rs)
Loan	75,000	79,500	Machinery	90,000	85,500
Add: Outstanding Interest	4,500		Less: Depreciation	(4,500)	
Creditors	28,000	27,000	Furniture		55,000
Less: Discount from Creditors	(1,000)		Stock		26,000
Bank Overdraft		16,500	Debtors	42,000	
Capital (<i>Balancing Figure</i>)		1,12,500	Less: Bad Debts	(3,000)	39,000
			Loan to Mrs. Nair		30,000
		2,35,500			2,35,500

Statement of Profit or Loss for the year ended March 31, 2013	
Particulars	Amount (Rs)
Capital at the end of the year	1,12,500
Add: Drawings made during the year (15,500 × 2)	31,000
Less: Additional Capital introduced	(42,000)
Adjusted capital at the end of the year	1,01,500

Less: Capital in the beginning of the year	(95,000)
Profit during the year	6,500

Scroll down for the Next Topic

Alternative Method of Ascertaining Profit and Preparation of Final Accounts

Objective

After going through this lesson, you shall be able to understand the Alternative Method of Ascertaining Profit or Loss.

Introduction

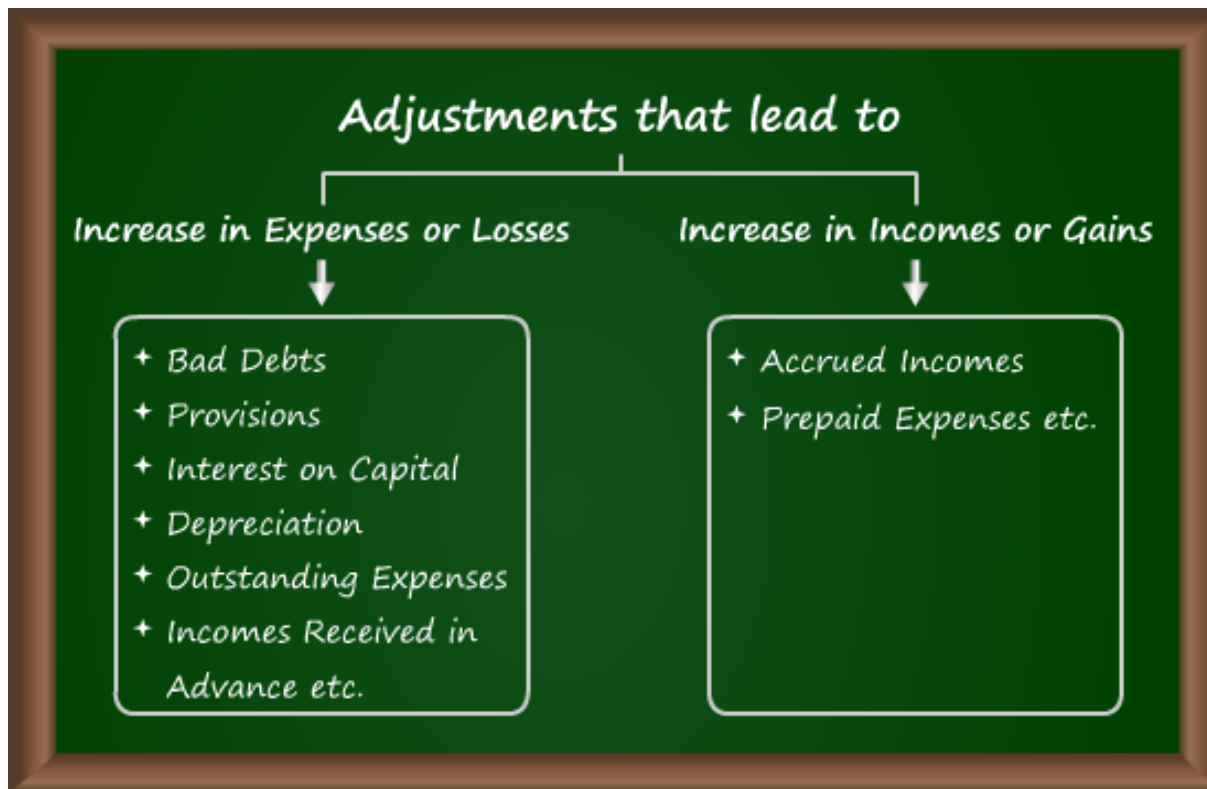
In the last lesson, we learnt that how to ascertain profit or loss by preparing Statement of Affairs Method. In this lesson, we will be going forward to learn the second method i.e. the Alternative Method of calculating profit or loss under Single Entry System.

