

CHAPTER 06

Accounts From Incomplete Records

In this Chapter...

- Meaning of Incomplete Records
- Statement of Affairs or Net Worth Method

Meaning of Incomplete Records

Accounting records which are not maintained in accordance with the principles of double entry system are known as accounts from incomplete records or single entry system of accounting.

Under this system, both the aspects are recorded for certain transactions only, while for others only one aspect is recorded. Some transactions are ignored and not recorded at all.

Features of Incomplete Records

- It is an inaccurate, unscientific and unsystematic method of recording business transactions.
- Generally, records for cash transactions and personal accounts are properly maintained and there is no information regarding revenues and/or gains, expenses and/or losses, assets and liabilities.
- This system is suitable for small size business where the number of transactions are less.

Advantages/Uses of Incomplete Records

- Single entry system can be adopted even by people who do not have the proper knowledge of accounting principles.
- As specialised accountants are not required, it is an inexpensive mode of maintaining records.
- As only few books are maintained, time consumed in maintaining records is also less.
- It is a convenient mode of maintaining records as the owner may record only important transactions according to the need of a business.

Limitations of Incomplete Records

- Arithmetical accuracy of accounts under single entry system cannot be ensured as trial balance cannot be prepared.
- Correct ascertainment and evaluation of financial results of business operations cannot be made.
- A problem in raising funds from outsiders and planning for future business activities may arise as analysis of profitability, liquidity and solvency of the business cannot be done.
- Filing of insurance claim with an insurance company by the owner in case of loss of inventory by fire or theft becomes difficult.

- Convincing the income tax authorities about the reliability of the computed income becomes difficult.
- Avoiding misappropriation of assets may become difficult as assets accounts are not maintained and it may be difficult to keep full control.
- Correct profit earned or loss incurred during the accounting period is not known as trading and profit and loss account cannot be prepared.

Ascertainment of Profit or Loss under Incomplete Records

Every business firm wishes to ascertain the results of its operations to assess its efficiency, success and failures. This gives rise to the need for preparing the financial statements to disclose

- the profit made or loss sustained by the firm during a given period.
- the amount of assets and liabilities as at the closing date of the accounting period.

This can be done in two ways

- By preparing the statement of affairs as at the beginning and at the end of the accounting period, called **statement of affairs** or **net worth method**.
- By **conversion method**, i.e. by preparing trading and profit and loss account and the balance sheet by putting the accounting records in proper order.

Note 'Conversion Method' is not covered in latest syllabus, therefore not explained.

Statement of Affairs or Net Worth Method

A statement of affairs is a statement of all assets and liabilities. It is a statement in which assets are shown on one side and the liabilities on the other, just as in case of a balance sheet. The difference between the totals of the two sides is the capital. Under this method, statement of assets and liabilities as at the beginning and at the end of the relevant accounting period is prepared to ascertain the amount of change in the capital during the period.

It is based on the accounting equation as

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

A statement of affairs is similar to, though not the same as a balance sheet.

Format of Statement of Affairs

Statement of Affairs as at ...			
Liabilities	Amt (₹)	Assets	Amt (₹)
Bank Overdraft	...	Cash in Hand	...
Bills Payable	...	Cash at Bank	...
Sundry Creditors	...	Bills Receivable	...
Outstanding Expenses	...	Sundry Debtors	...
Incomes Received in Advance	...	Stock Prepaid Expenses	...
Capital (Balancing figure)	...	Accrued Income	...
		Furniture	...
		Plant and Machinery, etc.	...

Preparation of Statement of Profit and Loss

Once the amount of capital, both at the beginning and at the end is computed with the help of statement of affairs, a statement of profit and loss is prepared to ascertain the exact amount of profit or loss made during the year.

The difference between the opening and closing capital represents its increase or decrease which is to be adjusted for withdrawals made by the owner or any fresh capital introduced by him during the accounting period in order to arrive at the amount of profit or loss made during the period.

Format of Statement of Profit and Loss

Statement of Profit and Loss for the year ending...

Particulars	Amt (₹)
Capital as at the End of the Year (Computed from statement of affairs as at the end of the year)	...
(+) Drawings During the Year	...
(-) Additional Capital Introduced During the Year	(...)
Adjusted Capital at the End of the Year	...
(-) Capital as at the Beginning of the Year (Computed from statement of affairs as at the beginning of the year)	(...)
Profit or Loss Made During the Year	...

The same computation can be done in the form of an equation as follows

$$\text{Profit or Loss} = \text{Capital at the End} - \text{Capital at the Beginning} + \text{Drawings During the Year} \\ - \text{Capital Introduced During the Year}$$

Solved Examples

Example 1. Panwar commenced business on 1st January, 2020 with a capital of ₹ 10,000, which he paid into bank account opened for the purpose. On the same date, he brought furniture which cost ₹ 2,000 and made purchases of goods worth ₹ 6,500. He kept his books on single entry system. On 31st December, 2020, stock was valued at ₹ 8,300. There were book debts amounting to ₹ 3,400 out of which ₹ 200 represented debts which were irrecoverable.

Creditors amounted to ₹ 3,600 and bank passbook showed a balance of ₹ 1,450. Panwar withdrew three times from business for his private expenses, each time he withdrew ₹ 600 and in addition he used ₹ 500 worth of goods from his shop. He took ₹ 1,000 as loan from his wife during the year. He gave ₹ 200 to his son from business, which he omitted to enter. You are required to prepare a statement showing profit or loss in the business for the year ending 31st December, 2020 from the above information.

Ans.

