

Revision Notes
Chapter-9
Accounts from Incomplete Records

Learning Objectives

After studying this lesson, you should be able to:

- Define the concept of incomplete records:
- Distinguish between Double entry system and Accounts from incomplete records.
- Ascertain the amount of profit or loss using " Statement of Affairs" method.
- Differentiate between Balance Sheet and Statement of Affairs.
- Prepare Statement of Affairs using given data.

Suggested Methodology

- Illustration Method
- Discussion Method

Introduction: Some small size business entities do not follow the double entry system of maintaining the accounting records instead they maintains books of accounts under the system Accounting from incomplete records. The system in which no set rules of double entry system are followed is called Accounts from incomplete records. Sometimes, it is also termed as 'Single Entry System'.

Under this system only the following accounts are maintained:

- Cash book
- The Personal A/C
- Some Real A/C according to need

Note: Nominal accounts are not maintained under this system.

Under this system of maintaining accounts:

- Both the aspects of only certain transactions are recorded e.g. cash received from debtors or cash paid to creditors.

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- One aspect of some transactions are recorded e.g. cash paid for purchase of goods.
 - Some events are not recorded at all e.g. depreciation charged on fixed assets.

Points to Remember

- Accounting Principles and Accounting Standards are not followed properly under this system.
- Original vouchers provide the basis for preparing the accounts.
- This method is highly flexible because it can be adjusted according to the needs of the organisation.
- Profit or loss is ascertained by either 'Statement of Affairs method' or 'Conversion into Double Entry System Method.'

Uses of Incomplete Records

Books according to this system can be maintained only by the small entities in the form of Sole Proprietorship or Partnership firms that are not bound to keep records of business transactions as per double entry system. Companies cannot maintain books under this system because of legal provisions.

Uses or Reasons for Keeping Incomplete Records

1. **Simple Method:** It is an easy and simple method as under this method one does not require any special knowledge of the accounting principles for recording of transactions.
2. **Less Expensive:** As under this method only few accounts are prepared, therefore business firm does not require more staff for recording the transactions.
3. **Flexible Method:** This method is highly flexible because it can be adjusted according to the needs of the organisation.
4. **Suitable for Small Concerns:** This method is most suitable for small business concerns which have mostly cash transactions and very few Assets & Liabilities.
5. **Easy to calculate profit or loss:** It is easier to calculate profit or loss under this method.

Limitations of Incomplete Records

1. **Incomplete method:** This method is an incomplete method of maintaining the accounting records as both the aspects, debit and credit, of every transaction is not recorded.

2. **Arithmetical Accuracy cannot be checked:** Under this system, no real and nominal accounts are maintained. So a trial balance cannot be prepared to check the arithmetical accuracy of the books of accounts.
3. **True Profit or Loss cannot be ascertained:** As under this system all the accounts are not prepared like Nominal Account which is the base for calculating actual profit is not prepared. So the profit ascertained under this method is not reliable.
4. **True financial position of the business cannot be Judged:** Since real accounts are not maintained, it is not possible to prepare a balance sheet showing the true financial position of the business.
5. **No recognition in the assessment of Income Tax & Sales Tax:** The system fails to reveal the true profit and sales of a business. As such, the accounts maintained under this system are not accepted by Tax authorities.
6. **Preparation of Trial Balance not Possible:** This method does not record both the aspect of a transaction. So trial balance is not possible as all debit and credit items was not there.

Distinction between Single Entry System and Double Entry System

Points of Distinction	Double entry system	Incomplete Records system
(i) Aspects	Both aspects of transactions are recorded.	One aspect of transactions is recorded.
(ii) Types of Accounts	All the three types of accounts personal real and nominal are prepared.	Only personal and cash accounts are prepared.
(iii) Trial Balance	Trial balance is prepared.	Trial balance cannot be prepared.
(iv) Profit & loss	profit is ascertained by preparing profit and loss Account.	It is not possible to prepare Profit and Loss Account. Profit is calculated by preparing Statement of profit.
(v) Financial	Balance Sheet is prepared to	Balance Sheet is not prepared. Statement of affairs is gives a rough idea of financial

position	ascertain financial position.	position.
(vi) Proof	Accounting record are treated as proof in the Court of Law.	Accounting record are not treated as proof in the court of Law.
(viii) Tax authorities	Tax authorities recognise this system.	Tax authorities do not recognise this system.
(viii) Suitability	It is suitable in all the cases.	It is suitable only in case of small business houses.

Ascertainment of Profit or Loss

The main objective of any business enterprise is to earn profits. In case of organizations maintaining accounts under incomplete records the amount of profit or loss can be ascertained by following two method.

1. Statement of Affairs method or Net Worth method
2. Conversion in Double entry method (not in syllabus)

Statement of Affairs Method

Under this method, profits or losses of the business are ascertained by comparing the Capital at the end with the Capital at the beginning of the accounting period.

1. When Capital at the end is more than the capital in the beginning during an Accounting period (with the necessary adjustment) there will be profit.

Profits = Closing Capital - Opening Capital

2. When Capital at the beginning is more than capital at the end during an Accounting Period. (with the necessary adjustment) there will be loss.

Losses = Opening Capital - Closing Capital

Capital at the beginning is calculated by preparing an 'Opening statement of Affairs' and similarly, capital at the end is calculated by preparing a 'Closing Statement of Affairs'.

Notes

Under this method two statements are prepared:

1. Statement of affairs, for calculating opening and closing capital.
2. Statement of profit or loss, for calculating profit or loss.

Statement of Affairs

A Statement of affairs is a statement showing the balances of assets (including cash and bank balance) on the right hand side and the balance of liabilities on the left hand side, on a particular date. The difference in the total of two sides is known as capital.

Capital = Total Assets - Total liabilities

A statement of affairs is very similar to Balance Sheet as prepared for the business entities maintaining accounts under double entry system, though it should not be described as a Balance Sheet.

A Statement of Affairs is prepared as follows :

Statement of Affairs

Liabilities	Amount	Assets	Amount
Bank overdraft	XXXX	Cash in Hand	XXXX
Sundry Creditors	XXXX	Cash at Bank	XXXX
Bills Payable	XXXX	Bills Receivable	XXXX
Outstanding Expenses	XXXX	Sundry Debtors	XXXX
Income Received in advance	XXXX	Stock	XXXX
		Prepaid Expenses	
Capital (Balancing Figure)	XXXX	Accrued Income furniture	XXXX
		Plant & machinery etc.	XXXX

For ascertainment of profit or loss, the following steps shall be taken :

Step 1: Calculate the amount of 'Opening capital' (If not given in the Question) by preparing Statement of Affairs at the beginning of the accounting period.

Step 2: Calculate the amount of 'Closing Capital' by preparing the 'Statement of Affairs' at the end of the accounting period.

Step 3: Calculation of Profit or Loss by preparing Statement of Profit or Loss in the following manner.

Statement of Profit or Loss for the year ended.

Particular	Details	Amount
Closing Capital	XXXX	
Add:- Drawing made during the year	XXXX	
Less:- Additional Capital introduced during the year	<u>XXXX</u>	
Adjusted Capital at the end		XXXX
Less:- Opening Capital		XXXX
Profit or Loss during the year (Profit if amount is positive, loss if amount is Negative)		XXXX