

CHAPTER 1 ACCOUNTS FROM INCOMPLETE RECORDS

FORMULAS, SPECIMAN AND EXERCISE SUMS

1. Calculation of profit or loss through statement of affairs

$$\text{Adjusted closing capital} = \text{Closing capital} + \text{Drawings} - \text{Additional capital}$$

By comparing adjusted closing capital with the opening capital the profit or loss can be ascertained. If the difference is a positive figure it is profit and if it is negative it is loss.

$$\text{Closing Capital} + \text{Drawings} - \text{Additional Capital} - \text{Opening Capital} = \text{Profit/ Loss}$$

Tutorial note

Opening capital + Additional capital + Profit/ - Loss - Drawings = Closing capital

Profit/Loss = Closing capital + Drawings - Additional capital - Opening capital

2. Step to be followed to find out the profit or loss by preparing statement of affairs:

Following are the steps to be followed to find out the profit or loss when a statement of affairs is prepared:

1. Ascertain the opening capital by preparing a statement of affairs at the beginning of the year by taking the opening balances of assets and liabilities.
2. Ascertain the closing capital by preparing a statement of affairs at the end of the accounting period after making all adjustments such as depreciation, bad debts, outstanding and prepaid expenses, outstanding income, interest on capital, interest on drawings, etc.
3. Add the amount of drawings (both in cash and/in kind) to the closing capital.
4. Deduct the amount of additional capital introduced, to get adjusted closing capital.
5. Ascertain profit or loss by subtracting opening capital from the adjusted closing capital.
 - (a) If adjusted closing capital is more than the opening capital, it denotes profit
 - (b) If adjusted closing capital is lesser than the opening capital, it denotes loss

3. Format is used to find out the profit or loss

Statement of profit or loss for the year ended

Particulars	₹
Capital at the end of the year	xxx
Add: Drawings during the year	xxx
	xxx
Less: Additional capital introduced during the year	xxx
Adjusted closing capital	xxx
Less: Opening Capital	xxx
Profit or loss for the year	xxx

4. Statement of affairs:

Capital = Assets - Liabilities

Note: Find out opening capital or closing capital of the business. Prepare opening statement of affairs (Opening capital) and Closing statement of affairs (Closing capital).

5. Format of statement of affairs:

In the books of -----
Statement of affairs as on -----

Liabilities	₹	Assets	₹
Sundry creditors	xxx	Cash in hand	xxx
Bills payable	xxx	Cash at bank	xxx
Outstanding expenses	xxx	Sundry debtors	xxx
Bank overdraft	xxx	Bills receivable	xxx
Capital (Balancing figure)	xxx	Stock-in-trade	xxx
		Prepaid expenses	xxx
		Fixed assets	xxx
	xxx		xxx

6. Preparation of Final accounts from incomplete records

Steps to be followed to prepare Final accounts from incomplete records

Following are the steps to be followed to prepare final accounts from incomplete records:

1. Opening statement of affairs is to be prepared, to ascertain the opening capital.
2. Missing figures must be found out with the available data.

This can be done by preparing memorandum accounts or by making necessary adjustments to the existing figures. For example,

- (a) It may become necessary to prepare a cash book to find out the missing items such as cash purchases, cash sales, etc.
- (b) By preparing total debtors account and total creditors account, credit sales and credit purchases can be ascertained respectively.
- (c) Bills receivable account and bills payable account are to be prepared to find out the balances of bills receivable received and bills payable accepted respectively.

