Accounts from Incomplete Records

CBSE · Class 11 · Accountancy — exam notes

Many small traders keep records without following the full double-entry system, so their books are 'incomplete' (popularly called single entry). This chapter explains the meaning, features and limitations of such records and shows how to find the year's profit or loss using the Statement of Affairs method by comparing opening and closing capital after adjusting for drawings and fresh capital.

Key terms & definitions

Incomplete Records (Single Entry System)
An unscientific way of keeping books in which only some accounts (usually cash and personal accounts of debtors and creditors) are maintained, while the dual aspect of many transactions is ignored. It is not a recognised system but a mix of double entry, single entry and no entry.

Statement of Affairs
A statement listing the estimated values of all assets and all liabilities of a business on a particular date; the balancing figure (Assets – Liabilities) gives the capital on that date. It is used when proper ledger accounts are not available.

Capital (Net Worth)
The owner's claim on the business, equal to Total Assets minus Total Liabilities (external) on a given date. Opening capital is found from the opening Statement of Affairs and closing capital from the closing one.

Opening Capital
The capital of the business at the beginning of the accounting period, obtained as Total Assets minus Total Liabilities from the Statement of Affairs prepared at the start of the year.

Closing Capital
The capital of the business at the end of the accounting period, obtained as Total Assets minus Total Liabilities from the Statement of Affairs prepared at the end of the year.

Drawings
Cash, goods or assets withdrawn by the proprietor from the business for personal use. Drawings reduce capital but are not a business expense, so they are added back while computing profit.

Additional Capital Introduced
Fresh funds or assets brought into the business by the owner during the year. It increases capital but is not earned profit, so it is subtracted while computing profit.

Statement of Profit or Loss
A short statement that begins with closing capital, adds back drawings, subtracts additional capital and opening capital, to arrive at the net profit or net loss for the period under the Statement of Affairs method.

Double Entry System
The complete, scientific system of bookkeeping in which every transaction is recorded with equal debit and credit, so the books always balance, a trial balance can be drawn and true profit and financial position can be ascertained.

Missing Figure
An amount not directly available from incomplete records (such as opening stock, an asset value or capital) that has to be derived, estimated or worked back from the data given before the statements can be completed.

Meaning of Incomplete Records

- Incomplete records are account books kept without strictly following the double-entry system, so the two-fold (debit and credit) effect of every transaction is not recorded.
- Commonly only a cash book and the personal accounts of debtors and creditors are maintained; real and nominal accounts are usually ignored.
- It is loosely called the 'Single Entry System', but it is really a defective or incomplete application of double entry, not a separate scientific system.
- It is a mixture of three positions: some transactions have both entries (double entry), some have only one entry (single entry) and some have no entry at all.

Features of Incomplete Records

- Unsystematic and not based on any fixed set of rules; method varies from one trader to another.
- Usually personal accounts (debtors, creditors) and a cash book are kept; real and nominal accounts are mostly absent.
- To collect missing information, the trader depends on original vouchers like bills, receipts and the bank passbook.
- It suits only small proprietorship and partnership firms with limited transactions; companies cannot use it as law requires proper double-entry books.
- A trial balance cannot be prepared, so arithmetical accuracy of the books cannot be checked.

Reasons (Why Traders Keep Incomplete Records)

- It is simple, less costly and does not require trained accountants or many books.
- Small shopkeepers and traders have limited transactions and feel detailed records are unnecessary.
- It saves time and effort for a one-person or family business.
- Lack of accounting knowledge among small owners also leads to incomplete recording.

Limitations / Disadvantages

- No trial balance can be prepared, so arithmetical accuracy cannot be verified and errors may go undetected.
- True profit or loss cannot be ascertained, because a proper Trading and Profit & Loss Account cannot be made from incomplete data.
- True financial position is uncertain, since a reliable Balance Sheet cannot be prepared.
- Frauds and misappropriation are easy to commit and hard to detect due to missing records.
- Difficult to get bank loans, settle insurance claims, or file accurate tax returns as records are not dependable.
- Comparison with earlier years or with other firms becomes unreliable.