Statement of Affairs as at 31st December, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	3,600	Bank	1,450
Loan from Wife	1,000	Stock	8,300
Capital (Balancing Figure)	10,350	Debtors	3,400
		(-) Bad Debts	(200)
		Furniture	2,000
	14,950		14,950

Statement Showing Profit or Loss for the year ending 31st December, 2020

Particulars	Amt (₹)
Closing Capital as on 31st December, 2020	10,350
(+) Drawings During the Year	
Drawings in Cash (600 × 3)	1,800
Drawings in Goods	500
Drawings in Cash (To Son)	200
Adjusted Capital at the End	12,850
(-) Opening Capital	(10,000)
Profit For the Year	2,850

Example 2. Mr Girdhari Lal does not keep full double entry records. His balance as on 1st January, 2021 is as

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	35,000	Cash in Hand	5,000
Bills Payable	15,000	Cash at Bank	20,000
Capital	40,000	Sundry Debtors	18,000
		Stock	22,000
		Furniture	8,000
		Plant	17,000
	90,000		90,000

His position at the end of the year is

Items	Amt (₹)
Cash in Hand	7,000
Stock	8,600
Debtors	23,800
Furniture	15,000
Plant	20,350
Bills Payable	20,200
Creditors	15,000

He withdrew ₹ 500 per month out of which he spent ₹ 1,500 for business purpose. Prepare the statement of profit or loss. (NCERT)

Ans.

Statement of Affairs
as at 31st December, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Bills Payable	20,200	Cash in Hand	7,000
Creditors	15,000	Stock	8,600
Capital (Balancing Figure)	39,550	Debtors	23,800
		Furniture	15,000
		Plant	20,350
	74,750		74,750

Statement Showing Profit or Loss
for the year ended 31st December, 2021

Particulars	Amt (₹)
Capital at the End of the Year as on 31st December, 2021	39,550
(+) Drawings During the Year [(500 × 12) – 1,500]	4,500
Adjusted Capital at the End	44,050
(–) Capital in the Beginning of the Year as on 1st January, 2021	(40,000)
Profit for the Year	4,050

Example 3. Roop Prakash keeps his books on incomplete records. Following is the information available

Particulars	1st April, 2020 (₹)	31st March, 2021 (₹)
Plant and Machinery	1,40,000	1,85,000
Cash in Hand	40,800	2,31,500
Stock	65,800	1,70,600
Furniture	75,000	90,000
Building	1,60,000	1,80,000
Creditors	37,000	16,800
Debtors	24,600	86,200
10% Investment	2,00,000	2,00,000

During the year, he sold his personal investment of ₹ 5,00,000 and 80% of it introduced into his business. He withdrew ₹ 30,000 quarterly. Calculate profit after making following adjustments

- (i) Provide depreciation on building and furniture at 10% and 20% respectively.
(ii) Create provision on debtors at 5%. (iii) Rent paid in advance ₹ 5,800.
(iv) Interest on investment accrued for 6 months. (v) Salary due but not paid ₹ 2,200.

Ans.

Statement of Affairs
as at 1st April, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	37,000	Plant and Machinery	1,40,000
Opening Capital (Balancing figure)	6,69,200	Cash in Hand	40,800
		Stock	65,800
		Furniture	75,000
		Building	1,60,000
		Debtors	24,600
		10% Investment	2,00,000
	7,06,200		7,06,200

Statement of Affairs (Before Adjustments)
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	16,800	Plant and Machinery	1,85,000
Closing Capital (Balancing figure)	11,26,500	Cash in Hand	2,31,500
		Stock	1,70,600
		Furniture	90,000
		Building	1,80,000
		Debtors	86,200
		10% Investment	2,00,000
	11,43,300		11,43,300

Statement of Profit and Loss
for the year ending 31st March, 2021

Particulars	Amt (₹)
Closing Capital	11,26,500
(+) Drawings (30,000 × 4)	1,20,000
	12,46,500
(-) Additional Capital (5,00,000 × 80%)	(4,00,000)
Adjusted Capital	8,46,500
(-) Opening Capital	(6,69,200)
Profit before Adjustment	1,77,300
(-) Provision on Debtors (4,310)	
(-) Depreciation on Building (18,000)	
(-) Depreciation on Furniture (18,000)	
(-) Salary Outstanding (2,200)	
	(42,510)
(+) Interest on Investment (Accrued) 10,000	
(+) Rent Paid in Advance 5,800	15,800
Net Profit after Adjustment	1,50,590

Statement of Affairs (After Adjustments)
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Opening Capital 6,69,200		Plant and Machinery	1,85,000
(+) Additional Capital 4,00,000		Cash in Hand	2,31,500
(+) Net Profit 1,50,590		Stock	1,70,600
(-) Drawings (1,20,000)	10,99,790	Furniture 90,000	
Creditors 16,800		(-) Depreciation (18,000)	72,000
Salary Outstanding 2,200		Building 1,80,000	
		(-) Depreciation (18,000)	1,62,000
		Debtors 86,200	
		(-) Provision on Debtors (4,310)	81,890
		10% Investment 2,00,000	
		(+) Accrued Interest 10,000	2,10,000
		Rent Paid in Advance	5,800
	11,18,790		11,18,790

Chapter Practice

PART 1

Objective Questions

• Multiple Choice Questions

1 Generally accounts under single entry system are maintained by

- (a) small businesses (b) company (c) partnership firm (d) government undertakings

Ans. (a) Single entry system is adopted by the small business organisations where transactions are limited and most of them are on cash basis.

2. In single entry system of accounting,

- (a) dual aspect of a transaction is recorded (b) single aspect of transaction is recorded
(c) important transactions are recorded (d) All of these

Ans. (d) It is a system of recording business transactions. In some of the transactions, both aspects are recorded while in others one aspect is recorded or it is not recorded at all.

3. Single entry system can only provide degree of as no proper method of accounting is followed in preparation of profit and loss.