3. The final step is to prepare trading and profit and loss account and balance sheet.

7. Format of Total Debtors account:

Dr.	Total debtors account		Cr.
Particulars	₹	Particulars	₹
To Balance b/d (opening balance)	xxx	By Cash A/c (received)	xxx
To Sales A/c (credit sales)	xxx	By Bank A/c (cheques received)	xxx
To Bank A/c (cheque dishonoured)	xxx	By Discount allowed A/c	xxx
To Bills receivable A/c (bills dishonoured)	xxx	By Sales returns A/c	xxx
		By Bad debts A/c	xxx
		By Bills receivable A/c (bills received)	xxx
		By Balance c/d (closing balance)	xxx
	xxx		xxx

8. Format of Bills Receivable account:

Dr.		Bills receivable account		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d (opening balance)	xxx	By Cash / Bank A/c (Bills receivable honoured)	xxx		
To Sundry debtors A/c (Bills receivable received during the year)	xxx	By Sundry debtors A/c (Bills receivable dishonoured)	xxx		
		By Balance c/d (closing balance)	xxx		
	xxx		xxx		

9. Format of Total Creditors account:

Dr.		Total creditors account		Cr.	
Particulars	₹	Particulars	₹		
To Cash A/c (paid)	xxx	By Balance b/d (opening balance)	xxx		
To Bank A/c (cheques paid)	xxx	By Purchases A/c (credit purchases)	xxx		
To Bills payable A/c (bills accepted)	xxx	By Bank A/c (cheques dishonoured)	xxx		
To Discount received A/c	xxx	By Bills payable A/c (dishonoured)	xxx		
To Purchase returns A/c	xxx				
To Balance c/d (closing balance)	xxx		xxx		
	xxx		xxx		

10. Format of Bills Payable Account:

Dr.		Bills payable account		Cr.	
Particulars	₹	Particulars	₹		
To Cash / Bank A/c (bills payable paid)	xxx	By Balance b/d (opening balance)	xxx		
To Sundry creditors A/c (bills payable dishonoured)	xxx	By Sundry creditors A/c (bills accepted)	xxx		
To Balance c/d (closing balance)	xxx				
	xxx		xxx		

11. Point to remember:

- ❖ When accounting records are not strictly maintained according to double entry system they are called incomplete accounting records.
- ❖ In general, only cash and personal accounts are maintained fully.
- ❖ Any increase in capital is taken as profit while a decrease is regarded as loss.
- ❖ Closing Capital + Drawings – Additional Capital – Opening Capital = Profit/ Loss
- ❖ A statement of affairs is prepared to find out capital on a particular day by showing the balances of assets on the right side and the balances of liabilities on the left side.
- ❖ From the information available from incomplete records, and from other documents, the missing figures can be found out and then the final accounts can be prepared.

Exercise sums**1. Statement of Profit or loss for the year ended 31, March, 2019**

Particulars	Amount(₹)
Closing capital	850000
Add: Drawing	70000
	920000
Less: Additional Capital	(-)120000
Adjusted capital	800000
Opening capital	(-)500000
Profit	300000

(or)

Profit or loss = Closing capital + Drawings – Additional Capital – opening capital

$$= 850000 + 70000 - 120000 - 500000 = ₹300000$$

(Or)

Dr		Capital A/c		Cr	
Particulars	Amount(₹)	Particulars	Amount(₹)		
Drawings	70000	By balance b/d	500000		
		By cash a/c	120000		
To balance c/d	850000	By profit	300000		
	920000		920000		

Note: Dear students you follow any one method of above mentioned model.**2. Statement of Profit or loss for the year ended 31, December, 2018**

Particulars	Amount(₹)
Closing capital	180000
Less: Drawings	50000
	230000
Less: Additional capital	(-)40000
Adjusted capital	190000
Opening capital	(-)220000
Loss	-30000

3. Statement of Profit or loss for the year ended 31, March, 2018

Particulars	Amount(₹)
Closing capital	80000
Less: Drawings	15000
	95000
Less: Additional capital	(-)30000
Adjusted capital	65000
Opening capital	(-)90000
Profit	25000

4. Statement of Profit or loss for the year ended 31, December, 2018

Particulars	Amount(₹)
<i>Closing capital</i>	<i>145000</i>
Less: Drawings	30000
	175000
Less: Additional capital	(-)15000
Adjusted capital	160000
Opening capital	(-)100000
Profit	600000

Note: If you find out the missing information to ascertain profit or loss. You must be follow reverse function of given specimen.

