

PENANG SANGAM HIGH SCHOOL

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LESSON NOTES Week 19

SUBJECT: ACCOUNTING

YEAR/LEVEL: 12

Strand 6: SYSTEMS FOR IMPLEMENTING THE ACCOUNTING PROCESS

Sub-strand 6.3 ACCOUNTING FOR INCOMPLETE RECORDS

Content Learning Outcome: Explore accounting for incomplete records.

Greetings to all my students, weeks 16-18 we have covered Sub-strand 6.1 Accounting For Credit Transactions and this week (week 19) we will start with Sub-Strand 6.3 Accounting For Incomplete Records. If there are any queries do contact me in our 12A Viber group.

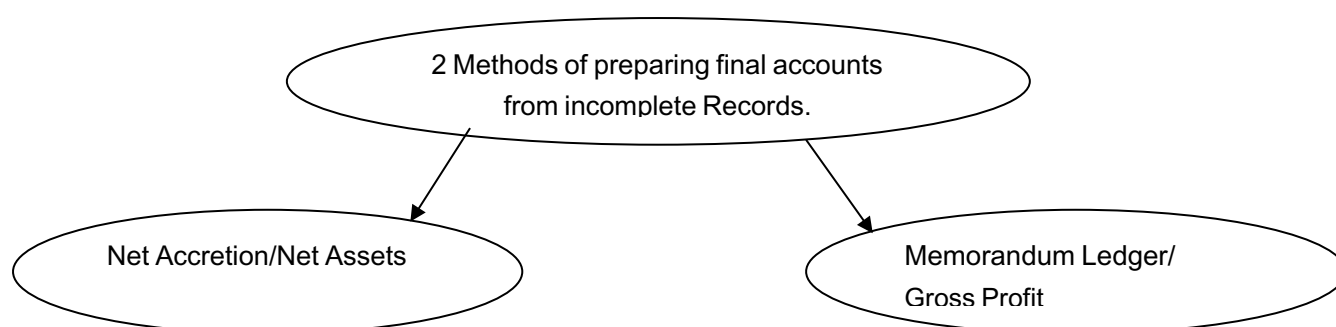
Lesson Notes (For detailed reference use your text book MOE Year 12 Accounting Pg. 184-202)

Incomplete Records- Is the term used for any system of bookkeeping which does not use full double entry. Single entry system is generally used for incomplete records.

Reasons for Businesses Having Incomplete Records

- The proprietor or staffs have insufficient knowledge of basic Accounting.
- The records are destroyed by fire, flood, theft or any natural disaster.
- Owners not revealing the correct information to the taxation authorities.
- Intentionally hiding information to commit fraud. Limitations of Incomplete records
- It is impossible to prepare trial balance because double entry is not followed
- Possibility of fraud and error is greater in comparison to double entry.
- Does not provide accurate information about the performance and financial position of the business.

Preparing final accounts from incomplete records:



1. Net Accretion method or Net assets method

Formula (Estimated Net profit/Loss = P2 - P1 + drawings – Additional capital)

P2: is the capital at the end of the year (Assets 2 – Liabilities2)

P1: is the capital at the beginning of the year (Assets 1 – Liabilities1)

Drawings – is anything taken by the owner for personal use. (Either cash/goods)

Additional capital – extra cash or assets contributed by the owner.

Format of Calculating the Net Profit or Net Loss

	\$	\$
Assets (closing)/Y2	Xx	
Less: Liabilities (closing) Y2	xx	
Closing Proprietorship/P2		xx
Assets (Opening)/Y1	Xx	
Less: Liabilities (Opening)/Y1	xx	
Opening Proprietorship/P1		xx
Change in Proprietorship		xx
Add: Drawings		xx
		xxx
Less: Additional Capital		xx
Estimated Net profit/Loss		<u>xx</u>

Example

	Year 1	Year 2
	\$	\$
Cash	800	-
Accounts Receivables	550	2700
Prepaid Expenses	55	68
Furniture	1000	3600
Vehicle	7000	7500
Accounts Payable	385	590
Accrued Expenses	-	80
Mortgage	7600	7600

During the year the owner withdrew \$8 per week in cash for his personal use. He invested \$1800 cash into the business. Calculate the net profit or loss for the year.

Solution

Statement of Net Profit or Net Loss

	\$	\$
Total Assets Year 2	13868	
Less Total Liabilities Year 2	<u>8270</u>	
Closing Proprietorship		5598
Total Assets Year 1	9405	
Less Total Liabilities Year 1	<u>7985</u>	
Opening Proprietorship		<u>1420</u>
		4178
Add Drawings		<u>416</u>
		4594
Less Additional Capital		<u>1800</u>
Net profit		<u>\$2794</u>

Formulas to Use while calculating Missing Information

Sales – Cost of Goods Sold = Gross Profit

Net profit + Expenses = Gross profit

Opening Inventory + Purchases – Closing Inventory = COGS

Sales – Gross Profit = COGS

Opening Inventory + Purchases – COGS = Closing Inventory.

COGS + Closing Inventory – Purchases = Opening Inventory.

Cash Sales + Credit sales = Total sales.

Cash Purchases + Credit purchases = Total Purchases.

Home work Activity

Only assignment for this week is to use the summarized notes given and text book to learn concepts taught on incomplete records.

(Best wishes for week 19 studies, take care and Stay Safe)