Alternative Method of Ascertaining Profit or Loss

Similar to the Statement of Affairs Method, here in the Alternative Method also, we need to prepare Opening and Closing Statements of Affairs. However, there lies a slight difference in the preparation of Statement of Affairs in the both methods. The following are the differences.

1. In the Statement of Affairs Method, the closing Statement of Affairs is prepared after making necessary adjustments of items such as depreciation, bad-debts, prepaid expenses, etc. But in the Alternative Method, the closing Statement of Affairs is prepared without considering these adjustments.
2. Secondly, in the Statement of Affairs Method, Statement of Profit or Loss is prepared, in which we make adjustments only for *drawings* and *additional capital*, whereas, in the Alternative Method, we prepare Statement of Profit or Loss in which all the adjustments such as, depreciation, bad-debts, prepaid expenses, drawings, additional capital etc.

Thus, from the above two points, we can conclude that in the Alternative Method, we need to prepare Statement of Profit or Loss, which depicts all the required adjustments. In this statement, any item that *increases the expenses or losses is deducted*. For example, all the outstanding expenses (such as salary outstanding, rent payables, etc.), incomes received in advance (such as commission received in advance, rent received in advance, etc.), depreciation, bad debts, provisions, etc. are shown as **deductions** in the Statement of Profit or Loss. On the other hand, the items that *increase the incomes and gains are added*. For example, prepaid expenses (such as prepaid insurance, rent paid in advance, etc.), accrued incomes (such as interest accrued on investments), etc. are shown as **additions**.



Format of Statement of Profit or Loss

Statement of Profit or Loss for the year ended...	
Particulars	Amount (₹)
Capital at the end of the year	
<i>Add:</i> Drawings made during the year	
<i>Less:</i> Additional capital introduced during the year	
Adjusted capital at the end of the year	
<i>Less:</i> Capital in the beginning of the year	
<i>Profit/Loss before adjustments</i>	
<i>Less:</i> Depreciation	

Less: Bad Debts	
Less: Provision for Doubtful Debts	
Less: Interest on Capital	
Less: Outstanding Expenses (such as Outstanding Salary, Rent, Interest on loan taken etc.)	
Less: Incomes received in Advance (such as Rent or Commission received in advance)	
Add: Prepaid Expenses (such as insurance, salary paid in advance)	
Add: Accrue Incomes (such as accrued commission, interest on investments, etc.)	
Profit/Loss for the year	

Revised or Final Statement of Affairs

Lastly, after incorporating all the adjustments in the Statement of Profit or Loss, a Revised or Final Statement of Affairs is prepared. This statement includes all the above stated adjustments. That is, all the assets and liabilities in this statement are shown *after making adjustments* related to Depreciation, Bad debts, Outstanding and Prepaid Expenses, etc. On the Liabilities side of the Balance Sheet, the Net Profit (or loss) as shown by the Statement of Profit or Loss is added to (or subtracted from) the capital in the beginning. In addition to this, drawings made during the year are deducted and fresh capital introduced during the year is added to this capital.

Example 1: Same as Example 3 of the previous lesson. This example is solved by following the **Alternative Method**.

From the given below information prepare Statement showing the Profit or Loss during the year.

Particulars	March 31, 2012 (₹)	March 31, 2013 (₹)
Investments	80,000	84,000
Inventory	62,800	70,900
Cash in Hand	28,000	25,400
Debtors	62,000	60,000
Furniture	85,000	85,000
Income Accrued	12,600	10,700
Creditors	48,500	43,000
Bank Overdraft	33,000	37,500

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Additional Information-

- i. Depreciate Furniture by 10% p.a.
- ii. Provide reserve for doubtful debts @ 8%.
- iii. Capital introduced during the year Rs 16,500.
- iv. Amount withdrawn for personal use Rs 44,000.