For example:

Profit /loss = Opening capital+ Additional capital – Drawings – Closing capital

Answer the problem no:4

Profit /loss = Opening capital+ Additional capital – Drawings – Closing capital

60000 = 100000+15000-30000- Closing capital

Closing capital = 100000+15000-30000+60000 = ₹145000

5. Statement of Profit /loss for the year ended 31st March 2019

Particular	Amount(₹)
Closing capital	50000
Less: Drawings	<u>5000</u>
	55000
Less: Additional capital	<u>(-)7000</u>
Adjusted capital	48000
Opening capital	<u>(-)40000</u>
Profit	8000

6. Find out capital (opening / closing capital)

Statement of affairs as on 31st March, 2019

Liabilities	₹	Assets	₹
Sundry creditors	600000	Furniture	80000
Bills payables	120000	Cash in hand	20000
Capital	280000	Land & building	300000
		Bills receivable	60000
		Sundry debtors	320000
		Stock	220000
	1000000		1000000

7. Statement of affairs as on 31st March, 2019

Liabilities	₹	Assets	₹
Bank overdraft	50000	Stock in trade	160000
Creditors	90000	Debtors	180000
Bills payable	240000	Bills receivable	70000
Capital	420000	Computer	30000
		Cash in hand	60000
		Machinery	300000
	800000		800000

Statement of profit/loss for the year ended 31st March 2019

Particulars	Amount(₹)
Closing capital	420000
Add: Drawings	<u>30000</u>
	450000
Less: Additional capital	<u>(-)40000</u>
Adjusted capital	410000
Opening capital	<u>(-)120000</u>
Profit	<u>290000</u>

8. Statement of affairs of Raju as on 1st January 2018

Liabilities	₹	Assets	₹
Sundry creditors	130000	Cash at bank	80000
Bank loan	60000	Stock of goods	180000
Bills payable	80000	Debtors	90000
Opening capital	250000	Plant & machinery	170000
	520000		520000

Statement of affairs of Raju as on 31st December 2018

Liabilities	₹	Assets	₹
Sundry creditors	195000	Cash at bank	90000
Bank loan	60000	Stock of goods	140000
Bills payable	45000	Debtors	200000
Opening capital	300000	Plant & machinery	170000
	600000		600000

Statement of profit/loss for the year ended 31st December 2018

Particulars	Amount(₹)
Closing capital	300000
Add: Drawings	<u>30000</u>
	330000
Less: Additional capital	<u>(-)50000</u>
Adjusted capital	280000
Opening capital	<u>(-)250000</u>
Profit	<u>30000</u>

9. Statement of affairs of Ananth as on 31st March 2018

Liabilities	₹	Assets	₹
Sundry creditors	170000	Cash at bank	5000
Capital (opening)	193000	Cash in hand	3000
		Stock of goods	35000
		Sundry debtor	100000
		Plant & Machinery	80000
		Land & Buildings	140000
	363000		363000

Statement of affairs of Ananth as on 31st March 2019

Liabilities	₹	Assets	₹
Bank overdraft	60000	Cash in hand	4500
Sundry creditor	130000	Stock of goods	45000
Capital (Closing capital)	157000	Debtors 90000	
		Less: 5% PFBD 4500	85500
		Plant & Machinery 80000	
		Less: Depreciation 8000	72000
		Land & Buildings	140000
	347000		347000

Statement of profit or loss for the year ended 31st March 2019

Particular	₹
Closing capital	157000
Add: Drawings	60000
	217000
Less: Additional capital	(-)17000
Adjusted capital	200000
Opening capital	(-)193000
Profit	7000

10. Find out credit sales:

Dr Total Debtors A/c Cr

Particulars	₹	Particulars	₹
Balance b/d	100000	Cash a/c	230000
		Discount allowed	5000
<i>Credit sales</i>	<i>280000</i>	Returns inward	25000
		Balance c/d	120000
	380000		380000

11. Find out Total sales

Dr Total Debtors A/c Cr

Particulars	₹	Particulars	₹
Balance b/d	130000	Cash a/c	420000
		Sales return	35000
<i>Credit sales</i>	<i>540000</i>	Bad debt	15000
		Balance c/d	200000
	670000		670000

