

Single entry and Incomplete records

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35.2

Profit as an increase in capital

From your knowledge of the accounting equation, you know that unless there has been an introduction of extra cash or resources into the firm, the only way that capital can be increased is by making profits.

Identifying profits when opening and closing capital are known

If you know the capital at the start of a period and the capital at the end of the period, profit is the figure found by subtracting capital at the start of the period from that at the end of the period.

Let's look at a business where capital at the end of 20X4 was £20,000. During 20X5 there have been no drawings, and no extra capital has been brought in by the owner. At the end of 20X5 the capital was £30,000.

$$\begin{array}{rcccl} & \text{This year's} & \text{Last year's} & & \\ & \text{capital} & \text{capital} & & \\ \text{Net profit} = & \text{£30,000} & - \text{£20,000} & = & \text{£10,000} \end{array}$$

If drawings had been £7,000, the profits must have been £17,000:

$$\begin{array}{rcccl} \text{Last year's Capital} & + & \text{Profits} & - & \text{Drawings} & = & \text{This year's Capital} \\ \text{£20,000} & + & ? & - & \text{£7,000} & = & \text{£30,000} \end{array}$$

We can see that £17,000 profits is the figure needed to complete the formula:

$$\text{£20,000} + \text{£17,000} - \text{£7,000} = \text{£30,000}$$

CALCULATING OPENING CAPITAL

H Taylor has not kept proper bookkeeping records, but she has kept notes in diary form of the transactions of her business. She is able to give you details of her assets and liabilities as at 31 December 20X5 and 31 December 20X6:

At 31 December 20X5

Assets: Van £6,000; Fixtures £1,800; Stock £3,000; Debtors £4,100; Bank £4,800; Cash £200.

Liabilities: Creditors £1,200; Loan from J Ogden £3,500.

At 31 December 20X6

Assets: Van (after depreciation) £5,000; Fixtures (after depreciation) £1,600; Stock £3,800; Debtors £6,200; Bank £7,500; Cash £300.

Liabilities: Creditors £1,800; Loan from J Ogden £2,000.

Drawings during 20X6 were £5,200.

You need to put all these figures into a format that will enable you to identify the profit. Firstly, you need to draw up a **Statement of Affairs** as at 31 December 20X5. This is really just a balance sheet, but is the name normally used when you are dealing with incomplete records.

From the accounting equation, you know that capital is the difference between the assets and liabilities.

CALCULATING OPENING CAPITAL

H Taylor
Statement of Affairs as at 31 December 20X5

	£	£
<i>Fixed assets</i>		
Van		6,000
Fixtures		<u>1,800</u>
		7,800
<i>Current assets</i>		
Stock	3,000	
Debtors	4,100	
Bank	4,800	
Cash	<u>200</u>	
	12,100	
<i>Less Current liabilities</i>		
Creditors	(1,200)	
Net current assets		<u>10,900</u>
		18,700
<i>Less: Long-term liability</i>		
Loan from J Ogden		(<u>3,500</u>)
Net assets		<u>15,200</u>
<i>Financed by:</i>		
Capital ^{Note 1}		<u>15,200</u>

Note 1: the accounting equation tells you that this must be the figure to use.

You now draw up a second statement of affairs, this time as at the end of 20X6. The formula of *Opening Capital + Profit – Drawings = Closing Capital* is then used to deduce the figure of profit.

Calculating Net Profit

H Taylor			
Statement of Affairs as at 31 December 20X6			
	£		£
<i>Fixed assets</i>			
Van			5,000
Fixtures			<u>1,600</u>
			6,600
<i>Current assets</i>			
Stock	3,800		
Debtors	6,200		
Bank	7,500		
Cash	<u>300</u>		
	17,800		
<i>Less Current liabilities</i>			
Creditors	(1,800)		
Net current assets			<u>16,000</u>
			22,600
<i>Less: Long-term liability</i>			
Loan from J Ogden			(<u>2,000</u>)
Net assets			<u>20,600</u>
<i>Financed by:</i>			
Capital			
Balance at 1.1.20X6			15,200
Add Net profit		(C)	<u> ?</u>
		(B)	<u> ?</u>
Less Drawings		(A)	(<u>5,200</u>)

Calculating Net Profit

Deduction of net profit:

Opening Capital + Net Profit – Drawings = Closing Capital. Finding the missing figures (A), (B) and (C) by deduction:

(A) is the same as the total of the top half of the balance sheet, i.e. £20,600;

(B) is therefore £20,600 + £5,200 = £25,800;

(C) is therefore £25,800 – £15,200 = £10,600.