Solution

Statement of Affairs as on March 31, 2012			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	48,500	Investments	80,000
Bank Overdraft	33,000	Inventory	62,800
Capital (<i>Balancing Figure</i>)	2,48,900	Cash in Hand	28,000
		Debtors	62,000
		Furniture	85,000
		Income Accrued	12,600
	3,30,400		3,30,400

Statement of Affairs (<i>Before Adjustments</i>) as on March 31, 2013			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	43,000	Investments	84,000
Bank Overdraft	37,500	Inventory	70,900
Capital (<i>Balancing Figure</i>)	2,55,500	Cash in Hand	25,400

		Debtors	60,000
		Furniture	85,000
		Income Accrued	10,700
	3,36,000		3,36,000

Statement of Profit or Loss
for the year ended March 31, 2013

Particulars	Amount (₹)
Capital at the end of the year	2,55,500
<i>Add:</i> Drawings made during the year	44,000
<i>Less:</i> Additional capital introduced during the year	(16,500)
Adjusted capital at the end of the year	2,83,000
<i>Less:</i> Capital in the beginning of the year	(2,48,900)
Profit before adjustments	34,100
<i>Less:</i> Depreciation on Furniture	(8,500)
<i>Less:</i> Provision for Doubtful Debts	(4,800)
Profit for the year	20,800

Statement of Affairs (Revised)
as on March 31, 2013

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	43,000	Investments	84,000
Bank Overdraft	37,500	Inventory	70,900
Capital (Opening) 2,48,900		Cash in Hand	25,400
<i>Add:</i> Net Profit 20,800		Debtors 60,000	
<i>Add:</i> Additional Capital 16,500		<i>Less:</i> Provision for	

Less: Drawings	(44,000)	2,42,200	Doubtful Debts @ 8%	(4,800)	55,200
			Furniture	85,000	
			Less: Depreciation @ 10%	(8,500)	76,500
			Income Accrued		10,700
		3,22,700			3,22,700

Example 2: Same as *Example 1* of the previous lesson. This example is solved by following the **Alternative Method**. Mrs. Mahima does not follow proper double entry system for maintaining the books of accounts. The following are the particulars furnished by her during the year. Determine the amount of profit or loss during the year.

Particulars	April 01, 2012 (₹)	March 31, 2013 (₹)
Inventory	84,800	90,900
Building	2,95,000	3,20,000
Machinery	2,40,000	2,80,000
Bills Receivable	63,000	55,000
Sundry Debtors	84,000	80,000
Prepaid Insurance	10,200	10,900
Sundry Creditors	57,000	62,000
Bank Overdraft	70,000	69,800

Additional Information-

- Mrs. Mahima sold her motor bike of Rs 52,000 for Rs 33,000 and introduced that money into business.
- During the year, she withdrew Rs 65,000 out of which she bought furniture for Rs 24,000 for business.
- Bad debts written-off during the year Rs 5,000 and provision for doubtful debts amounted to Rs 3,000.
- Depreciation on building and machinery @ 10% p.a. Machinery of Rs 40,000 was purchased on July 01, 2012.
- Outstanding Salary Rs 2,200.

vi. Interest on capital to be provided at 5% p.a. on the opening capital balance.

Solution

Statement of Affairs <i>as on April 01, 2011</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	57,000	Inventory	84,800
Bank Overdraft	70,000	Building	2,95,000
Capital (<i>Balancing Figure</i>)	6,50,000	Machinery	2,40,000
		Bills Receivable	63,000
		Sundry Debtors	84,000
		Prepaid Insurance	10,200
	7,77,000		7,77,000

Statement of Affairs <i>as on March 31, 2012 (Before Adjustments)</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	62,000	Inventory	90,900
Bank Overdraft	69,800	Building	3,20,000
Capital (<i>Balancing Figure</i>)	7,29,000	Machinery	2,80,000
		Bills Receivable	55,000
		Sundry Debtors	80,000
		Prepaid Insurance	10,900
		Furniture	24,000
	8,60,800		8,60,800

