

Incomplete Records I

What are Incomplete Records?

When we talk about incomplete records we are talking about the type of records kept by a business that does not use the double-entry system of bookkeeping. These businesses might just keep records of cash, sales, purchases, expenses and VAT. The lack of proper records will vary according to the type and size of business. Incomplete records make it difficult to ascertain the profit of the business for the year or to prepare a balance sheet.

All businesses will have some form of records for example:

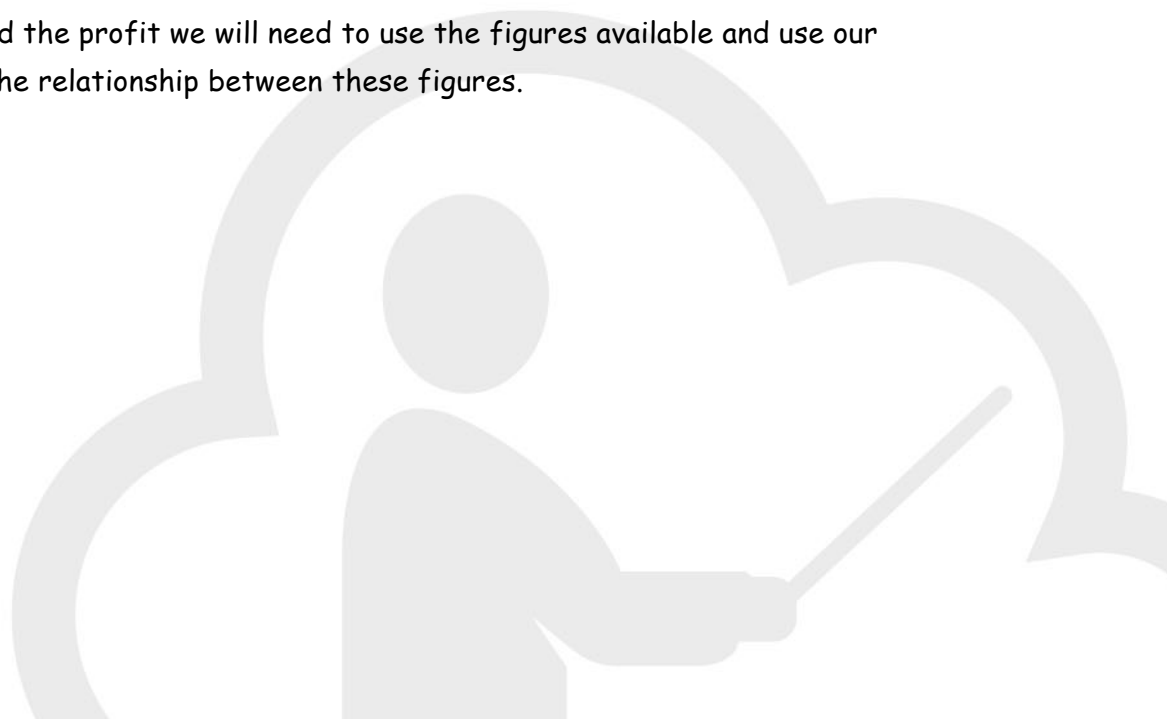
- Some form of cash account or bank account
- A list of debtors and creditors

As a result of not keeping ledger accounts the business may not have a record of:

- Assets
- Liabilities
- Expenses
- Gains

Since they do not keep ledger accounts and as a result do not prepare a trial balance they cannot prepare a trading, profit and loss account and balance sheet as per the normal process.

In order to find the profit we will need to use the figures available and use our knowledge of the relationship between these figures.



Bookkeeping (Ordinary Level)

Type A: Net Worth Method

Some businesses keep the minimum of records. As a result they are unable to figure out their profit by means of a trading, profit and loss account. A method by which they can estimate their profit is by using the Net Worth Method. The principle here is that, unless cash or resources have been put into a business, the only way that capital can be increased is by making a profit.

