
UNIT 17. ACCOUNTS FROM INCOMPLETE RECORDS-III

Structure

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17.0 OBJECTIVES

After studying this unit you should be able to:

- ascertain the amounts of B/R received and B/P accepted
- ascertain cash sales and cash purchases
- ascertain sales with the help of gross profit rate
- prepare memorandum trading account and ascertain the amounts of purchases, opening and closing stocks
- prepare final accounts from **incomplete** records.

17.1 INTRODUCTION

In Unit 16 you have learnt about the preparation of final accounts from incomplete records by finding out certain missing figures with the help of the Statement of Affairs at the beginning, the Receipts and Payments Account, the Total Debtors Account and the Total Creditors Account. In this unit you will **learn** about a **few** more missing items such as Cash Purchases, Cash Sales, B/R Received, B/P Accepted, etc., and study how they are worked out so that the final accounts can **be** prepared from incomplete records without much difficulty.

17.2 OTHER MISSING ITEMS AND THEIR ASCERTAINMENT

You have learnt that the items which are usually missing from the **incomplete** records are: opening capital, closing cash and bank balances, credit sales and credit purchases. The **information** about **them** is found out by preparing the Statement of Affairs at the beginning, the Receipts and Payments Account, the Total Debtors Account and the Total Creditors Account respectively. The **preparation** of these accounts may also help us to ascertain the opening or closing balanced of debtors, cash received from debtors, opening or closing balances of creditors, cash paid to creditors, etc: But, sometimes, you may have to prepare some additional accounts because certain other relevant figures such as **B/R** received, **B/P** accepted, cash sales, cash purchases, etc, may also be missing. Let us now study **how** these missing items will be worked out before preparing the final accounts.

17.2.1 Bills Receivable (B/R) Received

You know B/R received during the year appear on the credit side of the Total Debtors Account. If the figure of B/R received is not given the Total Debtors Account cannot be prepared correctly and, consequently, the amount of credit sales cannot be ascertained. Hence, before preparing the Total Debtors Account you must ascertain the amount of B/R received during the year, if necessary. This can be done by preparing Bills Receivable Account. Look at Figure 17.1 for the proforma of the Bills Receivable Account.

Figure 17.1
Bills Receivable Account

Dr.	Rs.	Cr.	Rs.
To Balance b/d (opening balance)		By Cash Bnkk (B/R collected)	
To Debtors (B/R received)		By Debtors (B/R dishonoured)	
		By Balance cld (closing balance)	

You will notice that for the preparation of Bills Receivable Account you need the figures of opening and closing balances of bills receivable, B/R received during the year, B/R collected during the year, and B/R dishonoured, etc. The opening and closing balances of bills receivable are usually given. The amount of B/R collected can be ascertained from the summary of cash transactions. The information about B/R dishonoured, may also be a given figure. But, the amount of B/R received during the year is generally missing. This can be ascertained by working out the difference between the totals of the debit and the credit sides of the Bills Receivable Account. Look at Illustration 1 and see how the amount of B/R received during the year has been worked out.

Illustration 1

Find out the missing figure of B/R received from the following particulars.

Bills Receivable (at the beginning)	Rs. 3,500
Bills dishonoured	1,000
Bills collected during the year	7,500
Bills Receivable at the end	3,000

Solution:

Bills Receivable Account

Dr.	Rs.	Cr.	Rs.
To Balance b/d (opening balance)	3,500	By Debtors (B/R dishonoured)	1,000
To Debtors B/R received (balancing figure)	8,000	By Cash (B/R collected)	7,500
		By Balance c/d (closing balance)	3,000
	11,500		11,500

The Bills Receivable Account can also help in finding out the missing items like opening or closing balance's of bill receivable, the amount of bills collected, bills dishonoured, etc., provided the figures of all other items including B/R received are given,

17.2.2 Bills Payable (B/P) Accepted

You know B/P accepted during the year appear on the debit side of the Total Creditors Account. If the figure of B/P accepted is not given, the Total Creditors Account cannot be prepared correctly and consequently, the credit purchases cannot be ascertained. Hence,

before preparing the Total Creditors Account you must ascertain the amount of B/P accepted during the year, if necessary, this can be done by preparing the Bills Payable Account. Look at Figure 17.2 for the proforma of Bills Payable Account.