- (a) low, accuracy (b) low, record (c) high, accuracy (d) high, record

Ans. (a) Profit and loss for the year cannot be ascertained under single entry system with high degree of accuracy, as only estimation of the profit earned or loss incurred can be made.

4. What are the common objectives between the double entry system and single entry system?

- (a) To determine profit/loss during the year (b) To ascertain amount due from the debtors
(c) To know the financial position of the business (d) Both (a) and (c)

Ans. (d) Both (a) and (c)

5. Incomplete record mechanism of book keeping is

- (a) scientific (b) unscientific (c) unsystematic (d) Both (b) and (c)

Ans. (d) Both (b) and (c)

6. Consider the following statements regarding single entry system of accounting and identify correct statement(s).

- (i) Only cash transactions and personal accounts are maintained.
(ii) There is huge dependence on original vouchers for determining total credit sales, credit purchases etc.
(iii) Financial position of current year can be easily compared with previous years.

Alternatives

- (a) Only (i) (b) Both (ii) and (iii) (c) Both (i) and (ii) (d) All of these

Ans. (c) Both (i) and (ii)

7. Which among the following transactions will be ignored under single entry system?

- (a) Depreciation on fixed asset (b) Cash paid to acquire a fixed asset
(c) Interest paid on loan (d) None of these

Ans. (a) Depreciation on fixed asset comprise of effect on nominal and real account which are not prepared under single entry system as only cash and personal accounts are prepared. Thus, this transaction will be ignored under single entry system.

8. Which of the following is not a method of ascertainment of profit or loss under single entry system?

- | | |
|-------------------------|--------------------------|
| (i) Conversion method | (ii) Net worth method |
| (iii) Alteration method | (iv) Conservation method |

Alternatives

- | | | | |
|--------------|-------------------------|-------------------------|---------------|
| (a) Only (i) | (b) Both (ii) and (iii) | (c) Both (iii) and (iv) | (d) Only (iv) |
|--------------|-------------------------|-------------------------|---------------|

Ans. (c) Both (iii) and (iv)

9. Statement of financial position produced from incomplete accounting record is called

- | | |
|--------------------------|-------------------------|
| (a) Balance sheet | (b) Statement of events |
| (c) Statement of affairs | (d) None of these |

Ans. (c) Statements of affairs

10. What will be the correct sequence of events under net worth method?

- Prepare statement of affairs at the end to calculate closing capital.
- Prepare statement of profit or loss to find profit earned or loss incurred during the year.
- Prepare statement of affairs at the beginning of year for calculating opening capital.

Alternatives

- | | | | |
|----------------------|---------------------|----------------------|----------------------|
| (a) (i), (ii), (iii) | (b) (ii),(iii), (i) | (c) (iii), (ii), (i) | (d) (iii), (i), (ii) |
|----------------------|---------------------|----------------------|----------------------|

Ans. (d) (iii), (i), (ii)

11. Opening capital = ₹ 60,000; Drawings = ₹ 5,000; Capital added during the year = ₹ 10,000; Closing capital = ₹ 90,000. Find profit/loss for the year.

- | | | | |
|--------------|--------------|--------------|--------------|
| (a) ₹ 15,000 | (b) ₹ 25,000 | (c) ₹ 18,000 | (d) ₹ 10,000 |
|--------------|--------------|--------------|--------------|

Ans (b) Profit = Closing Capital + Drawings – Opening Capital – Additional Capital

$$= 90,000 + 5,000 - 60,000 - 10,000 = ₹ 25,000$$

12. What will be the opening capital, if drawings are ₹ 15,000, profit for the year ₹ 25,000 and closing capital ₹ 70,000?

- | | | | |
|--------------|--------------|--------------|--------------|
| (a) ₹ 80,000 | (b) ₹ 60,000 | (c) ₹ 95,000 | (d) ₹ 55,000 |
|--------------|--------------|--------------|--------------|

Ans. (b) Opening Capital = Closing Capital + Drawings – Profit – Additional Capital = $70,000 + 15,000 - 25,000$

$$= ₹ 60,000$$

13. Closing Capital = ₹ 1,20,000

Drawing was 25% of closing capital

Additional capital was ₹ 34,000.

Opening capital was ₹ 20,000.

What will be the amount of profit?

- | | | | |
|--------------|--------------|--------------|----------------|
| (a) ₹ 80,000 | (b) ₹ 90,000 | (c) ₹ 96,000 | (d) ₹ 1,20,000 |
|--------------|--------------|--------------|----------------|

Ans. (c) Profit = Closing Capital + Drawings – Additional Capital – Opening Capital

$$= 1,20,000 + 30,000 \text{ (25\% of 1,20,000)} - 34,000 - 20,000 = ₹ 96,000.$$

• Assertion-Reasoning MCQs

Direction (Q. Nos. 1 to 4) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.

- Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- Both Assertion (A) and Reason (R) are false
- Assertion (A) is false, but Reason (R) is true

1. Assertion (A) Single entry system is incomplete method of maintaining accounting records.

Reason (R) Both aspects of a transaction i.e., debit and credit are not recorded.

Ans. (b) Single entry system is incomplete method in which very few books are maintained and both aspects of transactions are not recorded.

2. Assertion (A) Single entry system is very expensive mode of maintaining books of accounts.

Reason (R) Specialised accountants are required to maintain accounts under single entry system.

Ans. (c) It is an inexpensive mode of maintaining records as no specialised accountants are required to prepare it.

3. Assertion (A) Arithmetical accuracy cannot be checked under single entry system.

Reason (R) A trial balance is not prepared under single entry system.

Ans. (b) Trial balance is not prepared under single entry system as both aspects of transactions are not recorded. Thus, arithmetical accuracy cannot be checked.

4. Assertion (A) Accounts of various organisations are comparable under single entry system.

Reason (R) There is uniformity between books of accounts maintained under single entry system.

