CHAPTER-23
ACCOUNTS FROM INCOMPLETE RECORDS

In all the chapters studied so far, accounting records have been prepared according to double entry principles. Accounting records which are not prepared in accordance with the principles of double entry are known as 'incomplete records'. In other words, any accounting records which fall short of complete double entry are called ‘incomplete records'. Sometimes, it is also termed as 'Single Entry System'.

But it is not proper to describe the system as 'single entry' because there is no such system of maintaining accounting records. 'Incomplete records' refer to maintaining of only those records which are essential. In other words, under the incomplete records some of the subsidiary books and some ledger accounts are not maintained which otherwise are essential under the double entry system.

According to Carter:

"Single Entry system is a method or a variety of methods, employed for the recording of transactions, which ignore the two-fold aspect and consequently fails to provide the businessman with the information necessary for him to be able to ascertain the position."

Kohler defines it as :

"A system of book-keeping in which, as a rule, only records of cash and of personal accounts are maintained; it is always incomplete double entry system, varying with circumstances."

Salient Features

(1) **Maintenance of Personal Accounts only** Usually under this system, only personal accounts are prepared in the books and the real and nominal accounts are ignored.

(2**) Maintenance of Cash Book** -A Cash Book is maintained under this system, which usually mixes up business as well as private transactions of the proprietor.

(3) **Dependence on Original Vouchers-** In order to collect the required information one has to depend on original vouchers. For example, the figure of purchase at the end of a particular period is ascertained by totalling the original invoices received from the suppliers. Similarly, the figure of sale is ascertained by making a total of the copies of invoices which have been issued to the customers during the year.

(4) **Lack of Uniformity** -The books maintained under the system may differ from firm to firm because the system is only an adjustment of double entry system according to the actual needs and conveniences of the business houses.

(5**) Suitability**- Books according to this system can be maintained only by a sole trader or partnership firm. Limited companies cannot keep their books on this system because of legal provisions.

(6) **Preparation of Final Accounts**- Since a record of all the nominal and real accounts is not maintained under this system, the final accounts cannot be prepared easily. Final accounts can be prepared only after converting the available information into double entry records and after ascertaining the missing figures. Even then the figures of assets and liabilities will be based merely on estimates. Because of this reason the statement of assets and liabilities prepared under this system is termed as Statement of Affairs' instead of Balance Sheet'.

Uses or Reasons for keeping Incomplete Records:

(1) **Simple Method** - It is an easy and simple method of recording business transactions because it does not require any special knowledge of the principles of double entry system.

(2) **Less Expensive** - Only the cash book and some of the ledger accounts are maintained under this system. As such, the staff required for maintaining the accounts is also less in comparison to double entry system.

(3) **Suitable for small concerns** - This method is most suitable to small business concerns which have most cash transactions and very few assets and liabilities.

(4) **Easy to calculate profit or loss**- It is easier to calculate profit or loss under this method. For this purpose, only the closing capital has to be compared with the opening capital along with some adjustments.

(5**) Flexible Method -**The system is more practical and rejects the strict rules of double entry system. It can be easily changed and adjusted according to the needs of a particular business.

Defects or Limitations of Keeping Incomplete Records

(1) **Preparation of Trial Balance not possible**- The method does not record both the aspects of a transaction. As such, a trial balance cannot be prepared to check the arithmetical accuracy of the books of accounts. This increases the possibility of frauds and misappropriation.
(2) **Incomplete and Unscientific System** -The system is incomplete and unscientific due to the fact that both the aspects, debit and credit of a transaction are not recorded. Also, no set rules are followed under this method.
(3) **True Profit or Loss cannot be ascertained** - Because nominal accounts are not maintained, a Trading and Profit and Loss Account cannot be prepared and hence, the profit earned or loss suffered during a particular period cannot be ascertained with reasonable accuracy.
(4) **Difficulty in preparing Balance Sheet** -Since real accounts are not maintained, Balance Sheet cannot be prepared to depict the true financial position of the business. Only a statement of affairs is prepared wherein the value of assets and liabilities is written on estimated basis.

(5) **No Control on Assets** - Since real accounts are not maintained, it is not possible to keep full control on the assets and as such, the chances of misappropriation of assets cannot be avoided.

(6) **No recognition in the assessment of Income Tax and Sales Tax:** The system fails to reveal the true profit and sales of a business. As such, the accounts maintained under the system are not accepted by tax authorities.