Figure 17.2
Bills Payable Account

Dr.	Rs.	Cr.	Rs.
To Cash/Bank (bills honoured)		By Balance b/d (opening balance)	
To Creditors (bills dishonoured)		By Creditors (bill accepted)	
To Balance c/d (closing balance)			

You will notice that for the preparation of Bills Payable Account you need the figures of opening and closing bills payable, B/P accepted during the year, B/P honoured during the year and B/P dishonoured, etc. The opening and closing balances of bills payable are usually given. The amount of B/P honoured can be ascertained from the summary of cash transactions. The information about the B/P dishonoured, if any, may also be a given figure. But the amount of B/P accepted during the year is generally missing. This can be ascertained by working out the difference between the totals of the debit and the credit side of the Bills Payable Account. Look at Illustration 2 and see how the amount of B/P accepted during the year has been worked out.

Illustration 2

Calculate the missing figure of B/P accepted from the following information.

Opening balance of Bills Payable	Rs. 7,500
Cash paid against B/P	20,100
Bills Payable dishonoured	3,000
Closing balance of Bills Payable	4,000

Solution:

Bills Payable Account

Dr.	Rs.	Cr.	Rs.
To Cash/Bank (B/P honoured)	20,100	By Balance b/d (opening balance)	7,500
To Creditors (B/P dishonoured)	3,000	By Creditors (B/P accepted)	19,600
To Balance c/d (closing balance)	4,000	(balancing figure)	
	27,100		27,100

The Bills Payable Account can also help in finding out the missing items like opening or closing balances of bills payable, the amount of B/P honoured, B/P dishonoured, etc., provided the figure of all other items including B/P accepted are given.

Illustration 3

From the following particulars prepare Trade Debtors Account, Bills Receivable Account, Trade Creditors Account and Bills Payable Account and find out the missing items.

Balance January 1, 1988	Rs.	Cash received against B/R	Rs. 28,400
Total Debtors	1,14,400	Payments made against B/P	14,000
Bills Receivable	8,000	Cash Sales	31,600
Total Creditors	52,800	Cash Purchases	14,600
Bills Payable	5,000	B/R dishonoured	2,200
Cash received from customers	2,70,800	Balance, December 31, 1988	
Discount allowed	8,400	Total Debtors	1,11,200
Cash paid to Creditors	1,40,500	Bills Receivable	2,000

	Rs.		Rs.
Discount received	5,300	Total Creditors	56,800
Returns Outwards	2,660	Bills Payable	6,000
Returns Inwards	3,250		
Bad Debts Written off	7,080		
Bad Debts recovered	2,000		

Solution:

Total Debtors Account

Dr.	Rs.	Cr.	Rs.
To Balance b/d	1,14,400	By Cnsh	2,70,800
To Bill Receivable (bills dishonoured) (2)	2,200	By Discount Allowed	8,400
To Credit Sales (balancing figure)	3,08,730	By Returns Inwards	3,250
		By Bad Debts	7,080
		By Bills Receivable (B/R received) (1)	24,600
		By Balance c/d	1,11,200
	4,25,330		4,25,330

Bills Receivable Account

Dr.	Rs.	Cr.	Rs.
To Balance b/d	8,000	By Cash (bills collected)	28,400
To Debtors (B/R received) (1) (balancing figure)	24,600	By Debtors (bills dishonoured) (2)	2,200
		By Balance c/d	2,000
	32,600		32,600

Total Creditors Account

Dr.	Rs.	Cr.	Rs.
To Cash	1,40,500	By Balance b/d	52,800
To Discount Received	5,300	By Credit Purchases (balancing figure)	1,67,460
To Returns Outwards	2,660		
To Bills Payable (B/P accepted) (3)	15,000		
To Balance c/d	56,800		
	2,20,260		2,20,260

Bills Payable Account

Dr.	Rs.	Cr.	Rs.
To Cash	14,000	By Balance b/d	5,000
To Balance c/d	6,000	By Creditors (B/P accepted) (3) balancing figure	15,000
	20,000		20,000

17.2.3 Cash Sales and Cash Purchases

Sometimes the amounts of cash sales or cash purchases are not given. They can be found out with the help of Receipts and Payments Account, provided the opening and closing cash/bank balances are given. But, at a time you can work out only one figure, either cash sales or cash purchases. If cash purchases are given you can find out the amount of cash sales which will be equal to the excess of the payments side total over the Receipts side

total of Receipts and Payments Account. If, on the other hand, cash sales are given, you can find out the amount of cash purchases which will be equal to the excess of the Receipts side total over the Payment side total of Receipts and Payments Account. In case both the figures are missing and you find that the Payments side total is more than the Receipts side total, the excess is treated as cash sales and cash purchases are assumed to be nil.

