Chapter – I
Accounts from Incomplete Records

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Introduction

- Maintenance of accounting records as per double entry system is compulsory for certain organisations. For example, in India, companies must maintain accounting records under double entry system as per Section 128(1) of the Indian Companies Act, 2013. Such organisations must maintain accounts only under double entry system. Other organisations may or may not strictly follow the double entry system. Organisations in which double entry system is not strictly followed, accounting records may be maintained as per the requirements and desires of the proprietors and accountants. As the accounting records are not prepared in its entirety as under double entry system, these records are called incomplete records.

MEANING OF INCOMPLETE RECORDS

When accounting records are not strictly maintained according to double entry system, these records are called incomplete accounting records

It is an incomplete and unscientific way of book keeping. It was called single entry system of book keeping.

EXAMPLE

SOME TRANSACTIONS ARE RECORDED FULLY	both the aspects are entered for cash received from customers and cash paid to creditors.
SOME TRANSACTIONS ARE PARTIALLY RECORDED	expenses paid may be entered only in cash account
SOME TRANSACTIONS ARE NOT RECORDED AT ALL	that is, both the debit and credit aspects are not entered

FEATURES

(i) Nature: It is an unscientific and unsystematic way of recording transactions. Accounting principles and accounting standards are not followed properly.

(ii) Type of accounts maintained: In general, only cash and personal accounts are maintained fully. Real accounts and nominal accounts are not maintained properly.

(iii) Lack of uniformity: There is no uniformity in recording the transactions among different organisations.

(iv) Financial statements may not represent true and fair view: Due to the incomplete information and inaccurate records of accounts, the profit or loss and Assets and liabilities may not represent a true and fair view of financial position.

(v) Suitability: Only the business concerns which have no legal obligation to maintain books of accounts under double entry system may maintain incomplete records. Hence, it may be maintained by small sized sole traders and partnership firms.

(vi) Mixing up of personal and business transactions: Generally, personal transactions of the owners are mixed up with the business transactions.

LIMITATIONS

(i) Lack of proper maintenance of records: It is an unscientific and unsystematic way of maintaining records. Real and nominal accounts are not maintained properly.

(ii) Difficulty in preparing trial balance: As accounts are not maintained for all items Hence, it is difficult to prepare trial balance to check the arithmetical accuracy of the accounts.

(iii) Difficulty in ascertaining true profitability of the business: Profit is found out based on available information and estimates. Hence, it is difficult to ascertain true profit

(iv) Difficulty in ascertaining financial position: In general, only the estimated values of assets and liabilities are available from incomplete records. Hence, it is difficult to ascertain true and fair view.

(v) Errors and frauds cannot be detected easily: As only partial records are available, it may not be possible to have internal checks in maintaining accounts to detect errors and frauds.

(vi) Unacceptable to government and other authorities: As accounts maintained are incomplete, these may not comply with the legal requirements. Hence, government, tax authorities and other legal authorities do not accept accounts prepared from incomplete records.

Double entry system Vs Incomplete records

Basis of distinction	Double entry system	Incomplete records
1. Recording of transactions	Both debit and credit aspects of all the transactions are recorded.	Debit and credit aspects of all the transactions are not recorded completely. For some transactions both aspects are entered, some transactions are partially recorded and some transactions are omitted to be entered.
2. Type of accounts maintained	Personal, real and nominal accounts are maintained fully.	In general, only personal and cash accounts are maintained fully. Real and nominal accounts are not maintained fully.
3. Preparation of trial balance	Trial balance can be prepared to check the arithmetical accuracy of the entries made in the books of accounts.	It is difficult to prepare the trial balance to check arithmetic accuracy of entries made in the books of accounts as the accounts are incomplete.
4. Determination of true profit or loss	Trading and profit and loss account can be prepared to find out the true profit or loss.	Trading and profit and loss account cannot be prepared with accuracy as complete information is not available and hence profit or loss found out may not be accurate.

5. Determination of financial position	Balance sheet can be prepared to know the true financial position.	Balance sheet cannot be prepared with accuracy and true financial position cannot be ascertained, as the assets and liabilities are just estimates and incomplete.
6. Suitability	It is suitable for all types of organisations.	It may be suitable for small sized sole traders and partnership firms.
7. Reliability	It is reliable since it is a scientific system of accounting and is based on certain accounting principles.	It is not reliable since it is unscientific.
8. Acceptability	Accounting records are acceptable to all users including tax authorities and financial institutions.	Accounting records may not be acceptable to all users.

ACCOUNTS FROM INCOMPLETE RECORDS

Ascertainment of profit or loss and financial position is essential also for organisations which maintain incomplete records. Based on available information in the incomplete records and from memory, profit or loss may be calculated.

The difference between the capital at the end and the capital at the beginning may be considered as the profit as the profit is adjusted in capital in such entities. Also, with the available data, the missing figures can be found out and then the final accounts may be prepared

Calculation of profit or loss

The difference between the closing capital and the opening capital is taken as profit or loss of the business.

Due adjustments are to be made for any withdrawal of capital from the business and for the additional capital introduced in the business.

Take the closing capital as the base. Drawings made during the year should be added with the closing capital.

This is because drawings would have reduced the closing capital.

Additional capital introduced during the year should be subtracted. This is because the additional capital introduced would have increased the closing capital.

This will give the adjusted closing capital.

Adjusted closing capital = Closing capital + Drawings - 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.

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

Tutorial note

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

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

Steps to be followed for preparing profit or loss

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

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

- Adjusted closing capital = Closing capital + Drawings – Additional capital
- Closing Capital + Drawings – Additional Capital – Opening Capital = Profit/ Loss

Following 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