Ans. (c) Accounts of different organisations are not comparable as there is no uniformity in maintenance and preparation of accounts.

• Case Based MCQs

Direction Read the following case study and answer the question no. (i) to (iv) on the basis of the same.

1. Rohan, B.Com Hons. graduate from SRCC, has now started his own business of furniture near Gurugram. His business transactions are very less, therefore he maintains books of accounts on single entry system. As being a commerce graduate, Rohan is maintaining books of accounts himself. Following information is available

Particulars	1st April, 2020 (₹)	31st March, 2021 (₹)
Sundry Debtors	1,20,000	1,70,000
Sundry Creditors	35,000	44,000
Buildings	2,25,000	3,65,000
Furniture	50,000	60,000
Stock	21,600	19,500
Cash in Hand	1,17,600	11,09,600
Land	5,00,000	5,00,000
Machinery	1,65,000	2,70,000

During the year, he introduced additional capital of ₹ 5,60,000 and withdrew ₹ 2,000 p.m. for household expenses.

At the end of year 31st March, 2021, he noticed few adjustments which are as follows

- (a) Provision on debtors created @ 10%.
 - (b) Building and furniture depreciated by 10% and 5% respectively.
 - (c) Fire insurance paid in advance ₹ 10,000.
 - (d) Outstanding salary ₹ 5,000.
- (i) Amount of opening capital will be
- (a) ₹ 11,99,200
 - (b) ₹ 10,44,200
 - (c) ₹ 11,64,200
 - (d) ₹ 11,29,200

Ans. (c)

Statement of Affairs
as at 1st April, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	35,000	Sundry Debtors	1,20,000
Opening Capital (Balancing figure)	11,64,200	Building	2,25,000
		Furniture	50,000
		Stock	21,600
		Cash in Hand	1,17,600
		Land	5,00,000
		Machinery	1,65,000
	11,99,200		11,99,200

(ii) What will be the net profit after all adjustments?

(a) ₹ 6,98,400

(b) ₹ 6,88,400

(c) ₹ 6,94,600

(d) None of these

Ans. (a)

Statement of Profit and Loss
for the year ending 31st March, 2021

Particulars	Amt (₹)
Capital at the End	24,50,100
(+) Drawings (2,000 × 12)	24,000
	24,74,100
(-) Additional Capital	(5,60,000)
Adjusted Capital	19,14,100
(-) Opening Capital	(11,64,200)
Profit before Adjustment	7,49,900
(-) Provision on Debtors (17,000)	
(-) Depreciation on Building (36,500)	
(-) Depreciation on Furniture (3,000)	
(-) Outstanding Salary (5,000)	(61,500)
Prepaid Expenses	10,000
Net Profit after Adjustment	6,98,400

(iii) Which of the following will be the amount of closing capital after taking into consideration all adjustments?

(a) ₹ 24,50,100

(b) ₹ 24,47,600

(c) ₹ 21,54,200

(d) ₹ 23,98,600

Ans. (d) Amount of Closing Capital

Opening Capital	11,64,200
(+) Additional Capital	5,60,000
(+) Net Profit	6,98,400
(-) Drawings	(24,000)
	<u>₹ 23,98,600</u>

(iv) What is the amount of closing capital before taking into account any of the above adjustments?

(a) ₹ 24,94,100

(b) ₹ 23,98,600

(c) ₹ 24,50,100

(d) ₹ 25,38,100

Ans. (c)

Statement of Affairs
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	44,000	Sundry Debtors	1,70,000
Closing Capital (Balancing figure)	24,50,100	Building	3,65,000
		Furniture	60,000
		Stock	19,500
		Cash in Hand	11,09,600
		Land	5,00,000
		Machinery	2,70,000
	24,94,100		24,94,100

PART 2

Subjective Questions

• Short Answer (SA) Type Questions

1. Mention any three features of single entry system.

Ans. Features of single entry system are as follows

- It is an inaccurate, unscientific and unsystematic method of recording business transactions.
- Generally records for cash transactions and personal accounts are properly maintained and there is no information regarding revenues and/or gains, expenses and/or losses, assets and liabilities.
- This system is suitable for small size business where the number of transactions are less.

2. What are the possible reasons for keeping incomplete records? (NCERT)

Ans. It is observed that many businessmen keep incomplete records because of the following reasons

- Single entry system can be adopted by people who do not have the proper knowledge of accounting principles.
- As specialised accountants are not required, it is an inexpensive mode of maintaining records.
- As only a few books are maintained, time consumed in maintaining records is also less.
- It is a convenient mode of maintaining records as the owner may record only important transactions according to the need of a business.
- It is suitable for organisations which have limited number of transactions and very few assets and liabilities.

3. What practical difficulties are encountered by a trader due to incompleteness of accounting records? (NCERT)

Ans. The practical difficulties encountered by a trader due to incompleteness of accounting records are

- As the accounts are incomplete in nature, there are strong chances of fraud to take place.
- Arithmetical accuracy of accounts under single entry system cannot be checked, as trial balance cannot be prepared.
- Correct ascertainment and evaluation of financial results of business operations cannot be made.
- Correct profit earned or loss incurred during the accounting period is not known as trading and profit and loss cannot be prepared.

4. Books maintained under double entry system are more reliable as compared to when maintained under single entry system. Comment.

Ans. Double entry system of accounting records both aspects of a transaction. Thus it provides accurate information as to profit, liabilities, etc. On the other hand, single entry system of accounting does not record transactions in some cases, while in certain others, it records both aspects and in some only one aspect. Thus, double entry system is more reliable than single entry system.

