

ADVANCED ACCOUNTING

3rd SEMESTER

TOPIC :

ACCOUNTS FROM INCOMPLETE RECORDS

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Meaning of Incomplete Records, Reasons for Incompleteness and Its Limitations

There can be two ways of maintaining the accounting records, one is the double entry system and another is the single entry system. The records maintained according to the single entry system are known as Incomplete Records. Usually, small firms like grocery shops, general stores, food joints, etc. keep their books on the single entry system.

Meaning of Incomplete Records

In the Double entry system we keep the books on the basis of the Dual Aspect Concept i.e. every debit has a respective credit. The firms that do not keep their accounting books as per this system follow the single entry system. Under the single entry system, a firm maintains only cash account and the accounts of the debtors and the creditors properly.

It does not maintain the accounts of expenses, incomes, assets, and liabilities properly. Hence, as the information provided by these records is incomplete, they are known as Incomplete Records.

Reasons for Incompleteness

1. The proprietor may keep the accounting records on the basis of single entry due to the following reasons:

He has no knowledge or lack of knowledge about the accounting principles and concepts.

2. The double entry system is comparatively an expensive way of maintaining the financial accounts. The accountants may charge a handsome amount as fees.

3. Maintaining incomplete records consumes less time.

4. It is more convenient to maintain records as per the single entry system.



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Limitations of Incomplete Records

Though maintaining Incomplete Records is easier but it is not a systematic method of maintaining accounts. Its limitations are as follows:

1. We cannot prepare a Trial Balance to ensure the accuracy of the accounts in the absence of the double entry system.
2. It fails to ascertain the accurate financial results of the organization.

3. Investigation and examination of the profitability, solvency, and liquidity are difficult. Hence, the outsiders and banks may not lend money for the expansion of the business.

4. In case of loss by fire or theft claiming the insurance amount causes great difficulty due to incomplete records and missing information.

5. Also, convincing the income tax authorities about the computed income is difficult in the absence of proper accounting.

Topics under Accounts From Incomplete Records

The accounting records that are not maintained as per the double entry system but as per single entry are called Incomplete Records. Where the proprietor maintains incomplete records, he only prepares cash account, debtors account and creditors account properly. He maintains all other accounts in a haphazard manner or not maintains them at all. Thus, in this case, the ascertainment of profit and loss becomes too difficult.

Ascertainment of Profit and Loss

Every business firm needs to prepare the financial statements in order to ascertain the results of its financial operations. It needs to know whether the business is yielding profits or not and also its financial position at the end of the year. But, as the records of the entity are incomplete, for the ascertainment of Profit and Loss needs to prepare the following:

1. Statement of Affairs at the beginning and at the end of the year using the Statement of Affairs or Net Worth Method.
2. Trading and Profit and Loss A/c and Balance Sheet using the conversion method.

Preparing Trading and Profit and Loss and Balance Sheet

Preparing a trading account is the first stage in of final accounts of a trading concern.

It determines the gross profit or gross loss of the concern for that accounting year.

For determining the true result or the net result of the business, preparing the Trading and Profit and Loss account is necessary. We prepare these accounts on the last day of the accounting year. We consider only direct revenue and direct expenses in this account.

Preparation of Trading Account

For preparing Trading and Profit and Loss Account we need complete information regarding expenses, incomes, assets and liabilities of the concern.

In incomplete records, some details are given and some are missing. Thus, we need to ascertain the missing details in an indirect manner by using the logic of double-entry.

The most common items that are missing and we have to find out for preparing Trading and Profit and Loss Account are:

Opening capital

- ✓ Credit Purchases
- ✓ Credit sales
- ✓ Bills payable accepted
- ✓ Bills receivable received

- ✓ Payments to creditors
- ✓ Payments to debtors
- ✓ Any other cash/bank related items.
- ✓ As we know that **opening capital** can be obtained by preparing the statement of affairs at the beginning of the year. For other items that are missing, we can easily obtain them by preparing accounts such as total debtors and total creditors, total bills receivable and total bills payable accounts and summary of cash.

Ascertainment of Credit Sales

Generally, the figure of credit sales is also not available from incomplete records. Some other information which is related to debtors may also be missing. Therefore, we will prepare the total debtors to account so that the number of credit sales or any other missing figure, as the case may be, can be traced out as the balancing figure.

Ascertainment of Bills Receivable and Bills Payable

To find out the figure of the bills received during the year, we prepare Bill's Receivable account. Also, to find out the figure of the bills accepted during the year, we prepare the Bills Payable account.

Ascertainment of Missing Information through Summary of Cash

Sometimes, it is possible that the amount paid to creditors or the amount received from debtors may be missing. Also, the opening or closing cash or bank balance may be missing. So to ascertain any missing item of receipt or payment, we prepare a cash book summary. It shows all receipts and payments during the year and the balancing figure is the amount of missing item.

THANK YOU