The net worth method does enable us to find the net profit but it is incomplete for a full trading, profit and loss account. It won't provide us with detailed figures for analysis. It uses estimates and as a result then is unreliable and it leaves out a trading, profit and loss account which leaves us short on information regarding revenue earned and expenses incurred.

Net worth is the value of the business; it is equal to total assets less outside liabilities. We find net worth by adding up the assets and subtracting the liabilities on a particular day. If the net worth is found both at the beginning and end of a period and if it is bigger at the end of the period we can assume that the increase is due to net profit for the period.

- We prepare a statement of capital
- Find our net worth
- Prepare a balance sheet entering all our assets and liabilities to find net profit.



Let's take a look at an example Q14.1

Joe Smith, who is a sole trader, has not been keeping a full set of account. The following figures relating to the business were supplied on 1/1/2010

Premises	€700,000
Furniture and equipment at cost	€80,000
Motor vehicle at book value	€42,000
Accumulated depreciation on furniture and equipment	€23,000
Debtors	€28,000
Stock	€34,000
Insurance prepaid	€1,600
Creditors	€36,000
Expenses due	€4,800
Bank overdraft	€35,000

Smith also supplied the following additional information on 31/12/2000:

- During the year, €12,000 was transferred from a personal bank account to the business bank account
- During the year, Smith had paid out €3,500 out of business funds for private house repairs and had also taken goods to the value of €700 per month for private use
- Smith estimated that on 31/12/2010, the business assets and liabilities were €950,000 and €70,000 before allowing for depreciation on furniture and equipment at the rate of 20% of cost, depreciation on motor vehicles at the rate of 20% of book value and before allowing for expenses due of €800

You are asked to

- a) Prepare a statement showing Smith's net worth/capital on 1/1/2010
- b) Prepare a statement showing Smith's profit and loss for the year ended 31/12/2010

Statement of Net Worth/ Capital on 1/1/2010		
Assets		
Premises	€ 700,000.00	
Furniture/ equipment	€ 57,000.00	
Motor Vehicles	€ 42,000.00	
Debtors	€ 28,000.00	
Stock	€ 34,000.00	
Insurance prepaid	€ 1,600.00	
		€ 862,600.00
Less liabilities		
Creditors	€ 36,000.00	
Expenses due	€ 4,800.00	
Bank overdraft	€ 35,000.00	€ 75,800.00
Capital (net worth)		€ 786,800.00

Balance Sheet as at 31/12/2010		
Assets:		€ 950,000.00
<i>Less</i>		
Depreciation on furniture/ equipment	€ 16,000.00	
Depreciation on motor vehicles	€ 8,400.00	€ 24,400.00
		€ 925,600.00
<i>Less</i>		
Liabilities	€ 70,000.00	
Expenses due	€ 800.00	€ 70,800.00
Net worth 31/12/2010		€ 854,800.00
Financed By:		
Capital 1/1/2010		€ 786,200.00
Add Capital Introduced		€ 12,000.00
		€ 798,200.00
Less Drawings (3,500+8,400 [700x12])		€ 11,900.00
		€ 786,300.00
Net Profit (balancing figure)		€ 68,500.00
		€ 854,800.00

Type B: Trading, Profit & Loss Method

You may be asked to prepare a trading, profit and loss account in an incomplete records question. In order to answer this we use Type B, Trading, Profit & Loss Method.

When answering in this format follow this sequence:

1. Find cash book balance at end of year
 - **Cash receipts - cash payments = cash balance at end of year**

2. Find capital at start of year
 - **Assets - liabilities = capital**

3. Prepare a debtors control account to find credit sales

Debtor's Control Account			
Balance b/ d	xx	Cash received (found in cash receipt s)	xx
*Credit sales	xx	Balance c/ d	xx

***Credit sales + cash sales = total sales**

4. Prepare a creditors control account to find credit purchases

Creditors Control Account			
Cash paid (found in the cash payments)	xx	Balance b/ d	xx
Balance c/ d	xx	*Credit purchases	xx

***Total purchases = cash purchases + credit purchases - drawings of stock**



Let's take a look at an example Q14.2

Mark Strong did not keep a full set of books during the year ended 31/12/2014. The following is a summary of the cash book for that period.