Look at illustration 4 wherein you will find that the opening and closing balances of cash are given and the amount of cash purchases is also given. See how, by preparing the Receipts and Payments Account, the amount of cash sales has been worked out.

Illustration 4

Following are the Cash transactions of a trader who keeps his books on Single Entry System, Calculate the missing figure.

	Rs.		Rs.
Opening Cash balance	2,500	Salaries	1,500
Cash received from Debtors	7,000	Wages	2,700
Cash paid to Creditors	6,500	Rent Received	1,200
Cash Purchases	10,000	Additional Capital Introduced	2,000
Interest on Investments	600	Rent, Rates & Taxes	500
Drawings	2,000	Purchased Furniture for cash	3,000
		Closing Balance of Cash	1,600

Solution:

Receipts and Payments Account

Dr.	Rs.	Cr.	Rs.
To Balance b/d	2,500	By Creditors	6,500
To Debtors	7,000	By Purchases (Cash)	10,000
To Interest on Investments	600	By Drawings	2,000
To Rent Received	1,200	By Salaries	1,500
To Capital	2,000	By Wages	2,700
To Sales (Cash)	14,500	By Rent, Rates & Taxes	500
(balancing figure)		By Furniture	3,000
		By Balance c/d	1,600
	27,800		27,800

Check Your Progress - A

Fill in the blanks.

- 1 B/R received during the year are shown on the side of the Total Debtors Account and side of the Bills Receivable Account.
- 2 If the total of the credit side of Bills Receivable Account is Rs. **45,500** and the opening bills receivable are Rs. 20,000, the amount of B/R received would be Rs.
- 3 B/P dishonoured are shown on the side of Bills Payable Account.
- 4 If the B/P dishonoured, B/P accepted and opening and closing balances of bills payable are given then will be the balancing figure of Bills Payable Account,
- 5 If the opening and closing balances of cash are given and the total of receipt side is in excess of the total of payment side of Receipts and Payments Account, the missing item is
- 6 If total sales are Rs. 2,80,000 and cash sales Rs. **70,800**, the amount of credit sales will be

17.3 PREPARATION OF FINAL ACCOUNTS

Having learnt how missing information of various items can be ascertained, the preparation of final accounts from incomplete records should not now be a difficult task. All that you have to do is to go through the information provided, note down the missing items, and prepare the necessary statements and accounts to ascertain their amounts before you

prepare the Trading and Profit & Loss Account and the Balance Sheet. You will notice that the preparation of Opening Statement of Affairs, Receipts and Payments Account, Total Debtors Account and Total Creditors Account will be involved in almost all the cases. But the Bills Receivable and Bills Payable Accounts are to be made only when the amounts of bill receivable and bills payable are involved. Now let us take a comprehensive illustration and see how the amount of various missing items are ascertained and the final accounts prepared. Look at Illustration 5. You will find that the figures of cash sales, credit sales, B/R received, B/P accepted, opening debtors, credit purchases and opening capital are missing. Study how they are ascertained before preparing the final accounts from incomplete records.

Illustration 5

Raj Prakash has not kept proper books of account. From the following information you are required to prepare the Trading and Profit & Loss Account for the year ending December 31, 1988 and also the Balance Sheet of the firm on that date.

Assets and Liabilities	1.1.88	31.12.88
	Rs.	Rs.
Creditors	31,540	31,600
Sundry Fixed Assets	23,220	24,080
Bills Receivable	8,000	11,000
Debtors	?	35,740
Stock	16,080	32,240
Bills Payable	5,000	4,200
Cash & Bank Balance	13,920	16,160
Expenses Outstanding	1,200	660

Details of the year's transactions are as follows:

	Rs.
Bills Receivable Collected	23,200
Sales - Cash and Credit	1,43,620
Bills Receivable dishonoured	8,800
Cash paid against Bills Payable matured	20,000
Returns from debtors	2,900
Bad debts written off	840
Discount allowed by creditors	1,400
Returns to creditors	800
Capital introduced by the proprietor (paid into bank)	17,000
Received from debtors by cheque	1,25,000
Discount Allowed	3,000
Bills Payable dishonoured	2,000
Cash purchases	2,060
Office expenses paid in cash	19,140
Drawings by cheque	860
Purchase of machinery by cheque	6,360
Payment to creditors by cheque	1,20,540
Repairs to machinery paid by cheque	3,200

Additional Information: Depreciation of Rs. 5,500 is to be provided on fixed assets.

