

CHAPTER THIRTEEN

SINGLE ENTRY AND INCOMPLETE RECORDS SYSTEMS

CHAPTER OUTLINE

- ❖ Concept of single entry and incomplete records
- ❖ Preparation of final accounts from single entries
- ❖ Incomplete record system

Learning Objectives:

At the end of this chapter, the student should be able to:

- Explain the meaning of single entry and incomplete records.
- Convert a single entry into double entry system
- Prepare a statement of comprehensive income from a single entry.
- Prepare a statement of financial position from a double entry.
- Ascertain the profit of a business from an incomplete record.
- Prepare cash and bank summary from an incomplete record.
- Prepare a statement of financial position from an incomplete record system.

13.1 CONCEPT OF SINGLE ENTRY AND INCOMPLETE RECORDS

It is of interest to observe practically that almost all small businesses cannot conveniently keep their books using full double entry principles, where every debit entry has a corresponding credit entry. This is for the fact that it is costly to engage professionals to carry out this task especially when the

owners lack the necessary accounting knowledge. Hence, the most likely action of these businesses is to record the transactions once without bothering about the corresponding entry. This is why it is called "Single Entry".

What mostly concerns the average business man is to know his profit or loss at the end of the day, not the rigorous book keeping work. He can easily devise a method to be used in calculating his profits. In most cases, he determines his capital at the beginning and at the end, he compares the two, if positive, (i.e. if capital at the end is higher than the capital at the beginning), then he sees the difference as profit, but if negative, (i.e. if capital at the end is less than the capital at the beginning), it is a loss.

Note that single entry system of accounting does not produce a trial balance but uses other relevant records to prepare the normal income statement. In most single entry questions the information available is always on an incomplete record system. Therefore, the information used in preparing the income statement is extracted from (a) Cash book (b) Bank account (c) Receipts and Payments account (d) Explanatory notes.

13.2 PREPARATION OF FINAL ACCOUNTS FROM SINGLE ENTRIES

To prepare a final account from single entry records, the following procedure should be adopted:

1. Determine the opening capital by drawing or preparing the opening statement of affairs. (Opening Assets less Opening Liabilities)
2. Open ledger accounts for the items in the statement of affairs except for stock and bank/cash account (if the receipts and payments details have been given in a ledger "T" format).
3. Insert the figures in the statement of affairs as opening balances in the accounts.
4. Insert the closing assets and liabilities as closing balances on the accounts.
5. Convert the single entries to double entries by posting the corresponding opposite entries for the amounts recorded in the cash book and receipts and payment accounts i.e. items credited in the cash book should now have a

corresponding debit entries and vice versa. This step may lead to opening additional accounts to the ones opened in step 2 above.

6. Derive the income and expenses and use them to prepare a statement of comprehensive income.
7. Prepare the statement of financial position from the figures of closing assets and liabilities derived or given in the question.
8. Insert the opening capital obtained earlier to balance the statement of financial position.

Illustration 13.1

Abiodun, a sole trader who does not keep proper accounting records provides you with the following information in respect of his transactions for the year ended 31st December, 2012.

Summary Of Bank Account

		N			N
Jan 1	Bal b/d	59,500	Salaries		17,200
	Cash banked	840,900	Payment to creditors		564,900
	Additional capital introduced	100,000	Cash purchases		5,300
			General expenses		17,400
			Drawings		27,700
			Furniture & Fittings		248,000
			Bal as at 31 st Dec.		119,900
		1,000,400			1,000,400

The following additional information was given:

- a. The following payments were made out of cash received before being banked.

	N
i. Repairs and Maintenance	20,000
ii. Rent of a shop (for the wife)	36,000
iii. Stationery	4,000
iv. Rate	6,700
- b. His receipts were all in cash.
- c. Assets and liabilities were as follows:

	1 Jan 2012	31 Dec 2012
Stock	N 196,000	N 168,000
Receivables	73,500	57,750
Payables	57,400	67,700
Accrued rates	1,700	2,500
Cash	5,950	60,000

Required: Prepare Abiodun's statement of comprehensive income for the year ended 31st December, 2012. Note that depreciation of furniture and fitting is 20% per annum.