Statement of Profit or Loss

for the year ended March 31, 2013

Particulars	Amount (₹)
Capital at the end of the year	7,29,000
Add: Drawings made during the year (65,000 – 24,000)	41,000
Less: Additional capital introduced during the year	(33,000)
Adjusted capital at the end of the year	7,37,000
Less: Capital in the beginning of the year	(6,50,000)
Profit before adjustments	87,000
Less: Depreciation on Building	(32,000)
Less: Depreciation on Machinery (WN)	(27,000)
Less: Bad Debts	(5,000)
Less: Provision for Doubtful Debts	(3,000)
Less: Outstanding Salary	(2,200)
Less: Interest on Capital	(32,500)
Net Loss for the year (see video below)	(14,700)

Working Note: *Calculation of Depreciation on Machinery*

Depreciation on Rs 2,40,000 for Full Year = $2,40,000 \times \frac{10}{100} = 24,000$

Depreciation on Rs 40,000 for 9 months = $40,000 \times \frac{10}{100} \times \frac{9}{12} = 3,000$

Total Depreciation on Machinery = 24,000 + 3,000 = 27,000

Final or Revised Statement of Affairs <i>as on March 31, 2013 (After Adjustments)</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	62,000	Inventory	90,900
Bank Overdraft	69,800	Building	3,20,000

Outstanding Salary	2,200	Less: Depreciation	(32,000)	2,88,000
Interest on Capital (on opening capital)	32,500	Machinery	2,80,000	
Capital (Opening Balance)	6,50,000	Less: Depreciation	(27,000)	2,53,000
Less: Net Loss	(14,700)	Bills Receivable		55,000
Less: Drawings	(41,000)	Sundry Debtors	80,000	
Add: Additional Capital	33,000	Less: Bad Debts	(5,000)	
	6,27,300	Less: Provision for Doubtful Debts	(3,000)	72,000
		Prepaid Insurance		10,900
		Furniture		24,000
	7,93,800			7,93,800

The above Statement of Profit or Loss and Revised Statement of Affairs has been explained in the video below. Go through the video to understand this question better.

Example 3: Mr. Ajay Kumar, an owner of the Grocery Shop does not keep proper books of accounts. From the given below information you are required to ascertain profit or loss made by him for the year ending December 31, 2013.

Particulars	January 01, 2013 (₹)	December 31, 2013 (₹)
Plant and Machinery	1,02,000	1,25,000
Building	97,000	1,10,000
Cash in Hand	20,700	16,800
Cash at Bank	50,300	57,600
Furniture	66,000	75,000
Debtors	22,000	25,200
Creditors	17,000	18,900
Loan from Vijay	24,000	18,000

Additional Information-

- Ajay withdrew Rs 14,000 quarterly for his domestic use. Out of this, he purchased a computer worth Rs 22,000 for his business use.

- ii. Depreciate plant and machinery @ 15% p.a. and furniture @ 10% p.a.
- iii. There was bad debt of Rs 1,200 and provision for doubtful debts is to be made @ 5%.
- iv. During the year rent outstanding Rs 2,200.
- v. Additional Capital introduced during the year Rs 23,500.

Solution

Statement of Affairs <i>as on January 01, 2013</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	17,000	Plant and Machinery	1,02,000
Loan from Vijay	24,000	Building	97,000
Capital (<i>Balancing Figure</i>)	3,17,000	Cash in Hand	20,700
		Cash at Bank	50,300
		Furniture	66,000
		Debtors	22,000
	3,58,000		3,58,000

Statement of Affairs <i>as on December 31, 2013 (Before Adjustments)</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	18,900	Plant and Machinery	1,25,000
Loan from Vijay	18,000	Building	1,10,000
Capital (<i>Balancing Figure</i>)	3,94,700	Cash in Hand	16,800
		Cash at Bank	57,600
		Furniture	75,000
		Debtors	25,200
		Computer	22,000
	4,31,600		4,31,600

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Statement of Profit or Loss
for the year ended December 31, 2013

Particulars	Amount (₹)
Capital at the end of the year	3,94,700
<i>Add:</i> Drawings made during the year (56,000 – 22,000)	34,000
<i>Less:</i> Additional capital introduced during the year	(23,500)
Adjusted capital at the end of the year	4,05,200
<i>Less:</i> Capital in the beginning of the year	(3,17,000)
<i>Profit before adjustments</i>	88,200
<i>Less:</i> Depreciation on Plant and Machinery	(18,750)
<i>Less:</i> Depreciation on Furniture	(7,500)
<i>Less:</i> Bad Debts	(1,200)
<i>Less:</i> Provision for Doubtful Debts @ 5% on 24,000(25,200 – 1,200)	(1,200)
<i>Less:</i> Rent Outstanding	(2,200)
Profit for the year	57,350