Cash receipts

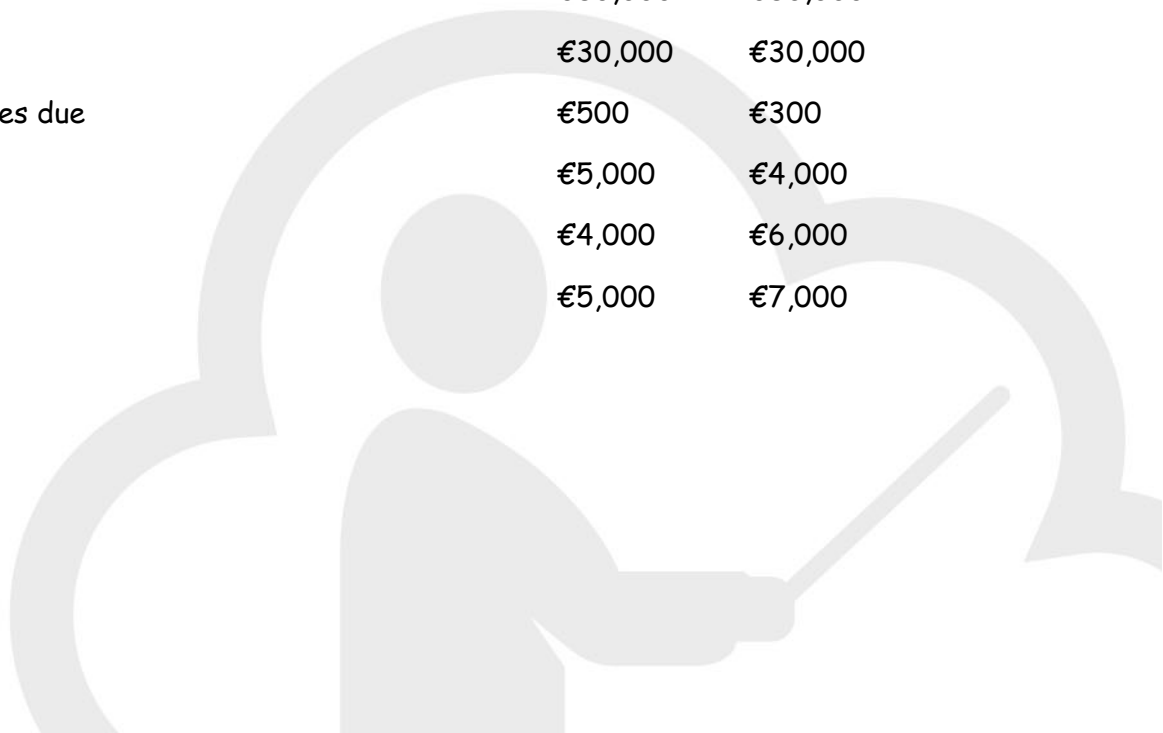
Balance, 1/1/2014	€2,000	
Debtors	€20,000	
Sales	<u>€70,000</u>	<u>€92,000</u>

Cash Payments

General expenses	€15,000	
Purchases	€40,000	
Wages	€4,000	
Equipment	€8,000	
Creditors	€25,000	
Drawings	<u>€5,000</u>	<u>€97,000</u>

The following additional information is also available:

	1/1/2014	31/12/2014
Premises	€80,000	€80,000
Motor vehicles	€30,000	€30,000
General expenses due	€500	€300
Stock	€5,000	€4,000
Debtors	€4,000	€6,000
Creditors	€5,000	€7,000