Solution 13:1

Abiodun's

Statement of comprehensive income for the year ended 31st December, 2012.

	N	N
Turnover (Wk.2)		945,900
Less Cost of goods sold:		
Opening stock	196,000	
Purchases (W.3)	580,500	
	<u>776,500</u>	
Closing stock	168,000	608,500
Gross profit		<u>337,400</u>
Less Expenses:		
Rate	7,500	
Salaries	17,200	
General expenses	17,400	
Stationery	4,000	
Repairs and maintenance	20,000	
Depreciation (20% of 248,000)	<u>49,600</u>	115,700
Net Profit		<u>221,700</u>

Abiodun's
Statement of Financial position as at 31st December, 2012.

	N	N	N
Non-Current Assets:			
Fixtures and Fittings	248,000	49,600	198,400
Current Assets:			
Stock		168,000	
Receivables		57,750	
Bank		119,900	
Cash		<u>60,000</u>	
		405,650	
Less Current Liabilities:			
Payables	67,700		
Accrued Rate	<u>2,500</u>	<u>(70,200)</u>	
Working capital			335,450
Net Assets			<u>533,850</u>
Financed by:			
Capital as at 1 Jan (Wk. 1)			275,850
Additional capital			100,000
			<u>375,850</u>
Add Net profit			221,700
Less drawings			<u>(63,700)</u>
			<u>533,850</u>

Workings 1: Opening statement of affairs.

	N	N
Stock		196,000
Receivables		73,500
Cash		5,950
Bank		59,500
		<u>334,950</u>
Less Liabilities as at 1 Jan		
Payables	57,400	
Accrued rates	<u>1,700</u>	<u>(59,100)</u>
Capital as at 1 Jan		<u>275,850</u>

Workings 2:

Receivables Account

N		N	
Bal b/d	73,500	Cash	961,650
Sales *	945,900	Bal C/d	57,750
	1,019,400		1,019,400
Bal b/d	57,750		

*Sales: This is a balancing figure
* Cash N961,650

Cash Banked =	N 840,900
Add expenses before banking:	
Repairs & maintenance	20,000
Rent of a shop	36,000
Stationery	4,000
Rate	6,700
Cash at hand-Cash at beginning (60,000-5,950)	54,050
	961,650

Workings 3:

Cash Account

N		N	
Bal b/d	5,950	Repair & Maintenance	20,000
Receivables	961,650	Stationery	4,000
		Drawings (Shop rent)	36,000
		Rate	6,700
		Bank	840,900
		Bal c/d	60,000
	967,600		967,600
Bal b/d	60,000		

Payables Account

N		N	
Bank	564,900	Bal b/d	57,400
Bal c/d	67,700	Purchases	575,200
	632,600		632,600

Rate Expenses Account

N		N	
Cash	6,700	Bal b/d	1,700
Bal c/d	2,500	SOPLOCI	7,500
	9,200		9,200

Salaries Account

N		N	
Bank	17,200	SOPLOCI	17,200

Fixtures and Fittings Account

N		N	
Bank	248,000	Bal. c/d	248,000

Purchases Account

N		N	
Bank	5,300	SOPLOCI	580,500
Payables	575,200		
	580,500		580,500

Stationery Account

N		N	
Cash	4,000	SOPLOCI	4,000

Repairs & Maintenance Account

N		N	
Cash	20,000	SOPLOCI	20,000

Drawings Account

N		N	
Bank	27,700	Capital account	63,700
Cash	36,000		
	63,700		63,700

Illustration 13.2

Mr. XYZ who retired from service in 2011 decided to invest his savings in a retail business. He commenced trading on 1st January, 2011 and made his entries in rough exercise books.

During the accounting period, XYZ made all his sales in cash and determines his selling price by adding 25% to the cost.

XYZ appointed you to prepare his:

- (a) Statement of comprehensive income for the year ended 31/12/2011.
- (b) Statement of financial position as at that date.