Solution:

Trading and Profit & Loss Account for the year ending December 31, 1988

Dr.	Rs.		Cr.	Rs.
To Opening Stock	16,080	By Sales -		
To Purchases -		Cash	9,200	
Cash	2,060	Credit	<u>1,34,420</u>	
Credit	<u>1,42,260</u>		<u>1,43,620</u>	
Less Returns	<u>1,43,260</u>	Less Returns	<u>2,900</u>	1,40,720
To Gross Profit c/d	<u>13,620</u>			
	<u>1,72,960</u>	By Closing Stock		<u>32,240</u>
To Discounts Allowed	3,000			<u>1,72,960</u>
To Bad Debts	840	By Gross Profit b/d		13,620
		By Discount Received		1,400

Accounts from
Incomplete Records

	Rs.		Rs.
To Repairs	3,200	By Net Loss	16,120
To Depreciation	5,500	(transferred to Capital A/c)	
To Office Expenses	18,600		
	31,140		31,140

Note: Office expenses charged to Profit & Loss Account have been worked as follows:

	Rs.
Paid during the year	19,140
Add outstanding at the end	660
	19,800
Less outstanding at the beginning	1,200
	18,600

Balance Sheet
as on December 31, 1988

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	31,600	Cash & Bank Balance	16,160
Bills Payable	4,200	Bills Receivable	11,000
Outstanding Expenses	660	Sundry Debtors	35,740
Capital account:		Stock in trade	32,240
Opening Balance	82,740	Sundry Fixed Assets	
Add Further		Opening Balance	23,220
Capital		Add Purchases	6,360
Introduced	17,000		29,580
	99,740	Less Depreciation	5,500
Less Drawings	860		24,080
	98,880		
Less Net Loss	16,120		
	82,760		
	1,19,220		1,19,220

Working Notes:

Receipts and Payments Account

Dr.	Amount	Cr.	Amount
	Rs.		Rs.
Receipts		Payments	
To Balance b/d	13,920	By Bills Payable	20,000
To B/R collected	23,200	By Purchases	2,060
To Capital	17,000	By Office expenses	19,140
To Debtors	1,25,000	By Drawings	860
To Sales (cash)	9,200	By Machinery	6,360
(balancing figure)		By Creditors	1,20,540
		By Repairs	3,200
		Balance c/d	16,160
	1,88,320		1,88,320

Bills Receivable Account

	Rs.		Rs.
To Balance b/d	8,000	By Cash (B/R collected)	23,200
To Debtors (balancing figure being total B/R received)(1)	35,000	By Debtors (B/R dishonoured)	8,800
		By Balance c/d	11,000
	43,000		43,000

Total Debtors Account

	Rs.		Rs.
To Balance b/d (balancing figure)	59,260	By Bank	1,25,000
To Credit Sales (1,43,620-9,200)	1,34,420	By Discount Allowed	3,000
To Bills Receivable (B/R dishonoured)	8,800	By Bills Receivable (1)	35,000
		By Sales Returns	2,900
		By Bad Dabts	840
		By Balance c/d	35,740
	2,02,480		2,02,480

Note: Credit Sales have been worked out by deducting cash sales from total sales.

Bills Payable Account

	Rs.		Rs.
To Cash	20,000	By Balance b/d	5,000
To Creditors (B/P dishonoured)	2,000	By Creditors (B/P accepted)(2)	21,200
To Balance c/d	4,200		
	26,200		26,200

Total Creditors Account

	Rs.		Rs.
To Cash/bank	1,20,540	By Balance b/d	31,540
To Discount Received	1,400	By B/P (B/P dishonoured)	2,000
To Purchase Returns	800	By Purchases (credit (balancing figure)(2)	1,42,000
To B/P (accepted)(2)	21,200		
To Balance c/d	31,600		
	1,75,540		1,75,540

Statement of Affairs
as on January 1,1988

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry creditors	31,540	Sundry fixed assets	23,220
Bills payable	5,000	Bills receivable	8,000
Outstanding expenses	1,200	Sundry debtors	59,260
Capital (opening)- (balancing figure)	82,740	Stock in trade	16,080
		Cash & Bank Balance	13,920
	1,20,480		1,20,480