Difference between Single Entry and Double Entry

- Recording: Single entry records only one or no aspect of many transactions; double entry records both debit and credit of every transaction.
- Accounts maintained: Single entry usually keeps only cash and personal accounts; double entry keeps personal, real and nominal accounts.
- Trial balance: Cannot be prepared under single entry; can always be prepared under double entry to check accuracy.
- Profit ascertainment: Single entry finds an estimated profit by comparing capitals; double entry finds exact profit through a Trading and Profit & Loss Account.
- Financial position: Single entry gives an estimated Statement of Affairs; double entry gives a reliable Balance Sheet.
- Suitability and reliability: Single entry suits small firms and is unreliable; double entry suits all and is scientific and reliable.

Ascertaining Profit — Statement of Affairs Method

- This is the method prescribed for Class 11; it finds profit by comparing the capital at the start and end of the year.
- Step 1: Prepare an Opening Statement of Affairs to find Opening Capital = Opening Assets – Opening Liabilities.
- Step 2: Prepare a Closing Statement of Affairs to find Closing Capital = Closing Assets – Closing Liabilities.
- Step 3: Adjust for drawings (add back) and additional capital (subtract), then deduct opening capital.
- Step 4: Prepare a Statement of Profit or Loss to present the result clearly as net profit or net loss.
- If the adjusted closing capital is more than opening capital, the difference is profit; if less, it is a loss.
- Note: The conversion method (converting single entry into full double entry using total debtors/creditors accounts) is NOT part of the Class 11 CBSE syllabus; it is studied later in Class 12.

Statement of Affairs vs Balance Sheet

- Source of data: A Statement of Affairs is built from estimated/physically verified figures when records are incomplete; a Balance Sheet is extracted from a complete, verified double-entry ledger.
- Reliability: Figures in a Statement of Affairs are estimates and may be inaccurate; Balance Sheet figures are reliable and supported by records.
- Objective: A Statement of Affairs is mainly prepared to find capital (the missing figure); a Balance Sheet is prepared to show the true financial position.
- Capital figure: In a Statement of Affairs, capital is the balancing figure; in a Balance Sheet, capital is a known figure brought from the Capital Account.
- Omission of an item: If an asset/liability is omitted from a Statement of Affairs, capital itself is wrong; in a Balance Sheet an omission makes the two sides disagree, signalling an error.
- Both look alike (assets on one side, liabilities and capital on the other) but differ in source, accuracy and purpose.

Steps to Prepare a Statement of Affairs

- Collect data from the cash book, passbook, bills, vouchers and personal accounts of debtors and creditors.
- Physically count and value the closing stock, and list assets such as cash, bank, debtors, stock, furniture and machinery.
- List all liabilities such as creditors, outstanding expenses, bank loan and bank overdraft.
- Total the assets and total the liabilities; the difference (Assets − Liabilities) is the capital on that date.
- Prepare it on the relevant date — at the beginning for opening capital and at the end for closing capital.

Treatment of Drawings and Additional Capital

- Drawings reduce closing capital but are personal withdrawals, not business losses, so they are ADDED back while computing profit.
- Goods or assets taken by the owner for personal use are also treated as drawings at their value.
- Additional capital introduced increases closing capital but is not profit earned, so it is SUBTRACTED while computing profit.
- Care must be taken with the dates of these items, though for Class 11 numericals interest on drawings/capital is normally given directly if required.

Formulas & formats

- Capital (any date) = Total Assets − Total External Liabilities (from the Statement of Affairs on that date).
- Opening Capital = Opening Assets − Opening Liabilities.
- Closing Capital = Closing Assets − Closing Liabilities.
- Profit/Loss = (Closing Capital + Drawings − Additional Capital Introduced) − Opening Capital. [Positive = Profit, Negative = Loss]
- Check / Reverse form: Closing Capital = Opening Capital + Profit + Additional Capital − Drawings.
- Statement of Profit or Loss (format): Closing Capital +Drawings −Additional Capital −Opening Capital = Net Profit (or Net Loss).
- Statement of Affairs (format): LEFT side 'Liabilities' = Creditors, Bills Payable, Outstanding Expenses, Bank Loan/Overdraft, Capital (balancing figure); RIGHT side 'Assets' = Cash, Bank, Debtors, Bills Receivable, Stock, Prepaid Expenses, Furniture, Machinery, Building. Both totals must agree.
- Worked example: Opening: Cash 8,000 + Stock 30,000 + Debtors 12,000 = 50,000 assets; Creditors 10,000 → Opening Capital = 50,000 − 10,000 = 40,000. Closing: Cash 15,000 + Stock 28,000 + Debtors 18,000 = 61,000 assets; Creditors 7,000 → Closing Capital = 61,000 − 7,000 = 54,000. Drawings 9,000, Additional capital 0. Profit = (54,000 + 9,000 − 0) − 40,000 = ₹23,000.