In order to carry out this task, you got the following information and accounting records from XYZ:

1. He paid takings into the bank weekly after providing for a float of N1,000. The gross takings amounted to N1,290,900.
2. Payments during the year made out of takings were:
 - a. Salaries N61,000
 - b. Sundry cash payments N12,500.
3. The remainder of the amount not banked apart from the float represented Mr. XYZ's drawings.
4. A summary of his bank account for the year is as follows:
 - i. Cash paid in as capital N162,500
 - ii. Takings paid in N1,126,500
 - iii. Interest free loan from a friend N60,000
5. Withdrawals from the bank account include:
 - i. Fixtures and fittings N58,500
 - ii. Bank charges N3,000
 - iii. Lighting N3,500
 - iv. Insurance N6,000
 - v. Rent N17,500
 - vi. Payments to suppliers to be determined.
6. As at 31st December the following items were outstanding:
 - i. Closing stock was N43,500
 - ii. Prepaid rent N1,450
 - iii. Creditors for goods N89,500
 - iv. Outstanding debt for lighting N1,750
7. You are to depreciate furniture and fittings by 10%.

Solution 13.2.

XYZ'S
Statement of comprehensive income for the year ended 31st December, 2011.

	N	N
Turnover		1,290,900
Less cost of goods sold:		
Purchases (Wk.2)	X 1,076,220	
Closing stock	(43,500)	1,032,720
Gross profit		<u>258,180</u>
Less Expenses:		
Salaries	61,000	
Rent (Wk. 3)	16,050	
Insurance	6,000	
Lighting	5,250	
Bank Charges	3,000	
Depreciation (10% of 58,500).	5,850	
Sundry expenses	<u>12,500</u>	109,650
Net profit		<u>148,530</u>

XYZ'S
Statement of financial position as at 31st December, 2011.

	N	N	N
Non-current Asset	58,500	5,850	52,650
Current Assets:			
Stock		43,500	
Prepaid rent		1,450	
Bank		273,780	
Cash		<u>1,000</u>	
		39,730	
Current Liabilities:			
Payables	89,500		
Accruals (lighting)	1,750	(91,250)	<u>228,480</u>
Long term liability:			281,130

Loan	(60,000)
Net assets	221,130
Financed By:	
Owner's Equity	
Capital	162,500
Add: Net Profit	148,530
	311,030
Less drawings	89,900
	221,130

Workings:1

Bank Account		Bank Account	
N	N	N	N
Capital	162,500	Fixtures & fittings	58,500
Cash	1,126,500	Creditors	986,720
Loan	60,000	Rent	17,500
		Insurance	6,000
		Lighting	3,500
		Bank charges	3,000
		Bal c/d	273,750
	1,349,000		1,349,000

Workings 2: Calculation of Purchases

Cost + Profit = sales	
100% + 25% = 125%	
Cost = 100/125 = 4/5	
Sales = 1,290,900 (given)	
Cost = 4/5 X 1,290,900 = 1,032,720	
Add closing stock =	43,500
Purchases	1,076,220

Workings 3: LEDGER ACCOUNTS

Payables Account

N		N	
Bank	986,720	Purchases	1,076,220
Bal C/d	89,500		
	1,076,220		1,076,220

Cash Account

N		N	
Sales	1,290,900	Salaries	61,000
		Sundry expenses	12,500
		Bank	1,126,500
		Drawings	89,900
		Bal c/d	1,000
	1,290,900		1,290,900

Sales Account

N		N	
Bank	1,290,900	Cash	1,290,900

Salaries Account

N		N	
Cash	61,000	SOPLOCI	61,000

Sundry Expenses Account

N		N	
Cash	12,500	SOPLOCI	12,500

Loan Account

N		N	
Bal c/d	60,000	Bank	60,000

N		N	
Bank	17,500	SOPLOCI	16,050
		Bal c/d	1,450
	17,500		17,500

N		N	
Drawings	89,900	Bank	162,500
Bal c/d	221,130	Net Profit	148,530
	311,030		311,030

N		N	
Bank	58,500	SOPLOCI	5,850
		Bal c/d	52,650
	58,500		58,500

N		N	
Bank	6,000	SOPLOCI	6,000

N		N	
Bank	3,500	SOPLOCI	5,250
Bal c/d	1,750		
	5,250		5,250

N		N	
Bank	3,000	SOPLOCI	3,000

N		N	
Bank	89,900	Capital	89,900

Illustration 13.3.