(7) **Unsuitable for Planning and Control** : The system fails to provide the adequate and reliable figures required for planning and sound decision-making.

(8) **Difficulty in Comparative Study**- Due to incomplete information, the profitability and the financial position of the current year cannot be compared with that of the previous year and as such, it becomes quite difficult to know the reasons of improving or deteriorating profitability and financial position of the business.

(9) **Proper valuation of assets not possible at the time of sale of business** - It becomes very difficult to fix the correct price of assets, specially goodwill, at the time of sale of the business.

(10**) Internal Check not possible** - Because of lack of double entry principles, internal checking is not possible and hence there are always the chances of errors and frauds. Also, it becomes very difficult to detect them.

Due to the above mentioned defects the system is known as incomplete, unscientific and unreliable.

Difference between Double Entry System and Incomplete Records

Basis of Difference	**Double Entry System**	**Incomplete Records**
1. Recording of both aspects	Both the aspects of every transaction are recorded in it.	Under this system, both the aspects of very few transactions are recorded. For some other transactions on aspect and yet for others no aspect at all is recorded.
2. Type of Accounts	All accounts - personal, real and nominal are maintained under it.	Only personal accounts and a cash book are maintained under it.
3. Trial Balance	Arithmetical accuracy of the books of accounts can be checked in it by preparing a trial balance	Arithmetical accuracy cannot be checked in it because a trial balance cannot be prepared.
4. Net Profit or Loss	True profit or loss can be ascertained in it by preparing a Trading and Profit & loss A/c	True profit or loss cannot be ascertained in it because a Trading and Profit & loss A/c

		cannot be prepared.
5. Financial Position	True financial position is ascertained by preparing a Balance Sheet.	True financial position cannot be ascertained because a Balance Sheet cannot be prepared. Only a statement of affairs is prepared based on incomplete accounts and estimates.
6. Adjustments	Under this system, adjustment are made while preparing final accounts.	No adjustment are made under this system because of incomplete of accounts.
7. Proof	Book maintained under this system are accepted as evidence in the court of law.	Book maintained under this system are not accepted as evidence in the court of law
8. Suitability	This method is suitable for all types of business, small or large.	This method is suitable only for small size business where the number of transactions is less and that too mostly of cash nature.
9. Reliability	Books maintained under this system are reliable because they are based on scientific principles.	Books maintained under this system are less reliable because they are based on estimates.

Ascertainment of Profit or Loss from Incomplete Records

Despite the records being incomplete, the businessman would like to know the trading results as also the financial position of his business at the end of a particular period. This is done by adopting one of the two methods mentioned below:

(1) Statement of Affairs Method or Capital Comparison Method or Net Worth Method.
(2) Conversion into Double Entry Method.

(1) Statement of Affairs Method

According to this method, the profits are ascertained by comparing the capital at the end and capital at the beginning of the accounting period. If the capital at the end of an accounting period is more than that at the beginning (with the necessary adjustments), the difference is treated as profit. If, on the other hand, the capital at the end is less than that of beginning, the difference is treated as a loss.

As such, in order to ascertain profit according to this method, it is necessary to calculate the capital at the beginning of the year and also at the end of the year.

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'. A

Statement of Affairs is similar to, though not the same, as a Balance Sheet and prepared as follows:

STATEMENT OF AFFAIRS as al as at ......

Liabilities	Amount ₹	Assets	Amount ₹
Bank Overdraft Bills Payable Sundry Creditors Outstanding Expenses Incomes received in advance Capital (being, balancing figure)		Cash in Hand Cash at Bank Bills Receivable Sundry Debtors Stock Prepaid Expenses Accrued Income Furniture Plant & Machinery etc.	
	....		....

If the total of liabilities is deducted from the total of assets side of the statement of affairs, the balance will be taken as capital. It is based on the accounting equation:

Capital = Assets - Liabilities

Calculation of Profit - The steps for calculating the profit made during the year can be stated as under:

Step-1. Prepare statement of affairs at the beginning for the calculating the capital as the start of the year (known as opening capital).

Step 2. Prepare statement of affairs at the end for calculating the capital at the end (known as closing capital).

Step 3. Adjust the closing capital by adding into it the drawings made by the proprietor during the year and deductions therefrom the additional capital introducedduring the year.

Drawings are added to the closing capital on the logic that if the drawings had not been made, closing capital would have been higher by this amount. Similarly, additional capital is deducted from the closing capital on the logic that if the additional capital had not been introduced, closing capital would have been lower by this amount.