17.4 ASCERTAINING SALES WITH GROSS PROFIT RATE

You have learnt that credit sales are normally ascertained with the help of Total Debtors Account. Sometimes the information available is not sufficient for the preparation of Total Debtors Account. In that case the credit sales can be worked out simply by deducting cash sales from the total sales, if given. If cash sales are not given, they can be worked out with the help of Receipts and Payments Account. But if the total sales are also not given, it becomes difficult to ascertain the amount of credit sales. In such a situation, you will have to work out the total sales with the help of cost of goods sold and the gross profit rate, if given. For example, if the given rate of gross profit is 20% and cost of goods sold Rs. 1,60,000 the amount of total sales will be calculated as follows:

$$\begin{aligned}
 \text{Gross Profit} &= 20\% \text{ or } 1/5 \text{th of sales} \\
 \text{Let Sales be } X & \\
 \text{Gross Profit} &= \text{Sales} - \text{Cost of Goods sold} \\
 1/5X &= X - 1,60,000 \\
 X - 1/5X &= 1,60,000 \\
 4/5X &= 1,60,000 \\
 X &= 1,60,000 \times 5/4 \\
 &= \text{Rs. } 2,00,000
 \end{aligned}$$

In fact, the cost of goods sold is not a given figure. It has to be worked out with the help of available information. You learnt about it in Unit 7. It is equal to opening stock plus purchases (including direct expenses) minus Closing Stock. Look at Illustration 6 and see how cost of goods sold has been computed and the total sales worked out with the help of gross profit rate.

Illustration 6

Calculate Total Sales from the information given below.

	Rs.
Opening Stock	8,000
Purchases	60,000
Wages	22,000
Closing Stock	14,000
Gross Profit is 1/6 on the Sales.	

Solution:

$$\begin{aligned}
 \text{Cost of Goods Sold} &= \text{Opening Stock} + \text{Purchases} + \text{Direct Expenses} - \text{Closing Stock} \\
 &= 8,000 + 60,000 + 22,000 - 14,000 \\
 &= \text{Rs. } 76,000 \\
 \text{Gross Profit} &= 1/6 \text{th of sales} \\
 \text{Let Sales be } X & \\
 \text{Gross Profit} &= \text{Sales} - \text{Cost of Goods Sold} \\
 1/6X &= X - 76,000 \\
 X - 1/6X &= 76,000 \\
 \frac{6X - X}{6} &= 76,000 \\
 5/6X &= 76,000 \\
 X &= \frac{76,000 \times 6}{5} \\
 X &= 91,200 \\
 \text{So Sales are Rs. } 91,200
 \end{aligned}$$

17.5 MEMORANDUM TRADING ACCOUNT

Sometimes you will find that the opening and closing stock are not given. The opening stock can be worked out by preparing the opening Statement of Affairs, provided all other figures including opening capital is given. But, if the opening capital is also not given, then the opening stock will have to be worked out by preparing a Memorandum Trading Account, which is just like the normal Trading Account. You know the Trading Account is prepared for ascertaining the gross profit. It is debited with opening stock, purchases, and

direct expenses and credited with sales and closing stock. The gross profit is equal to the excess of the credit side total over the debit side total and is shown on the debit side of the Trading Account. The gross profit can also be worked out if the gross amount of sales are known and the rate of gross profit is given. Now if all figures other than the opening stock are available and the gross profit has been worked out with the help of gross profit rate, you can prepare a Memorandum Trading Account and find out the amount of opening stock on the basis of balancing figure. Look at Illustration 7 and see how Memorandum Trading Account helps in working out the amount of opening stock.

Illustration 7

Calculate the amount of opening stock from the following information

	Rs.
Purchases	1,80,000
Closing Stock	25,000
Direct Expenses	15,000
Sales	3,50,000
Gross Profit rate 20% on sales.	

Solution:

Memorandum Trading Account

Dr.	Rs.	Cr.	Rs.
To Opening Stock (balancing figure)		By Sales	3,50,000
To Purchases	1,80,000	By Closing stock	25,000
To Direct Expenses	15,000		
To Gross Profit (20% of sales)	70,000		
	3,75,000		3,75,000

Similarly with the help of Memorandum Trading Account, you can also find out the figure of closing stock. Even the amount of purchases can be worked out provided all other information is available.

Let us now take a comprehensive illustration and prepare final accounts from incomplete records once again.

Illustration 8

Jai Prakash keeps only a cash book and a personal ledger. All receipts are banked and all payments are made by cheques. There are no cash purchases or cash sales. You obtain the following information from Jai Prakash for the year ending December 31, 1988.