Total sales = Cash sales + Credit sales = 460000 + 540000 = 1000000

12. Find out Bills Receivable

Dr Bills Receivable A/c Cr

Particulars	₹	Particulars	₹
Balance b/d	140000	Cash a/c	390000
		Debtors a/c (B/R Dishonour)	30000
<i>Debtors A/c (B/R received)</i>	<i>480000</i>	Balance c/d	200000
	620000		620000

13. Find out Total sales

Dr		Bills Receivable A/c		Cr	
Particulars	₹	Particulars	₹		
Balance b/d	60000	Cash a/c	160000		
		Debtors a/c(B/R Dishonour)	15000		
Debtors A/c (B/R received)	205000	Balance c/d	90000		
	265000		265000		

Dr Total Debtors A/c Cr

Particulars	₹	Particulars	₹
Balance b/d	250000	Cash a/c	725000
		Returns inward	50000
B/R dishonour	15000	Bad debt	30000
		B/R Received	205000
Credit sales	985000	Balance c/d	240000
	1250000		1250000

Total sales = Cash sales + Credit sales

$$= 315000 + 985000$$

$$= 1300000$$

14. Find out Credit purchase

Dr Total Creditor a/c Cr

Particulars	₹	Particulars	₹
Cash a/c (Paid)	450000	Balance b/d	170000
Purchase return	20000		
Balance c/d	190000	Credit purchase	490000
	660000		660000

15. Find out Total purchase

Dr Bills payable a/c Cr

Particulars	₹	Particulars	₹
Cash a/c (paid)	30000	Balance b/d	25000
		Creditor a/c (B/R accepted)	25000
Balance c/d	20000		
	50000		50000

Dr Total Creditors a/c Cr

Particulars	₹	Particulars	₹
Cash a/c (Paid)	120000	Balance b/d	30000
Purchase return	15000		
B/P (accepted)	25000		
Balance c/d	25000	Credit sales	155000
	185000		185000

Total sales = Cash sales + Credit sales

$$= 225000 + 155000$$

$$= ₹380000$$

16. Find out Credit sales and Credit purchase

Dr		Bills Receivable a/c		Cr	
Particulars	₹	Particulars	₹		
Balance b/d	30000	Cash a/c (Paid)	60000		
Debtors a/c (B/R accepted)	42000	Debtors (B/R dishonour)	4000		
		Balance c/d	8000		
	72000		72000		

Dr		Total Debtors a/c		Cr	
Particulars	₹	Particulars	₹		
Balance b/d	240000	Cash a/c (Received)	600000		
B/R(Dishonour)	4000	Discount allowed	25000		
Credit sales	659000	Bad debt	16000		
		B/R(Accepted)	42000		
	903000	Balance c/d	220000		
			903000		

Dr		Bills Payable a/c		Cr	
Particulars	₹	Particulars	₹		
Cash a/c (Paid)	30000	Balance b/d	10000		
Balance c/d	20000	Creditor a/c (B/P accepted)	40000		
	50000		50000		

Dr		Total Creditors a/c		Cr	
Particulars	₹	Particulars	₹		
Cash a/c (paid)	320000	Balance b/d	120000		
Discount received	10000				
B/P accepted	40000				
Balance c/d	150000	Credit purchase	400000		
	520000		520000		

17. Prepare Profit and loss account and Balance sheet

Dr		Total Debtor a/c		Cr	
Particulars	₹	Particulars	₹		
Balance b/d	530000	Cash a/c (Received)	1250000		
Credit sales	1385000	Discount allowed	25000		
	1915000	Balance c/d	640000		
			1915000		

Total sales = Cash sales + Credit sales = 20000+ 1385000 = ₹1405000

Dr		Total Creditors a/c		Cr	
Particulars	₹	Particulars	₹		
Cash a/c (Paid)	1100000	Balance b/d	370000		
Discount received	35000				
Balance c/d	420000	Credit purchase	1185000		
	1555000		1555000		

In the book of Rakesh, Trading and Profit and loss account for the year ending 31st March, 2019