Step 4. Now the opening capital is deducted from the adjusted closing capital to ascertain the profit or loss. If the adjusted closing capital exceeds the opening capital the difference is termed as profit. On the other hand, if the adjusted closing capital is less than the opening capital the difference is termed as loss.

The entire process discussed as above may be put in the form of a Formula asfollows:

Profit = Closing Capital + Drawings - Additional Capital - Opening Capital.

	Basis Difference	Balance Sheet	Statement of Affairs
1	**Double Entry**	It is prepared with the list of ledger balance drawn from the books of accounts kept on the basis of double entry .	It is not prepared with the list of ledger balance but with such information as is available from the accounting records kept on the basis of single entry .
2	**Arithmetical Accuracy**	The Tallying of balance sheet proves arithmetical accuracy of accounting books because its prepared in the basis of at trial balance	A statement of affairs does not prove the arithmetical accuracy of books because it is not prepared on the basis of trial balance .
3	**Value of Assets and Liabilities**	The value of asset and liabilities shown in a balance sheet are the actual values based on ledger accounts	The values of assets and liabilities shown in the statement of affairs are merely the estimates based on physical inspection
4	**Object**	It is prepared for ascertaining the financial position of business	It is prepared for ascertaining the capital of a business .
5	**Omission of an Asset or a Liability**	If an assets or liability is omitted while preparing a Balance Sheet it will be easily detected because the Balance Sheet will not tally	If an asset or liability is omitted while preparing statement of affairs , it cannot be easily detected
6	**Reliability**	A Balance Sheet is treated as more reliable because it is based on double entry principle s	It is treated as les reliable because it is based on incomplete record and estimates .

1.**What is meant by incomplete records system of accounting?**
Ans. It is an accounting system which ignores two-fold aspects of a transaction.

2. **Give two features of incomplete records.**
Ans. (i) Maintenance of Personal Accounts only.
(ii) Maintenance of Cash Book.

3**. Name the two main accounts maintained in 'Accounts from Incomplete Records'.**
Ans. (i) Personal Account (ii) Cash Account.

4. **Give one reason for keeping incomplete records.**
Ans. It is an easy simple method of recording business transactions because it does not require any special knowledge of the principles of double entry system.

5. **State any two advantages of incomplete records.**
Ans. (i) Less expensive (ii) Less time consuming.

6. **State any two limitations of incomplete records.**
Ans. (i) True profit or Loss cannot be ascertained.

(ii) Balance Sheet does not disclose true financial position.

7. **It is possible to prepare a trail balance and check the arithmetical accuracy of books of accounts under single entry system?**
Ans. The method does not record both the aspects of a transactions. As such, a trail balance cannot be prepared to check the arithmetical accuracy of the books of accounts.

8. **State one point of difference between incomplete Records and Double Entry System.**
9. state one point of difference between statement of Affairs and Balance Sheet.
10. **Can a limited Company maintain its accounts under single Entry System?**
Ans. No. a limited Company cannot be maintain its accounts under single entry system due to legal restrictions.

11. What is the common objective of Single Entry System and Double Entry system?
Ans. Common objective of the two systems is to ascertain the net profit or loss of the business for a particular period.

12. Which accounting principle is certainly followed under single entry as well as double entry system?
Ans. Money Measurement Concept.

13. Which accounting principle is ignored under single entry and followed under double entry system?
Ans. Dual Aspect Concept.

14. Why is statement of affairs prepared under single entry system not a called a balance sheet?
Ans. (i) Because a statement of affairs is not prepared with the list of ledger balance kept on the basis of double entry system.
(ii) Value of assets and liabilities shown in statement of affairs are only the estimates and not the actual values.
15. In the Single Entry System which two methods are used to ascertain profit or loss?
Ans. (i) Statement of Affairs Method; (ii) Conversion Method.

Choose the best Alternative:

1. Generally, accounts under single entry system are maintained by:
   A. Sole Trader
   B. Company
   C. Society
   D. Government

2. Single Entry System of book keeping is:
   A. Inaccurate

B. Unsystematic
C. Unscientific
D. All of these

3. When closing capital is more than opening capital, it denotes:
   A. Profit
   B. Loss
   C. No Profit no loss
   D. Profit, if there is no introductions of fresh capital

4. When closing capital is less than opening capital, it denotes:
   A. Profit
   B. Loss
   C. Loss, if there is no drawing
   D. None of the above

[Ans. 1.(A) 2.(D) 3.(D) 4.(C)]