	Rs.
Cash at bank (1.1.88)	44,400
Drawings	40,000
Wages paid (including Rs. 4,000 for 1987)	68,000
Payments to creditors	2,10,000
Salaries paid	24,000
Receipts from debtors	3,52,000
Payments for office establishment	30,000
Stock in trade (31.12.88)	56,000
Trade Debtors (1.1.88)	32,000
Trade Debtors (31.12.88)	60,000
Trade Creditors (1.1.88)	40,000
Trade Creditors (31.12.88)	48,000
Payment for furniture purchased	8,000
Amount spent on repairs	3,000
Furniture (1.1.88)	32,000
Furniture (31.12.88)	37,000
Plant and Machinery (1.1.88)	80,000

Wages and Salaries for December, 1988 still outstanding were Rs. 6,000 and Rs. 2,000 respectively. Included in office establishment is a sum of Rs. 500 relating to insurance prepaid for 1989. Provide Rs. 3,000 as depreciation on Furniture and 10% depreciation on Plant & Machinery.

Jai Prakash sells goods at gross profit of 25% on sales. Prepare Trading & Profit & Loss Account for the year ended December 31, 1988 and the Balance Sheet as on that date.

Accounts from
Incomplete Records

		Rs.			Rs.
To Opening Stock		53,000	By Sales		3,80,000
To Purchases		2,18,000	By Stock (closing)		56,000
To Wages Paid	68,000				
Add Out-standing for 1988	6,000				
	<u>74,000</u>				
Less Out-standing for 1987	4,000	70,000			
To Gross Profit c/d		95,000			
		<u>4,36,000</u>			<u>4,36,000</u>
To Salaries	24,000		By Gross Profit b/d		95,000
Add Outstanding	2,000	26,000			
To Office Establishment	3,000				
Less Prepaid Insurance	500				
		29,500			
To Repairs		3,000			
To Depreciation					
Furniture	3,000				
Plant & Machinery	8,000	11,000			
To Net Profit		25,500			
		<u>95,000</u>			<u>95,000</u>

Balance Sheet of Jai Prakash
as on December 31, 1988

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	48,000	Cash at Bank	13,400
Outstanding Wages	6,000	Trade Debtors	60,000
Outstanding Salaries	2,000	Stock in Trade	56,000
Capital Account		Furniture	32,000
Opening Balance	1,97,400	Add Purchase	8,000
		<u>40,000</u>	
Net Profit	25,500	Less Depreciation	3,000
	<u>2,22,900</u>		37,000
Less Drawings	40,000	Plant & Machinery	80,000
	1,82,900	Less Depreciation	8,000
			72,000
		Prepaid Insurance	500
	<u>2,38,900</u>		<u>2,38,900</u>

Bank Account

Dr.			Cr.
	Rs.		Rs.
To Balance b/d	44,400	By Drawings	40,000
To Debtors	3,52,000	By Wages	68,000
		By Creditors	2,10,000
		By Salaries	24,000
		By Office Establishment	30,000
		By Furniture	8,000
		By Repairs	3,000
		By Balance c/d (balancing figure)	13,400
	3,96,400		3,96,400

Total Debtors Account

	Rs.		Rs.
To Balance b/d	32,000	By Bank	3,52,000
To Sales (Credit) (balancing figure)	3,80,000	By Balance c/d	60,000
	4,12,000		4,12,000

Total Creditors Account

	Rs.		Rs.
To Bank	2,10,000	By Balance b/d	40,000
To Balance c/d	48,000	By Purchases (credit) (balancing figure)	2,18,000
	2,58,000		2,58,000

Memorandum Trading Account

	Rs.		Rs.
To Opening Stock (balancing figure)	53,000	By Sales	3,80,000
To Purchase	2,18,000	By Stock (closing)	56,000
To Wages 68,000 Add Outstanding for 1988 6,000 <u>74,000</u>			
Less Outstanding for 1987 4,000	70,000		
To Gross Profit (25% on sales) 95,000			
	4,36,000		4,36,000

Statement of Affairs as on 31.12.87

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Outstanding Wages	4,000	Cash at Bank	44,400
Trade Creditors	40,000	Trade Debtors	32,000
Capital (opening) (balancing figure)	1,97,400	Stock in trade	53,000
		Furniture	32,000
		Plant and Machinery	80,000
	2,41,400		2,41,400

17.6 LET US SUM UP

The preparation of final accounts from incomplete records generally involves the ascertainment of opening capital, closing cash/bank balances, credit sales and credit purchases, debtors, creditors, etc. But, sometimes items like B/R received, B/P accepted, cash sales, cash purchases etc., may also be missing. Hence, in addition to the preparation Statement of Affairs, Receipts and Payments Account, Total Debtors Account and Total Creditors Account, one may also have to prepare the Bills Receivable Account and Bills Payable Account.