Important questions & model answers

1 mark **What is meant by incomplete records (single entry system)?**

- It is a way of keeping books in which the double-entry system is not strictly followed, so the dual aspect of many transactions is not recorded.
- Usually only the cash book and personal accounts of debtors and creditors are maintained, making the records incomplete and unscientific.

1 mark **State why capital is the balancing figure in a Statement of Affairs.**

- Because under incomplete records the Capital Account is not maintained, its amount is not directly known.
- So all assets and liabilities are listed and capital is found as the difference (Assets – Liabilities), i.e. it balances the statement.

3 marks **Explain any three limitations of incomplete records.**

- No trial balance: Arithmetical accuracy of the books cannot be checked, so errors may remain undetected.
- True profit not known: A proper Trading and Profit & Loss Account cannot be prepared, so only an estimated profit is possible.
- Frauds hard to detect: Missing records make misappropriation easy and difficult to trace; getting loans or settling claims also becomes difficult.

3 marks **Distinguish between a Statement of Affairs and a Balance Sheet (any three points).**

- Source: A Statement of Affairs uses estimated/verified figures from incomplete records; a Balance Sheet is prepared from a complete double-entry ledger.
- Reliability: Statement of Affairs figures are estimates and less reliable; Balance Sheet figures are reliable and supported by records.
- Capital: In a Statement of Affairs capital is the balancing figure; in a Balance Sheet capital is a known figure taken from the Capital Account.
- Objective: A Statement of Affairs is mainly to find capital; a Balance Sheet is to show the true financial position.

4 marks **Why are drawings added back and additional capital subtracted while calculating profit under the Statement of Affairs method?**

- Profit must reflect only the gain earned from business activity (revenue minus expenses), not the owner's personal dealings.
- Drawings reduce closing capital but are personal withdrawals, not a business loss; if not added back, profit would be understated.
- Additional capital increases closing capital but is money brought in by the owner, not earned by the business; if not subtracted, profit would be overstated.
- Hence the formula adjusts both: Profit = (Closing Capital + Drawings – Additional Capital) – Opening Capital, isolating the true business result.

4 marks **From the following, calculate the profit or loss: Opening Capital ₹60,000; Closing Capital ₹85,000; Drawings during the year ₹12,000; Additional capital introduced ₹10,000.**

- Start with Closing Capital = ₹85,000.
- Add Drawings ₹12,000 → ₹97,000 (drawings added back as they reduced capital but are not a loss).
- Less Additional Capital ₹10,000 → ₹87,000 (subtracted as it is not earned profit).
- Less Opening Capital ₹60,000 → Net Profit = ₹27,000.
- Formula: (85,000 + 12,000 – 10,000) – 60,000 = ₹27,000 profit.

4 marks **Distinguish between the Single Entry System and the Double Entry System (any four points).**

- Recording: Single entry records only one or no aspect of many transactions; double entry records both debit and credit of every transaction.
- Accounts kept: Single entry keeps mainly cash and personal accounts; double entry keeps personal, real and nominal accounts.
- Trial balance: Cannot be prepared under single entry; can be prepared under double entry to verify accuracy.
- Profit and position: Single entry gives only estimated profit and a Statement of Affairs; double entry gives true profit and a reliable Balance Sheet.

