



CHAPTER - 9

ACCOUNTS FROM INCOMPLETE RECORDS

- Many small sole proprietors and partnership firms do not maintain books under Double Entry System due to lack of knowledge, small size of business, or to save time & cost. They maintain only partial records such as cash transactions & personal accounts, resulting in incomplete records, commonly known as Single Entry System. It is not a formal system, as some transactions are recorded fully, some partially, & some are not recorded at all. Generally available records include cash book, debtors, creditors, capital, & bank statements. Incomplete records may also arise due to loss of records or missing figures which are calculated as balancing figures.

FEATURES OF SINGLE ENTRY SYSTEM

- It is an inaccurate, unscientific & unsystematic method of recording transactions.
- Real & nominal accounts are generally not maintained; mostly cash & personal accounts are recorded.
- Business & personal transactions get mixed up in the cash book.
- There is no uniformity, as records differ from firm to firm.
- Profit & financial position are only estimates due to absence of proper records and balance sheet.

TYPES OF SINGLE ENTRY SYSTEM

Pure Single Entry	Simple Single Entry	Quasi Single Entry
Only Personal Accounts are maintained	Personal Accounts and Cash Book are maintained	Personal Accounts, Cash Book & Some Subsidiary Books are maintained
Not Practical		

- P&L is calculated under Single Entry System by using any of following methods:
 - Comparison Method / Statement of Affairs Method / Net Worth Method
 - Conversion Method



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METHOD 1: COMPARISON METHOD OR STATEMENT OF AFFAIRS METHOD

- It is used when detailed information relating to incomes and expenses is not available due to incomplete records. In such cases, it becomes difficult to prepare a Profit and Loss Account. Therefore, under this method, the following two steps are used to calculate profit or loss of a business for a given period.

Step 1.

Prepare the Statement of Affairs at the beginning and at the end of accounting period and ascertain the capital balance as a balancing figure.

Statement of Affairs as at...

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	XX	Sundry debtors	XX
		Bills receivable	XX
		Loans and advances	XX
		Cash and bank	XX
		Prepaid expenses	XX
	XX		XX

Step 2.

Prepare the following statement to calculate profit or loss for the period.

[1 year, 2 year, or 5 year]

Statement showing calculation of Profit & Loss for the period ended on...

Particulars	₹
Closing Capital	XX
Add: Drawing during the period	XX
Less: Additional capital introduced during the period	(XX)
Less: Opening Balance	(XX)
Profit Loss for the period	XX



☛ Difference between Statement of Affairs and Balance Sheet

	Basis	Statement of Affairs	Balance Sheet
1.	Source	Prepared from incomplete records; figures are based on estimates, assumptions and available information.	Prepared from complete double entry records supported by books & documentary evidence.
2.	Capital	Capital is calculated as a balancing figure (Excess of assets over liabilities).	Capital is derived from the Capital Account appearing in the ledger.
3.	Equality of Sides	Assets and liabilities may not always be equal due to possible omissions.	Assets and liabilities always tally as per double entry system.
4.	Possibility of Omission	There is possibility of omission of assets or liabilities due to incomplete records.	No possibility of omission since all transactions are properly recorded.
5.	Basis of Valuation	Valuation of assets is generally arbitrary and no specific method is disclosed.	Assets are valued on a scientific & consistent basis with proper disclosure.
6.	Objective	Prepared mainly to ascertain capital at the beginning and end of the period.	Prepared to show the financial position of the business on a particular date.

METHOD 2: CONVERSION METHOD

☛ Under the Single Entry System, the dual aspect principle does not fully apply, as the twofold effect of every transaction is not recorded. As a result, trial balance cannot be prepared and sufficient information to ascertain profit or loss is not directly available. Therefore, when profit or loss is required to be determined by preparing final accounts, the incomplete single-entry records are first converted into double-entry records. After such conversion, Trading Account, Profit & Loss Account, and Balance Sheet are prepared. For this purpose, the following steps are necessary.