Final or Revised Statement of Affairs
as on December 31, 2013 (After Adjustments)

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	18,900	Plant and Machinery	1,25,000
Loan from Vijay	18,000	<i>Less:</i> Depreciation	(18,750)
Outstanding Rent	2,200	Building	1,10,000
Capital (Opening)	3,17,000	Cash in Hand	16,800
<i>Add:</i> Net Profit	57,350	Cash at Bank	57,600

Add: Additional Capital	23,500		Furniture	75,000	
Less: Drawings	(34,000)	3,63,850	Less: Depreciation	(7,500)	67,500
			Debtors	25,200	
			Less: Bad Debts	(1,200)	
			Less: Provision for Bad Debts	(1,200)	22,800
			Computer		22,000
		4,02,950			4,02,950

Example 4: The given below is the Statement of Affairs of a business of Ms. Nirjala as on January 01, 2013.

Statement of Affairs as on January 01, 2013			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	32,000	Cash in Hand	7,200
Bank Loan	25,000	Cash at Bank	15,400
Capital	1,42,100	Investments	23,500
		Motor Car	65,000
		Furniture	42,700
		Bills Receivable	19,300
		Debtors	26,000
	1,99,100		1,99,100

Her position as on December 31, 2013 was as follows.

Particulars	December 31, 2013 (₹)
Cash in Hand	6,500
Cash at Bank	18,000
Investments	19,750
Motor Car	58,450
Furniture	48,900
Bills Receivable	22,000

Debtors	32,500
Creditors	35,500

Additional Information-

- Nirjala withdrew Rs 7,500 per month, out of which she spent Rs 38,000 old motor bike for the business.
- She sold an investment in shares of Rs 40,000 at a premium of 3% and invested that money into the business.
- Depreciate all fixed assets (including old motor bike) at 10% p.a.
- During the year, half of the Bank Loan was repaid.
- There was amount due for salaries for two months @ Rs 2,500 p.m.
- Prepaid insurance was Rs 1,400 and interest accrued on investments was Rs 800.
- Make a provision of 10% on Bills Receivable.

Ascertain the net profit or net loss for the year ending December 31, 2013 and also prepare the final statement of affairs as on that date.

Solution

Statement of Affairs <i>as on December 31, 2013 (Before Adjustments)</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	35,500	Cash in Hand	6,500
Bank Loan (half repaid)	12,500	Cash at Bank	18,000
Capital (<i>Balancing Figure</i>)	1,96,100	Investments	19,750
		Motor Car	58,450
		Furniture	48,900
		Bills Receivable	22,000
		Debtors	32,500
		Old Motor Bike	38,000
	2,44,100		2,44,100

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Statement of Profit or Loss
for the year ended December 31, 2013

Particulars	Amount (₹)
Capital at the end of the year	1,96,100
<i>Add:</i> Drawings made during the year (90,000 – 38,000)	52,000
<i>Less:</i> Additional capital introduced during the year (40,000 + 1,200)	(41,200)
Adjusted capital at the end of the year	2,06,900
<i>Less:</i> Capital in the beginning of the year	(1,42,100)
<i>Profit before adjustments</i>	64,800
<i>Less:</i> Depreciation on Motor Car	(5,845)
<i>Less:</i> Depreciation on Furniture	(4,890)
<i>Less:</i> Depreciation on Old Motor Bike	(3,800)
<i>Less:</i> Provision on Bills Receivable	(2,200)
<i>Less:</i> Salary Outstanding (2,500 × 2)	(5,000)
<i>Add:</i> Prepaid Insurance	1,400
<i>Add:</i> Accrued Interest on Investments	800
Profit for the year	45,265

Final Statement of Affairs
as on December 31, 2013 (After Adjustments)