When it is not possible to ascertain the credit sales with the help of Total Debtors Account, it can be worked out by deducting cash sales from the total sales. But if the total sales are also not given, the same will have to be worked out with the help of cost of goods sold and the gross profit rate. Sometimes the figures of opening and closing stocks may not be available. They can be found out by preparing the Memorandum Trading Account provided the total sales and the rate of gross profit are given. Thus, conversion method which involves the preparation of final accounts from incomplete records is quite a complicated affair.

17.7 SOME USEFUL BOOKS

Gupta, R.L. and M. Radhaswamy, 1986. *Advanced Accountancy*, Sultan Chand & Sons, New Delhi. (Chapter 15 Section II).

Maheshwari, S.N. 1986. *Introduction to Accounting*, Vikas Publishing House: New Delhi. (Chapter 16).

Patil, V.A. and J.S. Korlahalli, 1986. *Principles and Practice of Accounting*, R. Chand & Co., New Delhi. (Chapter 6, Section II).

Shukla, M.C. and T.S. Grewal., 1987. *Advanced Accounts*, S. Chand & Co., New Delhi (Chapter 8 Volume I).

William Pickles, 1982. *Accountancy*, E.L.B.S. and Pitman, London. (Chapter 2).

17.8 ANSWERS TO CHECK YOUR PROGRESS

- A 1 credit, debit 2 Rs. 25,500 3 debit 4 B/P honoured
5 Cash purchases 6 Rs. 2,09,200

17.9 TERMINAL QUESTIONS/EXERCISES

Questions

- Under what circumstances would you prepare Bills Receivable Account and Bills Payable Account while preparing final accounts from incomplete records?
- "Credit sales can be ascertained either by preparing the Total Debtors Account or with the help of Memorandum Trading Account". Discuss.

Exercises

- Calculate the missing item from the information supplied as follows.

	Ra.		Rs.
Balance on April 1, 1987		Returns Outwards	400
Total Debtors	48,000	Bud debts	1,100
Total Creditors	42,000	Received from Debtors	30,000
Bills Receivable	15,000	Discount Allowed	500
Bills Payable	12,000	Paid to Creditors	25,000
Bills Receivable dishonoured	14,500	Discount Received	400
		Bills Payable Dishonoured	15,00
		Balance on March 31, 1988	

	Rs.		Rs.
Cash Paid against		Total Debtors	50,000
Bills Payable	10,000	Total Creditors	45,000
Returns Inwards	600	Bills Receivable	20,000
		Bills Payable	15,000

**Accounts from
Incomplete Records III**

(Answer: B/R received Rs. 19,500; Credit Sales Rs. 39,200; B/P accepted Rs. 14,500; Credit Purchases Rs. 43,300)

2 Given below are the cash transaction of Sita Ram for the year ended December 31, 1988. Find out the missing item.

	Rs.		Rs.
Opening Cash Balance	10,900	Rent Received	9,900
Cash received from Debtors	2,15,200	Drawings	15,300
Cash Sales	50,100	Capital Introduced	20,000
Cash paid to Creditors	1,05,900	Machinery Purchased	22,000
Salaries Paid	25,200	Commission Received	14,800
Wages	30,700	Closing Cnsh Balance	3,600

(Answer: Cash Purchases Rs. 1,12,200)

3 Calculate the Total Sales and Prepare a Memorandum Trading Account from the following particulars

	Rs.
Opening Stock	12,000
Closing Stock	10,000
Purchases	48,000
Carriage Inwards	5,000
Carriage Outwards	2,000
Salaries	7,000
Wages	15,000
Gross Profit rate is 20% on Sales.	

(Answer: Sales; Rs. 87,500)

4 Ramesh keeps his records on Single Entry System. From the following information prepare Trading and Profit & Loss Account for the year ended October 31, 1988 and the Balance Sheet as on that date.