Mr Raymond, a sole trader provides you with the following information in respect of the year ended 31st December, 2007. Note that the record keeping did not observe double entry principle.

	N		
Jan 1 st 2007	11,900	Salaries	3,440
Cash banked	118,580	Payment to creditors	112,980
Additional capital	20,000	Cash Purchases	5,300
		General Expenses	3,480
		Drawings	5,540
		31/12/2007 Bal c/d	19,740
	150,480		150,480

Further information given to you by Mr. Raymond includes:

- Payments made with cash received without banking
 - Loan to a friend N4,000
 - Rent of shop for the wife N7,200
 - Payment for Stationery N800
 - Payment for electricity bills N1,340

- His assets and liabilities were as follows:

	31/12/2007	31/12/2006
Stock	33,600	39,200
Receivables	11,550	14,700
Payables	13,540	11,480
Accrued electricity expenses	500	340
Cash in hand	12,000	1,190

- His receipts were all in cash.

Required: Prepare Mr Raymond's Statement of Comprehensive Income for the year 2007 and Statement of Financial Position as at that date.

Solution 13.3

Mr Raymond's

Statement of Comprehensive Income for the year ended 31/12/2007.

	N		N
Opening stock	39,200	Sales	139,580
Purchases (Wk 1)	120,340		
Goods available for sale	159,540		
Closing stock	33,600		
Cost of sales	125,940		
Gross profit	13,640		
	139,580		139,580
		Gross profit b/d	13,640
Electricity expenses (Wk 5)	1,500		
Salaries	3,440		
General expenses	3,480		
Stationery	800		
Net Profit	4,420		
	13,640		13,640

Mr Raymond's

Statement of financial position as at 31st December 2007.

Owners Equity	N	Current Assets	N
Capital (W.6)	75,170	stock	33,600
Net Profit	4,420	Debtors	11,550
Drawings	(16,740)	cash at bank	19,740
	62,850	Cash in hand	12,000
Current Liab.			
Creditors	13,540		
Accrued elect. Exp.	500		
	14,040		
	76,890		76,890

Workings 1:

	N	Purchases account	N
Bank	5,300	Trading account	120,340
Creditors (Wk 2)	115,040		
	<u>120,340</u>		<u>120,340</u>

Workings 2:

	N	Creditors account	N
Bank	112,980	Bal b/d	11,480
Bal c/d	13,540	Purchases	115,040
	<u>126,520</u>		<u>126,520</u>

Workings 3:

	N	Debtors account	N
Bal b/d	14,700	Cash (Wk 4)	142,730
Sales	139,580	Bal c/d	11,550
	<u>154,280</u>		<u>154,280</u>

Workings 4:

	N	Cash account	N
Bal b/d	1,190	bank	118,580
Debtors	142,730	Drawings	4,000
		Drawings	7,200
		Stationery	800
		Electricity bill	1,340
		Bal c/d	12,000
	<u>143,920</u>		<u>143,920</u>

Workings 5: Telephone expenses account

	N		N
Cash	1,340	Bal b/d	340
Bal c/d	500	P & L account	1,500
	<u>1,840</u>		<u>1,840</u>

Workings .6.

	N		N
Bal c/d	75,170	Bal b/d	55,170
	<u>75,170</u>	Bank	20,000
			<u>75,170</u>

13.3 INCOMPLETE RECORD SYSTEM.

This term refers to accounting system where there are no records at all or the available records are too scanty and cannot aid the preparation of statement of comprehensive income.