5. Distinguish between statement of affairs and balance sheet on any four basis.

Ans. The differences between statement of affairs and balance sheet are (any four)

Basis	Statement of Affairs	Balance Sheet
Objective	The objective of preparing statement of affairs is to estimate the capital on a particular date.	The objective of preparing balance sheet is to show the true financial position of an entity on a particular date.
Accounting Method	When accounts are prepared under single entry system of accounting, statement of affairs is prepared.	When accounts are prepared under double entry system of accounting, balance sheet is prepared.
Reliability	It is less reliable as it is prepared from incomplete records.	It is more reliable as it is prepared from double entry records.
Omission	Omission of assets or liabilities cannot be discovered easily.	Omission of assets or liabilities can be discovered easily and can be traced from accounting records.
Trial Balance	Statement of affairs is not based on trial balance.	Balance sheet is based on the trial balance.
Arithmetical Accuracy	Statement of affairs does not prove in any sense the arithmetical accuracy of accounting.	Tallying of balance sheet implies arithmetical accuracy.
Missing of Facts	There is always a possibility of missing of facts. The reason is neither all transactions nor both aspects of every transactions are recorded in the book of accounts.	Since both the aspects of all transactions are duly recorded, possibility of missing of facts from accounts, hardly remains.

6. What is meant by statement of affairs? Prepare its format as used for ascertaining profit or loss under incomplete records.

Or

What is meant by statement of affairs? How can the profit or loss of a trader be ascertained with the help of a statement of affairs? (NCERT)

Ans. A statement of affairs is a statement of all assets and liabilities. It is a statement in which assets are shown on one side and the liabilities on the other, just as in case of a balance sheet. Under this method, profits or losses of the business are ascertained by comparing capital at the end, and capital at the beginning of the accounting period. Capital in the beginning is calculated by preparing 'opening statement of affairs' and capital at the end is calculated by preparing 'closing statement of affairs'. After calculating opening and closing capital, a statement showing profit and loss is prepared to ascertain the profit or loss of the period.

**Statement Showing Profit or Loss
for the year ended**

Particulars	Amt (₹)
Capital at the End of the Year (Computed from statement of affairs as at the end of year)	...
(+) Drawings During the Year	...
(-) Additional Capital Introduced During the Year	(...)
Adjusted Capital at the End of Year	...
(-) Capital in the Beginning of Year (Computed from statement of affairs as at the beginning of year)	(...)
Profit or Loss Made During the Year	...

7. Differentiate between double entry system and single entry system on any four basis.

Ans. The differences between statement of affairs and balance sheet are (any four)

Basis	Double Entry System	Single Entry System
Recording of Aspects	This system records both the aspects of a transaction.	This system does not record both the aspects of a transaction, for some transactions two aspects, for some other, one aspect and yet for others, no aspect at all are recorded.
Type of Accounts	Under double entry system, all accounts i.e., personal, real and nominal are maintained.	Under single entry system, only personal accounts and cash book are maintained.
Arithmetical Accuracy	Under this system, arithmetical accuracy of books of accounts can be checked by preparing a trial balance.	Under this system, arithmetical accuracy of books of accounts cannot be checked, as a trial balance cannot be prepared.
Authenticity	This system is considered authentic by the court.	The court does not consider this system as authentic.
Use	Double entry system is used by almost all business.	Single entry system is used by only small business and institutions.
Adjustments	Under this system, adjustments are made at the time of preparing final accounts.	Due to incompleteness of accounts, there is no provision to make adjustments.
Reliability	Books maintained in this system are reliable because they are based on scientific principles.	Books maintained in this system are less reliable because they are based on estimates.

8. Rishant keeps incomplete records of his business. He gives you the following information; capital at the beginning of the year ₹ 8,00,000; capital at the end of the year ₹ 6,20,000. ₹ 2,50,000 was withdrawn by him for his personal use. As Rishant needed money for expansion of his business, he asked his wife for help, his wife allowed him to sell her ornaments and invest that amount into the business which comes to ₹ 30,000.

You are required to calculate profit or loss made during the year.

Ans.

Statement Showing Profit or Loss
for the year ended

Particulars	Amt (₹)
Capital at the End	6,20,000
(+) Drawings	2,50,000
	8,70,000
(-) Additional Capital Introduced	(30,000)
Adjusted Capital at the End	8,40,000
(-) Capital in the Beginning	(8,00,000)
Profit Made During the Year	40,000

9. From the following information, calculate capital at the beginning.

Items	Amt (₹)
Capital at the End of the Year	4,00,000
Drawings Made During the Year	60,000
Fresh Capital Introduced During the Year	1,00,000
Profit of the Current Year	80,000

Ans.

**Statement Showing Capital
at the beginning of the year**

Particulars	Amt (₹)
Capital at the End of the Year	4,00,000
(+) Drawings Made During the Year	60,000
	4,60,000
(-) Fresh Capital Introduced During the Year	(1,00,000)
	3,60,000
(-) Profit of the Current Year	(80,000)
Capital in the Beginning of the Year	2,80,000

- 10.** Raghav, who keeps his books on single entry system, tells you that his capital on 31st March, 2020 is ₹ 3,74,000 and his capital on 1st April, 2019 was ₹ 3,84,000. He further informs you that during the year, he withdrew for his household purpose ₹ 1,68,400. He sold his personal investment of ₹ 40,000 @ 2% premium and brought that money into the business.

You are required to prepare statement of profit or loss.

Ans.