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	35,500	Cash in Hand	6,500
Bank Loan (half repaid)	12,500	Cash at Bank	18,000
Salary Outstanding	5,000	Investments	19,750
Capital (Opening) 1,42,100		<i>Add:</i> Interest Accrued	800
<i>Add:</i> Net Profit 45,265		Motor Car	58,450
<i>Add:</i> Additional Capital 41,200		<i>Less:</i> Depreciation	(5,845)
<i>Less:</i> Drawings (52,000)	1,76,565	Furniture	48,900

		Less: Depreciation	(4,890)	44,010
		Bills Receivable	22,000	
		Less: Provision	(2,200)	19,800
		Debtors		32,500
		Old Motor Bike	38,000	
		Less: Depreciation	(3,800)	34,200
		Prepaid Insurance		1,400
	2,29,565			2,29,565

Example 5: Munna Bhai maintains his Books of accounts under Single Entry System. Statement of Affairs of his business as on April 01, 2012 was as follows.

Statement of Affairs as on April 01, 2012			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	27,500	Bank	78,000
Loan from Brother @ 5%	18,000	Building	2,02,000
Capital	5,85,900	Investments	1,30,000
		Equipments	95,500
		Stock	63,000
		Debtors	47,000
		Prepaid Expenses	3,900
		Loan to Mahi	12,000
	6,31,400		6,31,400

His position at the end of the period was-

Particulars	Amount (₹)
Bank	64,000
Building	2,36,000
Investments	92,000
Equipment	83,000

Stock	69,000
Debtors	44,000
Prepaid Expenses	4,300
Creditors	31,000

Additional Information-

- i. Munna Bahi sold his NSC certificates for Rs 59,000, out of which he brought Rs 45,000 into the business.
- ii. He withdrew Rs 90,000 for his domestic use.
- iii. Depreciate equipment by 12% p.a.
- iv. Bad debts during the year Rs 4,000 and provision for doubtful debts @ 5%.
- v. On July 01, 2013, he paid to his brother Rs 8,000 in respect of loan. Interest on loan was still outstanding.
- vi. 50% of loan granted to Mahi was received during the year.
- vii. Accrued interest on investments Rs 3,500.
- viii. Rent of office @ Rs 1,500 for 5 months was not yet paid.

Ascertain the profit or loss for the year ended March 31, 2013 by preparing the Statement of Profit or Loss.

Solution

Statement of Affairs <i>as on March 31, 2013 (Before Adjustments)</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	31,000	Bank	64,000
Loan from Brother @ 5%	10,000	Building	2,36,000
Capital (<i>Balancing Figure</i>)	5,57,300	Investments	92,000
		Equipment	83,000
		Stock	69,000

		Debtors	44,000
		Prepaid Expenses	4,300
		Loan to Mahi (50%)	6,000
	5,98,300		5,98,300

Statement of Profit or Loss
for the year ended March 31, 2013

Particulars	Amount (₹)
Capital at the end of the year	5,57,300
<i>Add:</i> Drawings made during the year	90,000
<i>Less:</i> Additional capital introduced during the year	(45,000)
Adjusted capital at the end of the year	6,02,300
<i>Less:</i> Capital in the beginning of the year	(5,85,900)
<i>Profit before adjustments</i>	16,400
<i>Less:</i> Depreciation on Equipments	(9,960)
<i>Less:</i> Bad Debts	(4,000)
<i>Less:</i> Provision for Doubtful Debts @ 5% on Rs 40,000 (i.e. 44,000 – 4,000)	(2,000)
<i>Less:</i> Rent Outstanding (1,500 × 5)	(7,500)
<i>Less:</i> Interest on Loan to Brother	(600)
<i>Add:</i> Accrued Interest on Investments	3,500
Loss for the year	(4,160)

Working Note: *Calculation of Interest on Loan to Brother*

$$\text{Interest on Rs 18,000 for 3 months} = 18,000 \times \frac{5}{100} \times \frac{3}{12} = 225$$

$$\text{Interest on Rs 10,000 for 9 months} = 10,000 \times \frac{5}{100} \times \frac{9}{12} = 375$$

$$\text{Total Interest on Loan} = 225 + 375 = 600$$

Revised Statement of Affairs as on March 31, 2013 (After Adjustments)			
Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	31,000	Bank	64,000
Loan from Brother @ 5%	10,000	Building	2,36,000
Interest on Loan	600	Investments	92,000
Rent Outstanding	7,500	Equipment	83,000
Capital (Opening) 5,85,900		Less: Depreciation	(9,960)
Less: Net Loss (4,160)		Stock	69,000
Less: Drawings (90,000)		Debtors	44,000
Add: Additional Capital 45,000	5,36,740	Less: Bad Debts	(4,000)
		Less: Provision	(2,000)
		Prepaid Expenses	4,300
		Loan to Mahi (50%)	6,000
		Interest Accrued on Investments	3,500
	5,85,840		5,85,840