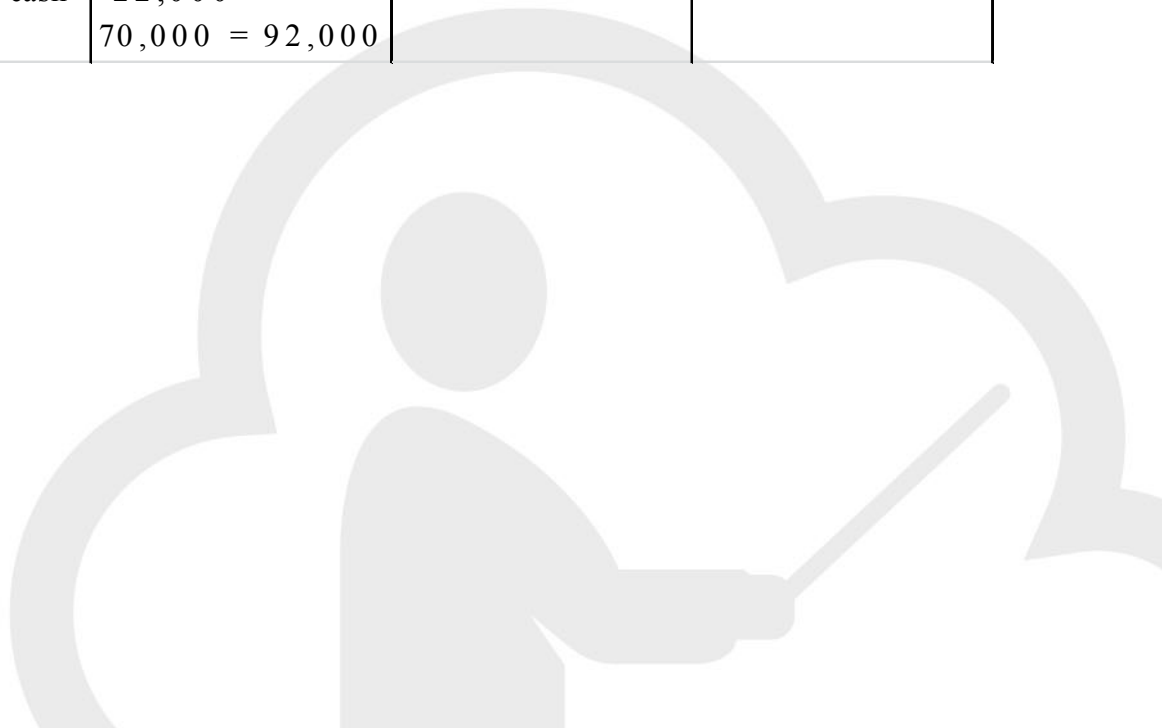
You are asked to prepare:

- a) A trading, profit and loss account for the year ended 31/12/2014
b) A balance sheet as at 31/12/2014

Working 1	
Cash receipts	€92,000.00
less payments	€97,000.00
Balance 31/12/2014	-€5,000.00

Working 2			
Asset s:	Premises	€ 80,000.00	
	Mot or vehicles	€ 30,000.00	
	St ock	€ 5,000.00	
	Debt ors	€ 4,000.00	
	Bank	€ 2,000.00	€ 121,000.00
Liabilit ies:	Credit ors	€ 5,000.00	
	Expenses due	€ 500.00	€ 5,500.00
	Capit al		€ 115,500.00

Working 3 (Debtors Control Account)			
Balance b/d	€ 4,000.00	Cash received	€ 20,000.00
*Credit sales	€ 22,000.00	Balance c/d	€ 6,000.00
	€ 26,000.00		€ 26,000.00
Tot al sales = credit sales + cash sales	22,000 + 70,000 = 92,000		



Working 4 (Creditors Control Account)			
Cash paid	€ 25,000.00	Balance b/ d	€ 5,000.00
Balance c/ d	€ 7,000.00	*Credit purchases	€ 27,000.00
	€ 32,000.00		€ 32,000.00
Total purchases = cash purchases + credit purchases	40,000 +27,000 = 67,000		

Working 5	
General expenses	€ 15,000.00
Less due 1/ 1/ 20 14	-€ 500.00
Add due 31/ 12/ 20 14	€ 300.00
	€ 14,800.00