Balances	1-11-87	31-10-88
	Rs.	Rs.
Bills Receivable	50,000	68,000
Debtors	78,1100	90,000
Stock	1,50,600	1,06,000
Plant & Machinery	94,000	—
Land & Buildings	1,40,000	—
Creditors	72,000	76,000
Bills Payable	32,000	46,000
Cash	1,400	4,800
Bank Overdraft	10,000	—
Bank Balance	—	25,000

Cash transactions during the year were as follows.

	Rs.
Received from Debtors	5,80,000
Received against B/R	2,00,000
Salaries	24,000
Paid against B/P	2,86,000
Wages	31,600
Paid to Creditors	2,94,000
Office Expenses	16,000
Drawings	40,000
Additional Information	
B/R dishonoured	4,000
Discount Allowed	4,000
Discount Received	2,000
Returns Inwards	1,000
Returns Outwards	500
Wages Outstanding at the end	2,500
Salaries Prepaid	1,000
Depreciation 15% to be provided on Plant & Machinery and 5% on Land & Building.	

(Answer: B/R received Rs. 2,23,000; Credit Sales Rs. 8,15,000; B/P issued Rs. 3,00,000; Credit Purchases Rs. 6,00,500; Cash Purchases Rs. 50,000; Opening Capital

5. Prakash keeps only a cash book and personal ledgers. From these books and by enquiries with the proprietor, the following information is obtained for the year ending December 31, 1988.

	Rs.
Payments to Creditors	8,40,000
Cash at Bank (1.1.88)	93,600
Wages paid (including Rs. 16,000 for 1987)	2,72,000
Drawings	1,60,000
Salaries paid	48,000
Receipts from debtors	13,60,000
Payments for office expenses	1,20,000
Stock in trade (31.12.87)	1,28,000
Trade Debtors 1.1.88	1,20,000
Trade Debtors 31.12.88	2,32,000
Trade Creditors 1.1.88	1,40,000
Trade Creditors 31.12.88	1,52,000
Hills Receivable 1.1.88	56,000
Hills Receivable 31.12.88	40,000
Bills Payable 1.1.88	32,000
Bills Payable 31.12.88	20,000
Bills Receivable matured during the year	1,40,800
Bills receivable dishonoured	41,600
Bills Payable matured and paid cash	1,60,000
Cash paid for furniture purchased	32,000
Amount spent on repairs during the year	20,000
Furniture on 1st January, 1988	1,40,000
Furniture on 31st December, 1988	1,56,400
Plant and Machinery 1.1.88	4,80,000

Included in the office expenses is a sum of Rs. 2,800 relating to quarter ending on March 31, 1989. Wages outstanding were Rs. 24,000 and salaries outstanding Rs. 10,000.

Prakash sells goods at the fixed mark-up of 25% on sales.

Depreciation on Plant and Machinery is to be charged @ 10% per annum.

Prepare a Trading and Profit & Loss Account for the year ending December 31, 1988 and also Balance Sheet of the firm as on that date.

(Answer: Total B/R received during the year Rs. 1,66,400; Total B/P accepted during the year Rs. 1,48,000; Closing Stock Rs. 2,10,400; Sales Rs. 15,96,800; Purchases Rs. 10,00,000; Opening Capital Rs. 8,29,600; Bank Overdraft (31.12.88) Rs. 57,600; Depreciation on furniture Rs. 15,600; Gross Profit Rs. 3,99,200; Net Profit Rs. 1,40,400; Balance Sheet Total Rs. 10,73,600.)

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

ECO-02 ACCOUNTANCY-I
Course Components

BLOCK	UNIT NO.	PRINT MATERIAL
1		Accounting Fundamentals
	1	Basic Concepts of Accounting
	2	The Accounting Process
	3	Cash Book and Bank Reconciliation
	4	Other Subsidiary Books
	5	Bills of Exchange
2		Final Accounts
	6	Concepts Relating to Final Accounts
	7	Final Accounts-1
	8	Final Accounts-11
	9	Errors and their Rectification
3		Consignments and Joint Ventures
	10	Consignment Accounts-1
	11	Consignment Accounts-11
	12	Consignment Accounts-III
	13	Joint Venture Accounts
4		Accounts from Incomplete Records
	14	Self Balancing System
	15	Accounting from Incomplete Records-1
	16	Accounting from Incomplete Records-11
	17	Accounting from Incomplete Records-III
5		Accounts of Non-trading Concerns, Depreciation, Provisions and Reserves
	18	Accounts of Non-trading Concerns-1
	19	Accounts of Non-trading Concerns-11
	30	Depreciation-I
	31	Depreciation-II
	22	Provisions and Reserves