Example 6: Mr. Nayyar does not follow proper double entry system for maintaining the books of accounts. The following are the particulars furnished by him during the year. Determine the amount of profit or loss during the year.

Particulars	April 01, 2012 (₹)	March 31, 2013 (₹)
Inventory	1,12,850	85,100
Car	1,62,800	1,85,000
Bills Receivable	2,96,000	3,33,000
Plant and Machinery	6,77,100	9,25,000
Sundry Debtors	6,10,500	7,40,000
Cash in Hand	7,77,000	2,96,000

Sundry Creditors	1,85,000	1,77,600
Bank Overdraft	74,000	3,70,000
Loan from Father		1,29,500

Additional Information-

- i. Mr. Nayyar transferred Rs 1,500 per month from the business to his personal bank account as drawings and withdrew Rs 95,000 for his son's marriage. In addition to this, he also withdrew goods worth Rs 22,000 for his personal use.
- ii. During the year, he brought his household furniture worth Rs 17,000. He also sold his old car for Rs 46,000 and brought that money into the business.
- iii. Amount of Rs 6,200 become irrecoverable from the debtors and provision for doubtful debts amounted to Rs 2,800.
- iv. Depreciate plant and machinery @ 10% p.a.
- v. Make a provision @ 8% on Bills Receivable.
- vi. Interest on capital to be provided at 10% on the opening capital balance.
- vii. Accrued commission Rs 25,000.

Solution

Statement of Affairs as on April 01, 2012			
Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	1,85,000	Inventory	1,12,850
Bank Overdraft	74,000	Car	1,62,800
Capital (<i>Balancing Figure</i>)	23,77,250	Bills Receivable	2,96,000
		Plant and Machinery	6,77,100
		Sundry Debtors	6,10,500
		Cash in Hand	7,77,000
	26,36,250		26,36,250

Statement of Affairs <i>as on March 31, 2012 (Before Adjustments)</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	1,77,600	Inventory	85,100
Bank Overdraft	3,70,000	Car	1,85,000
Loan from Father	1,29,500	Bills Receivable	3,33,000
Capital (<i>Balancing Figure</i>)	18,87,000	Plant and Machinery	9,25,000
		Sundry Debtors	7,40,000
		Cash in Hand	2,96,000
	25,64,100		25,64,100

Statement of Profit or Loss <i>for the year ended March 31, 2013</i>			Amount (₹)
Particulars			
Capital at the end of the year			18,87,000
<i>Add: Drawings made during the year</i>			
Transferred to his personal bank account	18,000		
Withdrawn for Son's Marriage	95,000		
Withdrawn in form of Goods	22,000		1,35,000
<i>Less: Additional capital introduced during the year</i>			
Household Furniture	17,000		
Sale Proceeds from Old Car	46,000		(63,000)
Adjusted capital at the end of the year			19,59,000
<i>Less: Capital in the beginning of the year</i>			(23,77,250)
<i>Loss before adjustments</i>			(4,18,250)
<i>Less: Depreciation on Plant and Machinery</i>			(92,500)
<i>Less: Bad Debts</i>			(6,200)
<i>Less: Provision for Doubtful Debts</i>			(2,800)
<i>Less: Provision on Bills Receivable @ 8% on 3,33,000</i>			(26,640)

<i>Less: Interest on Capital</i>	(2,37,725)
<i>Add: Accrued Commission</i>	25,000
Loss for the year	(7,59,115)