**Statement Showing Profit or Loss
for the year ended 31st March, 2020**

Particulars	Amt (₹)
Capital at the End	3,74,000
(+) Drawings Made During the Year	1,68,400
	5,42,400
(-) Capital Introduced During the Year ($102/100 \times ₹ 40,000$)	(40,800)
Adjusted Capital at the End	5,01,600
(-) Capital in the Beginning	(3,84,000)
Net Profit for the Year	1,17,600

- 11.** Raja Ram keeps his books under single entry system. His assets and liabilities were as under

Particulars	31st March, 2020 (₹)	31st March, 2021 (₹)
Cash	2,000	1,800
Sundry Debtors	78,000	90,000
Stock	68,000	64,000
Plant and Machinery	1,20,000	1,60,000
Sundry Creditors	30,000	29,800
Bills Payable	—	10,000

Prepare statement of affairs for year ending 31st March, 2020 and 2021.

Ans.

**Statement of Affairs
as at 31st March, 2020**

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	30,000	Cash	2,000
Capital (Balancing figure)	2,38,000	Sundry Debtors	78,000
		Stock	68,000
		Plant and Machinery	1,20,000
	2,68,000		2,68,000

Statement of Affairs
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	29,800	Cash	1,800
Bills Payable	10,000	Sundry Debtors	90,000
Capital (Balancing figure)	2,76,000	Stock	64,000
		Plant and Machinery	1,60,000
	3,15,800		3,15,800

- 12.** Kartik started a firm on 1st April, 2019 with a capital of ₹ 30,000. On 1st July, 2019, he borrowed from his wife a sum of ₹ 12,000 @ 9% per annum (interest not yet paid) for business and introduces a further capital of his own amounted to ₹ 4,500. On 31st March, 2020 his position was, cash ₹ 1,800, stock ₹ 28,200, debtors ₹ 21,000 and creditors ₹ 18,000. Ascertain his profit or loss taking into account ₹ 6,000 for his drawings during the year.

Ans.

Statement of Affairs
as at 31st March, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	18,000	Cash	1,800
Mrs Kartik's Loan	12,000	Stock	28,200
(+) Interest on Loan $\left(12,000 \times \frac{9}{100} \times \frac{9}{12}\right)$	810	Debtors	21,000
Capital (Balancing figure)	20,190		
	51,000		51,000

Statement Showing Profit or Loss
for year ended 31st March, 2020

Particulars	Amt (₹)
Capital at the End	20,190
(-) Capital Introduced During the Year	(4,500)
	15,690
(+) Drawings	6,000
Adjusted Capital at the End	21,690
(-) Capital in the Beginning	(30,000)
Net Loss for the Year	(8,310)

Note Loan from wife along with interest on loan is a liability for the business and not an additional capital.

- 13.** Mr A started business with a capital ₹ 5,00,000. At the end of the year his position was

Items	Amt (₹)
Cash in Hand	15,000
Cash at Bank	70,000
Sundry Debtors	1,20,000
Stock	2,40,000
Furniture	75,000
Machinery	2,00,000

Sundry creditors on this date totalled ₹ 80,000. During the year, he introduced a further capital of ₹ 1,50,000 and withdrew for household expenses ₹ 90,000. You are required to calculate profit or loss during the year.

Ans.

Statement of Affairs
as at the end of the year

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	80,000	Cash in Hand	15,000
Capital (Balancing Figure)	6,40,000	Cash at Bank	70,000
		Sundry Debtors	1,20,000
		Stock	2,40,000
		Furniture	75,000
		Machinery	2,00,000
	7,20,000		7,20,000

Statement Showing Profit or Loss
for the year ended...

Particulars	Amt (₹)
Capital at the End	6,40,000
(+) Drawings (Household expenses)	90,000
	7,30,000
(-) Additional Capital Introduced	(1,50,000)
Adjusted Capital at the End	5,80,000
(-) Capital in the Beginning	(5,00,000)
Profit for the Year	80,000

• **Long Answer (LA) Type Questions**

1. Mr Arun has extracted the following information relating to his business.

Particulars	1st January, 2020 (₹)	31st December, 2020 (₹)
Sundry Creditors	45,000	39,000
Loan from Wife	66,000	75,000
Sundry Debtors	22,500	10,300
Land & Building	89,600	45,000
Cash in Hand	15,000	7,700
Bank Overdraft	12,500	—
Furniture	1,100	2,000
Stock	50,000	12,500

Draw up the statement of affairs and find the profit or loss.

Ans.

Statement of Affairs
as at 1st January, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	45,000	Sundry Debtors	22,500
Loan from Wife	66,000	Land & Building	89,600
Bank Overdraft	12,500	Cash in Hand	15,000
Capital (Balancing figure)	54,700	Furniture	1,100
		Stock	50,000
	1,78,200		1,78,200

Statement of Affairs
as at 31st December, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	39,000	Land & Building	45,000
Loan from Wife	75,000	Cash in Hand	7,700
		Sundry Debtors	10,300
		Furniture	2,000
		Stock	12,500
		Capital (Balancing figure)	36,500
	1,14,000		1,14,000

Working Note

Profit/(Loss) = Capital at the End – Capital in the Beginning = (36,500) – 54,700

∴ Loss = ₹ 91,200

2. Mr Akshat keeps his books on incomplete records, following information is given below.

Particulars	1st April, 2020 (₹)	31st March, 2021 (₹)
Cash in Hand	1,000	1,500
Cash at Bank	15,000	10,000
Stock	1,00,000	95,000
Debtors	42,500	70,000
Business Premises	75,000	1,35,000
Furniture	9,000	7,500
Creditors	66,000	87,000
Bills Payable	44,000	58,000

During the year, he withdrew ₹ 45,000 and introduced ₹ 25,000 as further capital in the business.
Compute the profit or loss of the business.

Ans.