☛ Step 1. Prepare opening statement of affairs:

The opening Statement of Affairs is prepared to ascertain missing values of assets & liabilities, such as opening capital, creditors, debtors, stock, cash balance, etc.



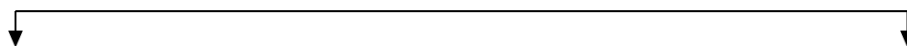
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Statement of Affairs as at...

Liabilities	₹	Assets	₹
Sundry Creditor	XX	Cash in Hand	XX
Bills Payable	XX	Cash at Bank	XX
Outstanding Expenses	XX	BR	XX
Bank Overdraft	XX	Debtors	XX
Capital [BF]	XX	Stock and Trade	XX
		Prepaid Expenses	XX
		Fixed Assets	XX
	XX		XX

Step 2. Prepare a cashbook:

As the second step, a Cash Book is prepared and completed as far as possible with the available information. If both sides of cash book do not tally, the difference is treated as one of the possible missing items.



If Credit side > Debit Side

Opening Cash Balance
Closing Bank Overdraft
Cash Sales
Income Received
Capital Introduced
Collection from Trade Receivables
Sales of Fixed Asset

If Credit side < Debit Side

Closing Cash Balance
Opening Bank Overdraft
Cash Purchase
Sundry Expenses Paid
Drawing
Payment to Trade Payables
Purchase of Fixed Asset

Step 3. Prepare Total Debtor's Account:

The Total Debtors Account is prepared to find missing figures such as credit sales, collection from debtors, or the opening and closing balance of debtors. The balancing figure of this account represents the missing information.

Total Debtor's A/c

Particulars	₹	Particulars	₹
To Balance b/d	XX	By Cash/Bank A/c	XX
To Credit Sales A/c	XX	(Collection from Debtor)	
To Bills Receivable A/c (Dishonoured)	XX	By Discount Allowed A/c	XX



To Total Creditor	XX	By Bad Debt A/c	XX
(Endorsed BR Dishonoured)		By Sales Return A/c	XX
To Bank A/c	XX	By Bills Receivable A/c	XX
(Discounted BR Dishonoured)		By Balance c/d	XX
To Bank A/c (Cheque Dishonoured)	XX		
To Discount Allowed A/c	XX		
	XX		XX

◆ **Example 1 - Calculate appropriate missing value by preparing Total Debtor A/c.**

Debtors as on 1/4/25 = ₹20,400

Cash recd. from debtors = 61,800 (including ₹1,000 being the sale proceeds of an old printer sold on credit & recd. during the year)

Bad debts = 2,400

Debtor as on 31/3/26 = 27,600

Cash sales = 56,800

Sales return = 5,400

☛ **Step 4. Prepare Bills Receivable Account:**

The Bills Receivable Account is prepared to ascertain the opening or closing balance of Bills Receivable or to find any missing information relating to Bills Receivable. The balancing figure represents the missing item.

Bills Receivable A/c

Particulars	₹	Particulars	₹
To Balance b/d	XX	By Cash / Bank A/c	
To Total Debtor A/c	XX	(Bills Receivable collected)	XX
		By Bank A/c (B/R discounted)	XX
		By Discounting charges A/c	XX
		By Total Creditors	
		(B/R endorsed)	XX
		By Total debtor A/c	
		(B/R dishonoured)	XX
		By Bill sent for collection A/c	XX
		By Balance c/d	XX
	XX		XX



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Step 5. Prepare Total Creditor Account:

The Total Creditors Account is prepared in the same manner as the Total Debtors Account to ascertain missing figures such as credit purchases, cash paid to creditors, or the opening and closing balance of creditors. The balancing figure of this account represents the missing information.