Particulars	₹	₹	Particulars	₹	₹
Opening stock		220000	Sales:		
Purchase:			Credit sales	1385000	
Credit purchase		1185000	Cash sales	<u>20000</u>	1405000
Gross profit (Transfer to P&L a/c)		160000	Closing stock		160000
		1565000			1565000
Rent paid		120000	Gross profit (Transferred from trading a/c)		160000
Discount allowed		25000	Discount received		35000
Net profit(Transfer to Capital a/c)		50000			
		195000			195000

In the books of Rakesh, Balance sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Opening capital	520000		Stock		160000
Add: Net profit	<u>50000</u>		Debtors		640000
	570000		Cash at bank		10000
Less: Drawings	<u>100000</u>	470000	Machinery		80000
Sundry creditors		420000			
		890000			890000

18. Final account of Mary (Trading & Profit and loss account and Balance sheet)

Dr		Sundry Debtors a/c		Cr	
Particulars	₹	Particulars	₹		
Balance b/d	130000	Cash a/c(Received)	340000		
Credit sales	290000	Balance c/d	80000		
	420000		420000		

Total sales = Cash sales + Credit sales = 360000 + 290000 = ₹ 650000

In the books of Mary. Trading and profit & Loss a/c for the year ending 31st March, 2019

Particulars	₹	₹	Particulars	₹	₹
Opening stock		110000	Sales:		
Purchase:			Credit sales	290000	
Credit purchase	180000		Cash sales	<u>360000</u>	650000
Cash purchase	<u>150000</u>	330000	Closing stock		180000
Wages		70000			
Gross profit (Transfer to P&L a/c)		320000			
		830000			830000
Sundry expenses		127000	Gross profit (Transfer from Trading a/c)		320000
Depreciation (Furniture & Fittings 10%)		8000			
Net profit (Transfer to capital a/c)		185000			
		320000			320000

In the books of Mary, Balance sheet as on 31st March 2019

Liabilities	₹	₹	Assets	₹	₹
Opening capital	280000		Stock		180000
Add: Net profit	<u>185000</u>		Debtors		80000
		465000	Cash in hand		223000
Sundry creditors		90000	Furnitures & Fittings	80000	
			Less: Depreciation	<u>8000</u>	72000
		555000			555000

19. Final account of Arun Carriers**Statement of affairs as on 31st December 2017**

Liabilities	₹	Assets	₹
Creditors	50000	Land & Building	240000
Capital (Beginning)	380000	Stock	120000
		Debtors	40000
		Cash at bank	30000
	430000		430000

Dr Sundry Creditors a/c Cr

Particulars	₹	Particulars	₹
Cash a/c(Paid)	600000	Balance b/d	50000
Purchase return	30000		
Balance c/d	45000	Credit purchase	625000
	675000		675000

Trading and profit and loss a/c for the year ending 31st December, 2018

Particulars	₹	₹	Particulars	₹	₹
Opening stock		120000	Sales	770000	
Purchase			Less: Sales return	<u>-25000</u>	745000
Credit purchase	625000				
Less: Purchase return	<u>-30000</u>	595000	Closing stock		170000
Wages		65000			
Gross profit(Transfer to P&L a/c)		135000			
		915000			915000
Carriage outward		7500	Gross profit(Transfer from Trading a/c)		135000
Sundry expenses		28000			
Depreciation(5% Land & Buildings)		12000			
Provision for bad doubtful debt		1500			
Net profit (Transfer to Capital a/c)		86000			
		135000			135000

Balance sheet as on 31st December 2019

Liabilities	₹	₹	Assets	₹	₹
Opening stock	380000		Stock		170000
Add: Net profit	<u>86000</u>		Debtors	51500	
	466000		Less: Provision for DD	<u>-1500</u>	50000
Less: Drawings	<u>100000</u>	456000	Land & Buildings	240000	228000
			Less: Depreciation	<u>-12000</u>	
Sundry creditors		45000	Cash at bank		53000
		501000			501000