Difficulties that normally arise from incomplete record situation include but are not limited to:

1. Ascertainment of profit from incomplete records
2. Preparation of statements of affairs
3. Preparation of cash and bank summaries.

Information often made available in relation to incomplete records is usually limited to:

- a. Assets and liabilities at start of accounting period
- b. Assets and liabilities at the end of accounting period
- c. Drawings made by the proprietor during the accounting period
- d. Additional capital (if any) introduced during the period.

In most cases, incomplete record questions take the format of "ascertain" or "determine" the profit or loss made in the accounting period and not to prepare the statement of comprehensive income. As earlier established in the previous chapters, any increase in the net value of assets of a business

represents profit while decrease represents loss.

ASCERTAINMENT OF NET PROFIT.

The capital of a business can be increased by either the net profit or by introduction of additional capital while it can be decreased by either loss or withdrawals. Going by the above statement, profit of a business can be calculated using the format below:

Closing capital	X
Less opening capital	(X)
Increase in net assets	XX
Owner's drawing	X
Additional capital	(X)
Net profit for the year	<u>XX</u>

OR

Capital at end	X
Less additional capital	X
Add drawings	X
Less capital at start	X
Net profit for the period	<u>XX</u>

Illustration 13.4

Mr XY did not keep proper books of accounts and has requested you to prepare his accounts. From his passbooks, note book, bank statement and oral information you obtained the following figures for the year ended 31st December, 2009.

	Jan 1 st	Dec 31 st
Cash in hand	800	1,780
Bank overdraft	36,000	28,000
Furniture and Fittings	4,000	4,000
Delivery Van	7,200	7,200
Stock	40,800	44,800
Receivables	24,800	19,600
Other bills payable	4,420	4,400
Other bills receivables	6,200	6,400

During the year, Mr XY used part of the stock for domestic affairs which was agreed at N2,400. He drew cash totaling N2,760 for private use. On 15th March, he introduced additional capital of N5,960. He has agreed to the following suggestions made by you.

1. To write off as bad debt, a sum of N600 owed by a late customer.
2. To allow 15% per annum depreciation on Furniture and Fittings and 20% per annum on delivery van.

Solution 13.4

Mr XY'S

Statement of Comprehensive Income for the year ended 31st December, 2007.

	N	N
Closing Capital (W.1)		31,940
Less Closing capital	25,140	
Add Additional Capital	<u>5,960</u>	(31,100)
		840
Add Drawings (2,400 + 2,760)		<u>5,160</u>
Profit for the year		<u>6,000</u>

Mr. XY'S

Statement of Financial Position as at 31st December, 2007.

	N	N	N
Non-Current Asset (NBV)			
Furniture and Fittings			3,400
Delivery Vans			5,760
			9,160
Current Assets:			
Stock	44,800		
Trade Receivables (19,600 – 600)	19,000		
Bills receivables	6,400		
Cash in hand	<u>1,780</u>		<u>71,980</u>

Current Liabilities:

Trade Payables	16,800	
Bills Payables	4400	
Bank Overdraft	<u>28,000</u>	49,200
Working capital		<u>22,780</u>
Net Assets		<u>31,940</u>
Financed By:		
Owners Equity at 1/1/07 (Wk.1)		25,140
Additional Capital		<u>5,960</u>
		31,100
Add profit for the year		<u>6,000</u>
		37,100
Less drawings		<u>(5,160)</u>
		<u>31,940</u>

Workings 1: Calculation of opening and closing capitals:

	Opening 1/1/2007	Closing 31/12/2007
	N	N
Assets		
Furniture and fittings	4,000	(85% X 4,000) 3,400
Delivery Van	7,200	(80% X 7,200) 5,760
Stock	40,800	44,800
Trade debtors	24,800	19,000
Bills Receivable	6,200	6,400
Cash in Hand	<u>800</u>	<u>1,780</u>
	83,800	81,140
Liabilities		
Trade creditors	(18,240)	(16,800)
Bills payable	(4,420)	(4,400)
Bank overdraft	<u>(36,000)</u>	<u>(28,000)</u>
Capital	25,140	31,940