Total Creditor's A/c

Particulars	₹	Particulars	₹
To Cash/Bank A/c (Payment)	XX	By Balance b/d	XX
To Discount Received A/c	XX	By Bills Payable A/c (Dishonored)	XX
To Bills Payable A/c (BP Accepted)	XX	By Credit Purchase A/c	XX
To Purchase Return A/c	XX	By Total Debtor A/c (BR Dishonored)	XX
To BR A/c (Endorsed)	XX		
To Balance c/d	XX		
	XX		XX

Example 2 - Calculate appropriate missing value by preparing Total Creditor A/c.

Creditor as on 1/4/25 = 8,000

Cash purchase = 17,000

Cash paid to creditor = 31,000

Purchase Return = 1,000

Creditor as on 31/3/26 = 13,400

Step 6. Prepare Bills Payable Account:

The Bills Payable Account is prepared to ascertain the opening or closing balance of Bills Payable or to find any missing information relating to Bills Payable. The balancing figure represents the missing item.

Bills Payable A/c

Particulars	₹	Particulars	₹
To Bank A/c (BP discharged)	XX	By Balance b/d	XX
To B/R A/c (Endorsed)	XX	By Total Creditors A/c	XX
To Creditor A/c (BP dishonored)	XX	(BP accepted)	
To Balance c/d	XX		
	XX		XX



◆ **Example 3 - Calculate closing balance of BR & opening balance of BP.**

Opening Balance of BR	11,000
Closing Balance of BP	8,000
BP issued	35,000
BR encashed	46,000
BR received	49,000
BP paid in cash	36,000
BR dishonored	1,000

☛ **Step 7. Calculation of Opening Stock and Closing Stock:**

The values of opening stock and closing stock are generally given in the question. If they are not given, they are calculated with the help of the rate of gross profit and the Memorandum Trading Account, as explained in the example given below.

◆ **Example 4 - Calculate value of Opening Stock**

Purchase	2,20,000
Sales	3,60,000
Closing Stock	40,000
Wages	7,000
Carriage Outward	6,000
Gross Profit	50% on cost

◆ **Example 5 - Calculate value of Closing Stock**

Opening Stock	10,000
Cash Sales	30,000
Credit Sales	20,000
Purchase	35,000
Indirect Expense	7,000
Gross Profit	1/3 rd on cost

☛ **Step 8. Adjustment of Direct and Indirect Expenses:**

Expenses paid during the year are shown on the credit side of the Cash Book. To determine the total expenses incurred during the year, outstanding expenses are added and prepaid expenses are deducted from the respective expenses.



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Outstanding expenses are shown as liabilities in the Balance Sheet, while prepaid expenses are shown as assets in the Balance Sheet. The adjusted amount is taken to the Trading Account or Profit and Loss Account, as the case may be.

◆ **Example 6 - Calculate the amount to be taken to P&L A/c**

Rent paid as per cash book = 40,000

Rent O/S at the end = 10,000

☛ **Step 9. Adjustment of Revenue / Income:**

Income received during the year is shown on the debit side of the Cash Book. To determine the total income earned during the year, accrued income is added and income received in advance is deducted from the relevant income. Accrued income is shown as an asset in the Balance Sheet, while income received in advance is shown as a liability. The adjusted income is credited to the Profit and Loss Account.

☛ **Step 10. Ascertaining fixed assets balances:**

The balances of fixed assets are ascertained on the basis of following information:

(i) Opening balance of fixed assets as per the Opening Statement of Affairs.

(ii) Purchase and sale of fixed assets as shown by the Cash Book.

(iii) Depreciation provided on fixed assets during the year.

☛ **Step 11. Calculation of Total Sales and Total Purchases:**

After preparing the relevant accounts such as Total Debtors Account, Bills Receivable Account, Total Creditors Account, and Bills Payable Account, total sales and total purchases are calculated as follows:

(i) Total Sales = Cash Sales + Credit Sales

(ii) Total Purchases = Cash Purchases + Credit Purchases