



WORKSHEET 21

School: Ba Sangam College Year: 1201 Name _____
 Subject: Accounting

Strand -6	System for Implementing the accounting process
Sub Strand -6.3	Accounting for Incomplete records
Content Learning Outcome 6.3.1	Explore accounting for incomplete records.

Accounting for Incomplete Records

Definition of 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.

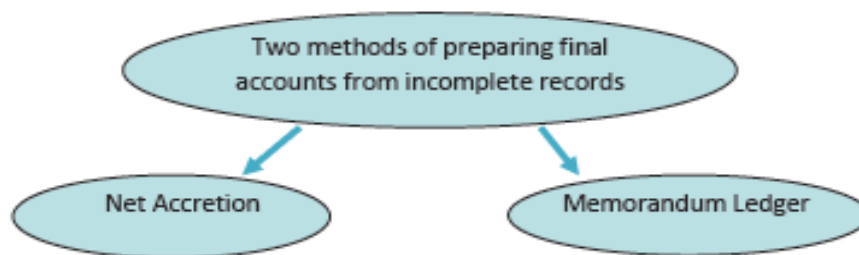
Reasons for Businesses Having Incomplete Records

- 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 : $Net\ profit = P2 - P1 + drawings - Additional\ capital$

P2: (A2 – L2) is the capital at the end of the year.

P1: (A1 – L1) is the capital at the beginning of the year.

Drawings – is anything taken by the owner for personal use.

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



CALCULATION OF NET PROFIT OR LOSS

Format of Calculating the Net Profit or Net Loss

	\$	\$
Total Assets year 2	xxx	
<u>Less</u> Total Liabilities year 2	<u>xxx</u>	
Closing Proprietorship		xxx
Total Assets year 1	xxx	
<u>Less</u> Total Liabilities year 1	<u>xxx</u>	
<u>Less</u> Opening Proprietorship		<u>xxx</u>
		xxx
<u>Add</u> Drawings		<u>xxx</u>
		xxx
<u>Less</u> Additional Capital		<u>xxx</u>
Net profit or Loss		<u>xxx</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	
<u>Less</u> Total Liabilities Year 2	<u>8270</u>	
Closing Proprietorship		5598
Total Assets Year 1	9405	
<u>Less</u> Total Liabilities Year 1	<u>7985</u>	
Opening Proprietorship		<u>1420</u>
		4178
<u>Add</u> Drawings		<u>416</u>
		4594
<u>Less</u> 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.

Class Activity

- I. Shailesh Enterprises lost most of its stock in a fire on the premises on 31st May, 2018. The following information was available after the incident.

	\$
Net Sales	73 000
Inventories at 01/06/17	46 770
Cash Purchases	21 555
Credit Purchases	10 432
Salvage Value of inventory	9 779
The rate of gross profit is 25% on cost.	

Required

Using the Gross Profit method, prepare a Statement to calculate the inventory destroyed by fire as at 31st May 2018.

(3 marks)

- II. Kim Chang is in handicraft trade and has kept very few records of his transactions.

Business assets and liabilities were as follows:

	1 st January 2017	31 st December 2017
	\$	\$
Bank Balance	6 500 Dr	840 Cr
Accounts Payable	4 316	2 814
Cash on hand	38	94
Motor Vehicle	-	4 960
Loan from Bank of Fiji	700	-
Accounts Receivables	867	97
Inventories	1 300	1 864
Furniture	500	450
Mortgage	2 671	1 000
Goodwill	1 000	800

During the year, Kim had withdrawn \$300 from his business.

Required

Prepare a Statement showing the amount of Profit or Loss made for the year ended 31st December 2017.

(3 marks)