6 marks **Mohan does not keep proper books. On 1 April 2024 his assets were Cash ₹10,000, Stock ₹40,000, Debtors ₹15,000 and Furniture ₹20,000; liabilities were Creditors ₹18,000 and Outstanding salary ₹2,000. On 31 March 2025 his assets were Cash ₹16,000, Stock ₹46,000, Debtors ₹22,000 and Furniture ₹18,000; liabilities were Creditors ₹14,000. During the year he withdrew ₹12,000 and introduced fresh capital of ₹8,000. Find the profit or loss for the year.**

- Opening Statement of Affairs: Assets = 10,000 + 40,000 + 15,000 + 20,000 = ₹85,000; Liabilities = 18,000 + 2,000 = ₹20,000.
- Opening Capital = 85,000 – 20,000 = ₹65,000.
- Closing Statement of Affairs: Assets = 16,000 + 46,000 + 22,000 + 18,000 = ₹1,02,000; Liabilities = ₹14,000.
- Closing Capital = 1,02,000 – 14,000 = ₹88,000.
- Statement of Profit: Closing Capital 88,000 + Drawings 12,000 – Additional Capital 8,000 – Opening Capital 65,000.
- Net Profit = (88,000 + 12,000 – 8,000) – 65,000 = ₹27,000.
- Check: 65,000 + 27,000 + 8,000 – 12,000 = ₹88,000 = Closing Capital. ✓

3 marks **Define a Statement of Affairs and state its main purpose.**

- A Statement of Affairs is a statement showing the estimated values of all assets and all liabilities of a business on a particular date.
- Its main purpose is to ascertain the capital (net worth) on that date, since the Capital Account is not maintained under incomplete records.
- Capital appears as the balancing figure: Capital = Total Assets – Total Liabilities.

1 mark **Calculate the closing capital: Cash ₹25,000, Building ₹1,50,000, Stock ₹45,000, Debtors ₹30,000; Bank overdraft ₹20,000, Creditors ₹35,000, Loan ₹60,000.**

- Total Assets = 25,000 + 1,50,000 + 45,000 + 30,000 = ₹2,50,000.
- Total Liabilities = 20,000 + 35,000 + 60,000 = ₹1,15,000.
- Closing Capital = 2,50,000 – 1,15,000 = ₹1,35,000.

Exam tips

- Memorise the core formula exactly: Profit = (Closing Capital + Drawings – Additional Capital) – Opening Capital. A sign mistake costs the whole answer.
- Always prepare BOTH Statements of Affairs first; never jump straight to the formula without finding opening and closing capital.
- Drawings are ADDED, additional capital is SUBTRACTED — remember this by reasoning: the owner's personal dealings must be removed to leave only business profit.
- Capital is the balancing figure in a Statement of Affairs — do not look for it in the data; calculate it as Assets – Liabilities.
- For 'distinguish' questions (Single vs Double entry, or Statement of Affairs vs Balance Sheet), answer in a two-column tabular form to score full marks.
- Show a verification line (Opening Capital + Profit + Additional Capital – Drawings = Closing Capital) to confirm your answer and earn method marks.
- Write rupee figures clearly with proper totals; present numericals as neat statements, not loose working.
- Do not waste time on the conversion method — it is outside the Class 11 syllabus; concentrate on the Statement of Affairs method.

Quick revision

- Incomplete records = double-entry not fully followed; only cash and personal accounts usually kept (popularly 'single entry').
- Features: unsystematic, mainly personal accounts, depends on vouchers, suits small firms, no trial balance.
- Limitations: no trial balance, no true profit, no reliable Balance Sheet, frauds easy, loans/claims/tax difficult.
- Statement of Affairs = list of assets and liabilities; Capital = Assets – Liabilities (balancing figure).
- Profit = (Closing Capital + Drawings – Additional Capital) – Opening Capital; profit if positive, loss if negative.
- Drawings ADD back (not a loss); Additional capital SUBTRACT (not earned profit).
- Statement of Affairs ≠ Balance Sheet: different in source, reliability, purpose and how capital is found.
- Single vs Double entry: recording, accounts kept, trial balance, profit/position, reliability.
- Worked check: Cash 8k+Stock 30k+Debtors 12k–Creditors 10k = 40k opening; close 54k; Drawings 9k → Profit = (54k+9k) – 40k = ₹23,000.
- Conversion method is NOT in the Class 11 syllabus (covered in Class 12).