Statement of Affairs
as at 1st April, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	66,000	Cash in Hand	1,000
Bills Payable	44,000	Cash at Bank	15,000
Capital (Balancing figure)	1,32,500	Stock	1,00,000
		Debtors	42,500
		Business Premises	75,000
		Furniture	9,000
	2,42,500		2,42,500

Statement of Affairs
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Sundry Creditors	87,000	Cash in Hand	1,500
Bills Payable	58,000	Cash at Bank	10,000
Capital (Balancing figure)	1,74,000	Stock	95,000
		Debtors	70,000
		Business Premises	1,35,000
		Furniture	7,500
	3,19,000		3,19,000

Statement of Profit and Loss
for the year ending 31st March, 2021

Particulars	Amt (₹)
Capital at the End of the Year as at 31st March, 2021	1,74,000
(+) Drawings During the Year	45,000
	2,19,000
(-) Additional Capital Introduced During the Year	(25,000)
Adjusted Capital at the End	1,94,000
(-) Capital at the Beginning of the Year as at 1st April, 2020	(1,32,500)
Profit Earned During the Year	61,500

3. Barkat Lal maintains his account on single entry system. Calculate his profit on 31st March, 2021 from the following information

Items	1st April, 2020 (₹)	31st March, 2021 (₹)
Cash in Hand	3,000	1,000
Bank Balance	9,000	7,000
Furniture	4,000	4,000
Stock	2,000	6,000
Creditors	8,000	6,000
Debtors	6,000	8,000

During the year, his drawings were ₹ 2,000 and additional capital invested was ₹ 4,000. Furniture appreciated by 20% and create a provision on debtors at 5%.

Ans.

Statement of Affairs
as at 1st April, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	8,000	Cash in Hand	3,000
Capital (Balancing figure)	16,000	Bank Balance	9,000
		Furniture	4,000
		Stock	2,000
		Debtors	6,000
	24,000		24,000

Statement of Affairs (Before Adjustments)
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	6,000	Cash in Hand	1,000
Capital (Balancing figure)	20,000	Bank Balance	7,000
		Furniture	4,000
		Stock	6,000
		Debtors	8,000
	26,000		26,000

Statement showing Profit and Loss
for the year ended 31st March, 2021

Particulars	Amt (₹)
Capital at the End	20,000
(+) Drawings During the Year	2,000
	22,000
(-) Additional Capital Invested	(4,000)
Adjusted Capital at the End	18,000
(-) Opening Capital	(16,000)
Profit Made During the Year (Before adjustment), i.e. Gross Profit	2,000
(-) Provision on Debtors	(400)
(+) Appreciation on Furniture	800
Net Profit (After adjustments)	2,400

Statement of Affairs (After adjustments)
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital on 1st April, 2020	16,000	Cash in Hand	1,000
(+) Additional Capital	4,000	Bank Balance	7,000
(+) Net Profit	2,400	Furniture	4,000
(-) Drawings	(2,000)	(+) Appreciation	800
Creditors	6,000	Stock	6,000
		Debtors	8,000
		(-) Provision on Debtors	(400)
	26,400		26,400

4. Vijay Sharma keeps incomplete records. The statement of affairs of his business as at 1st April, 2020 was as follows

Statement of Affairs
as at 1st April, 2020

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	10,000	Cash in Hand	800
Capital	1,40,000	Cash at Bank	3,200
		Debtors	34,000
		Stock	40,000
		Furniture	12,000
		Plant and Machinery	60,000
	1,50,000		1,50,000

His position on 31st March, 2021 was Cash in Hand ₹ 2,000; Bills Receivable ₹ 8,000; Stock ₹ 64,000; Plant and Machinery ₹ 80,000; Cash at Bank ₹ 4,000; Debtors ₹ 42,000; Furniture ₹ 16,000 and Creditors ₹ 36,000. He withdrew ₹ 60,000 during the year, out of which he used ₹ 36,000 for purchasing a scooty for the business. Calculate his net profit for the year after the following adjustments and prepare a final statement of affairs as at 31st March, 2021

- Depreciate furniture and scooty @ 20%.
- Make a provision of 5% on bills receivable.
- 5% of the debtors are doubtful and ₹ 1,600 are absolutely bad.

Ans.

Statement of Affairs
as at 31st March, 2021 (Before Adjustments)

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	36,000	Cash in Hand	2,000
Capital (Balancing Figure)	2,16,000	Cash at Bank	4,000
		Bills Receivable	8,000
		Debtors	42,000
		Stock	64,000
		Furniture	16,000
		Scooty	36,000
		Plant and Machinery	80,000
	2,52,000		2,52,000

Statement of Profit and Loss
for the year ending 31st March, 2021

Particulars	Amt (₹)
Closing Capital as on 31st March, 2021	2,16,000
(+) Drawings during the year (60,000 – 36,000)	24,000
	2,40,000
(–) Opening Capital as on 1st April, 2020	(1,40,000)
Profit before adjustments	1,00,000
(–) Depreciation on Furniture	(3,200)
(–) Depreciation on Scooty	(7,200)
(–) Provision on Bills Receivable	(400)
(–) Bad Debts	(1,600)
(–) Provision for Doubtful Debts @ 5% on 40,400 (42,000 – 1,600)	(2,020)
Profit Made During the Year 2020-21	85,580

Final Statement of Affairs (After Adjustments)
as at 31st March, 2021

Liabilities	Amt (₹)	Assets	Amt (₹)
Creditors	36,000	Cash in Hand	2,000
Opening Capital	1,40,000	Cash at Bank	4,000
(+) Net Profit	85,580	Bills Receivable	8,000
	2,25,580	(–) Provision @ 5%	(400)
(–) Drawings	(24,000)	Debtors	42,000
	2,01,580	(–) Bad Debts	(1,600)
			40,400
		(–) Provision for Doubtful Debts	(2,020)
		Stock	64,000
		Furniture	16,000
		(–) Depreciation	(3,200)
		Scooty	36,000
		(–) Depreciation	(7,200)
		Plant and Machinery	80,000
	2,37,580		2,37,580

Chapter Test

Multiple Choice Questions

- Which of the following is not a disadvantage of single entry system?
 (a) Expensive (b) Difficult to keep control over assets
 (c) Internal check is not possible (d) Lack of uniformity between accounts of different organisations
- In the single entry system is not possible, hence there are always the chances of errors and frauds.
 (a) internal check (b) internal control (c) cash credit (d) None of these
- Opening capital is ascertained by preparing
 (a) total debtors account (b) total creditors account (c) cash account (d) opening statement of affairs
- Which of the following statement(s) is/are not true about statement of affairs?
 (i) It is prepared to know profit or loss at a point of time.
 (ii) It is prepared only under single entry system of accounting.
 (iii) Trial balance is not prepared.
 (iv) It is prepared on the basis of ledger accounts.