Trading, Profit and Loss account for the year ended 31/ 12/ 20 14			
Sales [W3]		€ 92,000.00	
<i>Less Cost of Sales</i>			
Opening Stock 1/ 1/ 20 14	€ 5,000.00		
Purchases [W4]	€ 67,000.00		
	€ 72,000.00		
Less Closing Stock 31/ 12/ 20 14	€ 4,000.00		
Cost of Sales		€ 68,000.00	
		€ 24,000.00	
Less Expenses			
General expenses [W5]	€ 14,800.00		
Wages	€ 4,000.00	€ 18,800.00	
Net Profit		€ 5,200.00	

Balance Sheet as at 31/12/2014			
Fixed Assets			
Premises	€ 80,000.00		
Equipment	€ 8,000.00		
Motor Vehicles	€ 30,000.00		€ 118,000.00
Current Assets			
Closing stock		€ 4,000.00	
Debtors		€ 6,000.00	
		€ 10,000.00	
Creditors: Amounts falling due within one year			
Creditors	€ 7,000.00		
Bank overdraft [W1]	€ 5,000.00		
General expenses due	€ 300.00	€ 12,300.00	
Working Capital			-€ 2,300.00
Total net assets			€ 115,700.00

Homework

Q14.3

6. Incomplete Records – Control Accounts

Brian O'Dowd did not keep a full set of books during the year ended 31/12/2011. The following is a summary of the cash account for that period.

Cash Receipts	€	€
Balance 01/01/2011	38,400	

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Capital 01/01/2011

	€		€
Assets			
Premises	295,000	[1]	
Delivery Vans	72,000	[1]	
Stock	14,200	[1]	
Debtors	15,400	[1]	
Cash	38,400	[2]	435,000
Less Liabilities			
Creditors	8,300	[1]	
Expenses due	2,130	[1]	10,430
Capital 01/01/2011			424,570 [2]

(b)

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Debtors Control Account

Dr					Cr
01/01/11	Balance	15,400 [2]	31/12/11	Cash	84,300 [2]
	Credit Sales	88,100 [1]	31/12/11	Balance c/d	19,200 [2]
		103,500		103,500	

Credit Sales + Cash Sales = Total Sales

88,100 + 174,100 = 262,200

[3]

Creditors Control Account

Dr					Cr
31/12/11	Bank	55,300 [2]	1/1/2011	Balance c/d	8,300 [2]
31/12/11	Balance	10,800 [2]		Credit Purchases	57,800 [1]
		66,100		66,100	

Credit Purchases + Cash Purchases = Total Purchases

57,800 + 125,700 = 183,500

[3]



(c)

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Trading and Profit and Loss Account of Brian O'Dowd for the year ended 31/12/2011

	€	€	€	
Sales			262,200	[3]
Less: Cost of Sales				
Stock 01/01/2011		14,200		[3]
Purchases		183,500		[3]
		197,700		
Stock 31/12/2011		12,600		[3]
Cost of Sales			185,100	
Gross Profit			77,100	
Less Expenses				
General Expenses		47,360		[6]
Dep. Delivery vans		14,400		[4]
		61,760		
			15,340	
Add				
Commission received			5,700	[4]
Net Profit			21,040	[4]

(d)

Balance Sheet of Brian O'Dowd as on 31/12/2011

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	€	€	€	
Fixed Assets				
Buildings	295,000			[3]
Delivery Vans	72,000	14,400		[3]
Furniture	16,500			[4]
	383,500	14,400		
			369,100	
Current Assets				
Closing Stock	12,600			[4]
Debtors	19,200			[4]
Bank	35,600	67,400		[6]
	67,400			
Creditors: amounts falling due within 1 year				
Creditors	10,800			[4]
Expenses due	890	11,690		[4]
	11,690			
			55,710	
			€424,810	
Financed By:				
Creditors: amounts falling after 1 year				
Capital 01/01/2011		424,570		[1]
Profit/Loss Balance 31/12/2011		21,040		[1]
		445,610		
Drawings		20,800		[2]
		424,810		
			€424,810	