Revised Statement of Affairs <i>as on March 31, 2013 (After Adjustments)</i>			
Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	1,77,600	Inventory	85,100
Bank Overdraft	3,70,000	Car	1,85,000
Loan from Father	1,29,500	Bills Receivable	3,33,000
Interest on Capital	2,37,725	<i>Less: Provision</i>	(26,640)
Capital (Opening)	23,77,250	Plant and Machinery	9,25,000
<i>Less: Net Loss</i>	(7,59,115)	<i>Less: Depreciation</i>	(92,500)
<i>Less: Drawings</i>	(1,35,000)	Sundry Debtors	7,40,000
<i>Add: Additional Capital</i>	63,000	<i>Less: Bad Debts</i>	(6,200)
	15,46,135	<i>Less: Provision</i>	(2,800)
		Cash in Hand	2,96,000
		Accrued Commission	25,000
	24,60,960		24,60,960

Example 7: Shri does not maintain her books of accounts properly. From the following data, prepare final accounts for the year ended 31st March, 2018:

Particulars	March 31, 2017 (₹)	March 31, 2018 (₹)
Cash Balance	35,500	42,000
Bills Receivable	20,000	30,000
Stock	24,000	17,500
Machinery	78,000	78,000
Debtors	40,000	38,000

Bank Balance	25,000	32,500
Building	45,500	1,20,000
Furniture	25,000	25,000
Income Received in Advance	2,500	3,200
Advance from Customers	14,000	16,200
Rent Outstanding	4,300	3,950
Creditors	12,300	20,300
Bills Payable	6,000	10,000

Additional Information–

- i. Depreciate machinery by 5% p.a.
- ii. Provide a reserve for bad debts @ 10% on debtors.
- iii. Interest of Rs 5,000 is accrued.
- iv. There is a prepaid insurance of Rs 2,500.

Solution

Trading Account for the year ended 31st March, 2018

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	24,000	Sales	8,000
Purchases–Credit	12,000	Closing Stock	17,500
		Gross Loss c/d	10,500
	36,000		36,000

Profit and Loss Account for the year ended March 31, 2018

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Gross Loss b/d	10,500	Accrued Interest	5,000
Rent (10,000 + 3,950 – 4,300)	9,650	Net Loss t/d to	31,750

Insurance (7,500 – 2,500)	5,000	Capital A/c	
Provision for Doubtful Debts	3,800		
Depreciation on Machinery	7,800		
	36,750		36,750

Balance Sheet as on March 31, 2018			
Liabilities	Amount (₹)	Assets	Amount (₹)
Income Received in Advance	3,200	Cash Balance	42,000
Advance from Customers	16,200	Bills Receivable	30,000
Rent Outstanding	3,950	Stock	17,500
Creditors	20,300	Machinery	78,000
Bills Payable	10,000	Less: Depreciation	(3,900)
Capital (Opening Capital – Net Loss)	3,29,150	Debtors	38,000
(3,60,900–31,750)		Less: Provision for Doubtful Debts	(3,800)
			34,200
		Bank Balance	32,500
		Building	1,20,000
		Furniture	25,000
		Accrued Interest	5,000
		Prepaid Expenses	2,500
	3,82,800		3,82,800

Working Notes

Statement of Affairs as on March 31, 2012			
Liabilities	Amount (₹)	Assets	Amount (₹)
Income Received in Advance	2,500	Cash Balance	95,500
Advance from Customers	14,000	Bills Receivable	20,000
Rent Outstanding	4,300	Stock	24,000

Creditors	12,300	Machinery	78,000
Bills Payable	5,000	Debtors	40,000
Capital (<i>Balancing Figure</i>)	3,60,900	Bank Balance	71,000
		Building	45,500
		Furniture	25,000
	3,99,000		3,99,000

Dr. Total Creditors Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Bills Payable A/c	4,000	Balance b/d	12,300
Balance c/d	20,300	Purchases-Credit (B/F)	12,000
	24,300		24,300

Dr. Bills Payable Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Balance c/d	10,000	Balance b/d	6,000
	10,000	Total Creditors A/c (B/F)	4,000
			10,000

Dr. Total Debtors Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Balance b/d	40,000	Bills Receivable A/c	10,000
Sales A/c (B/F)	8,000	Balance c/d	38,000
	48,000		48,000

Dr. Bills Receivable Account		Cr.	
Particulars	Amount	Particulars	Amount

	(₹)		(₹)
Balance b/d	20,000	Balance c/d	
Total Debtors A/c (B/F)	10,000		30,000
	30,000		30,000