20. Final accounts of Selvam**Statement of affairs as on 31st December 2017**

Liabilities	₹	Assets	₹
Bank loan	45000	Machinery	60000
Sundry creditors	25000	Cash at bank	25000
Capital (opening)	150000	Sundry debtors	70000
		Stock	45000
		Bills Receivable	20000
	220000		220000

Trading & Profit and loss account for the year ending 31st March 2018

Particulars	₹	₹	Particulars	₹	₹
Opening stock		45000	Sales:		
Purchase:			Cash sales	20000	
Cash purchase	8000		Credit sales	<u>180000</u>	200000
Credit sales	<u>52000</u>	60000	Closing stock		22000
Wages		6000			
Gross profit (Transfer to P&L a/c)		111000			
		<u>222000</u>			<u>222000</u>
Salaries		23500	Gross profit (Transfer from Trading a/c)		111000
Interest on bank loan		4500			
Depreciation(10% on Machinery)		6000			
Provision for Bad&Doubtful debt		1000			
Advertisement		7000			
Net Profit(Transfer to Capital a/c)		69000			
		<u>111000</u>			<u>111000</u>

Balance sheet as on 31st December 2018

Liabilities	₹	₹	Assets	₹	₹
Opening capital	150000		Stock		22000
Add: Net profit	<u>69000</u>		Debtors	100000	
	219000		Less: Provision for BD	<u>-1000</u>	99000
Less: Drawings	<u>(-60000)</u>		Machinery	60000	
			Less: Depreciation	<u>-6000</u>	54000
Add: Additional capital	159000		Cash at bank		33000
	<u>21000</u>	180000	Bills Receivable		38000
Sundry Creditors		21000			
Bank loan		45000			
		246000			246000



Student activity 1.3

Fill in the missing information

Closing capital ₹	Drawings ₹	Additional capital ₹	Opening capital ₹	Profit / Loss ₹
1,00,000	40,000	20,000	90,000	?
?	30,000	40,000	80,000	20,000
70,000	?	30,000	40,000	10,000
60,000	20,000	?	50,000	- 10,000
2,00,000	30,000	10,000	?	1,20,000

Solution:

Closing capital (₹)	Drawings(₹)	Additional capital(₹)	Opening capital (₹)	Profit/loss (₹)
100000	40000	20000	90000	30000
110000	30000	40000	80000	20000
70000	10000	30000	40000	10000
60000	20000	40000	50000	-10000
200000	30000	10000	100000	120000

Note:

Closing capital + Drawings – Additional capital – Opening capital = Profit / Loss

Opening capital + Additional capital + Profit / (-)Loss – Drawings = Closing capital

Profit / Loss = Closing capital + Drawings – Additional capital – Opening capital

CASE STUDY

Deepa is a sole trader. She does not maintain full set of accounting records. She maintains cash book and personal accounts. She has an assistant who maintains the books of accounts. On the last day of the accounting period, her assistant left the job. On checking the physical cash balance with the cash book, Deepa realised that some cash was missing. She provides you with the following information. Calculate the missing cash.

- All sales were made on cash basis. There was no income other than sales.
- She had ₹ 25,000 cash in hand at the beginning of the year and ₹ 12,000 at the end of the year.
- Sales made during the year were ₹ 80,000.
- She had taken some of the money for her personal use but does not have record of the same.
- Capital at the beginning of the year was ₹ 25,000 and at the end of the year was ₹ 32,000
- Profit for the year was ₹ 35,000
- Purchases and other expenses were ₹ 55,000

Statement of Profit / Loss of Deepa

Particulars	Amount
Closing capital	32000
Add: Drawings	28000
Adjusted capital	60000
Less: Opening capital	(-)25000
Profit	350000

Dr		Cash Account		Cr	
Particulars	₹	Particulars	₹		
Balance b/d	25000	Purchase & other exp	55000		
Sales	80000	Drawings	28000		
		Balance c/d	12000		
		<i>Suspense account (Missing)</i>	<i>10000</i>		
	105000		105000		

Missing amount = 10000



Arise! Awake! And Stop not until the goal is reached

-Swami Vivekanandar

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