Alternatives

- Only (i) (b) Both (i) and (iv) (c) Both (ii) and (iii) (d) Only (ii)
- Capital at the end of year exceeds the capital that in the beginning, it represents
 (a) loss (b) profit (c) expense (d) income
- Opening Capital = ₹ 70,000
 Profit for the year = ₹ 20,000
 Drawings = ₹ 7,000
 During the year, proprietor sold ornaments of his wife for ₹ 20,000 and invested the same in business. What will be the amount of closing capital?
 (a) ₹ 1,03,000 (b) ₹ 83,000 (c) ₹ 63,000 (d) ₹ 97,000

Short Answer (SA) Type Questions

- Mention any three advantages of accounts from incomplete records.
- Why is statement of affairs prepared under single entry system not referred to as balance sheet?
- Mrs Anu started a firm with a capital ₹ 4,00,000 on 1st July, 2020. She borrowed from her friends a sum ₹ 1,00,000 @ 10% p.a. (interest paid) for business and brought a further amount to capital ₹ 75,000. On 31st December, 2020, her position was as follows

Items	Amt (₹)
Cash	30,000
Stock	4,70,000
Debtors	3,50,000
Creditors	3,00,000

She withdrew ₹ 8,000 per month for the year. Calculate profit or loss for the year and show your working clearly.

- Miss Priyanka runs a small bakery business. On 1st April, 2020 she had started the business with a capital of ₹ 78,000. On 31st March, 2021 her incomplete records provide the following data
 (i) Amount due to suppliers of raw materials ₹ 17,500.
 (ii) Stock of raw materials ₹ 2,000 and finished products ₹ 2,500.
 (iii) Fixed assets ₹ 34,000.
 (iv) Amount due from customers ₹ 42,000.
 (v) She had withdrawn ₹ 2,500 per month for meeting her personal expenses.
 (vi) She had introduced ₹ 7,000 as capital during the year.
 (vii) She has cash at bank ₹ 21,000 and cash in hand ₹ 1,800.
 (viii) Outstanding electricity bill ₹ 2,250

Calculate the profit/loss of her business during the year using statement of affairs method.

5. Jofra states his capital on 31st December, 2020 as ₹ 1,10,000. He further informs that his capital on 1st January, 2020 was ₹ 1,20,000. He gave a loan of ₹ 40,000 to his brother on private account and withdrew ₹ 7,000. He lives in a flat, the rent (₹ 1,500 per month) and the electricity charges (₹ 500 per month) being paid from business account. During the year, he sold his 10% government bonds of ₹ 15,000 at 4% premium and brought that money into business. He asks you to ascertain his business profit or loss.

Long Answer (LA) Type Questions

1. Gauri keeps incomplete records. Following information is available from her books.

Particulars	1st April, 2020 (₹)	31st March, 2021 (₹)
Sundry Debtors	60,000	1,24,000
Stock	1,28,000	76,000
Loan from Wife	30,000	30,000
Sundry Creditors	45,200	33,600
Office Equipment	30,000	25,000
Building	1,20,000	1,20,000
Cash Balance	4,200	9,000
Bank Overdraft	27,000	50,000

During the year Gauri received ₹ 2,000 per month as pension, of which she invested ₹ 15,000 into the business. She also sold her private house for ₹ 50,000 and invested this amount into the business.

Gauri withdrew from the business ₹ 2,000 per month upto 31st August, 2020 and thereafter ₹ 4,000 per month as drawings. In addition, she withdrew from the business ₹ 8,400 for paying Income Tax and ₹ 6,000 to pay the legal expenses in private suit.

The following adjustments should also be considered.

- Outstanding expenses ₹ 3,600 and prepaid expenses ₹ 1,000.
- Commission earned but not received ₹ 4,000.
- Depreciate office equipment by 20%.
- Provide 4% on debtors for doubtful debts.

Prepare a statement to ascertain the profit or loss and also prepare the final statement of affairs as at 31st March, 2021.

2. M/s Saniya Sports Equipment does not keep proper records. From the following information, find out profit or loss and also prepare balance sheet for the year ended 31st December, 2021.

Items	31st December, 2020 (₹)	31st December, 2021 (₹)
Cash in Hand	6,000	24,000
Bank Overdraft	30,000	—
Stock	50,000	80,000
Sundry Creditors	26,000	40,000
Sundry Debtors	60,000	1,40,000
Bills Payable	6,000	12,000
Furniture	40,000	60,000
Bills Receivable	8,000	28,000
Machinery	50,000	1,00,000
Investment	30,000	80,000

Drawings ₹ 10,000 per month for personal use, fresh capital introduced during the year ₹ 2,00,000. A bad debts ₹ 2,000 and a provision of 5% to be made on debtors. Outstanding salary ₹ 2,400, prepaid insurance ₹ 700, depreciation charged on furniture and machinery @ 10% per annum.

Answers

Multiple Choice Questions

1. (a) 2. (a) 3. (d) 4. (b) 5. (b) 6. (a)