To check:

Capital

Balance at 1.1.20X6

Add Net profit

Less Drawings

		15,200
	(C)	<u>10,600</u>
	(B)	25,800
		<u>(5,200)</u>
	(A)	<u>20,600</u>

Drawing up the financial statements

The following example shows the various stages of drawing up financial statements from a single entry set of records.

The accountant has found the following details of transactions for J Frank's shop for the year ended 31 December 20X5.

- (a) The sales are mostly on credit. No record of sales has been kept, but £61,500 has been received from persons to whom goods have been sold – £48,000 by cheque and £13,500 in cash.
- (b) Amount paid by cheque to suppliers during the year = £31,600.
- (c) Expenses paid during the year: by cheque: Rent £3,800; General Expenses £310; by cash: Rent £400.
- (d) J Frank took £250 cash per week (for 52 weeks) as drawings.
- (e) Other information is available:

	At 31.12.20X4	At 31.12.20X5
	£	£
Debtors	5,500	6,600
Creditors for goods	1,600	2,600
Rent owing	–	350
Bank balance	5,650	17,940
Cash balance	320	420
Stock	6,360	6,800

- (f) The only fixed asset consists of fixtures which were valued at 31 December 20X4 at £3,300. These are to be depreciated at 10 per cent per annum.

We shall now prepare the financial statements in five stages.

Stage 1

Draw up a Statement of Affairs on the closing day of the earlier accounting period:

J Frank
Statement of Affairs as at 31 December 20X4

	£	£
<i>Fixed assets</i>		
Fixtures		3,300
<i>Current assets</i>		
Stock	6,360	
Debtors	5,500	
Bank	5,650	
Cash	<u>320</u>	
<i>Less Current liabilities</i>	17,830	
Creditors	<u>(1,600)</u>	
Net current assets		<u>16,230</u>
		<u>19,530</u>
<i>Financed by:</i>		
Capital (difference)		<u>19,530</u>

All of these opening figures are then taken into account when drawing up the financial statements for 20X5.

Stage 2

Prepare a cash and bank summary, showing the totals of each separate item, plus opening and closing balances.

	<i>Cash</i>	<i>Bank</i>		<i>Cash</i>	<i>Bank</i>
	£	£		£	£
Balances 31.12.20X4	320	5,650	Suppliers		31,600
Receipts from debtors	13,500	48,000	Rent	400	3,800
			General Expenses		310
			Drawings	13,000	
			Balances 31.12.20X5	420	17,940
	<u>13,820</u>	<u>53,650</u>		<u>13,820</u>	<u>53,650</u>

Stage 3:

Total Creditors

	£		£
Cash paid to suppliers	31,600	Balances b/d	1,600
Balances c/d	<u>2,600</u>	Purchases (missing figure)	<u>32,600</u>
	<u>34,200</u>		<u>34,200</u>

Sales: The sales figure will only equal receipts where all the sales are for cash. Therefore, the receipts figures need adjusting to find sales. This can only be done by constructing a total debtors account, the sales figure being the one needed to make the totals agree.

Total Debtors

	£		£
Balances b/d	5,500	Receipts: Cash	13,500
Sales (missing figure)	<u>62,600</u>	Cheque	48,000
	<u>68,100</u>	Balances c/d	<u>6,600</u>
			<u>68,100</u>

Stage 4

		Rent	
	£		£
Bank	3,800	Profit and loss (missing figure)	4,550
Cash	400		
Accrued c/d	350		
	<u>4,550</u>		<u>4,550</u>

Stage 5

Now draw up the financial statements.

J Frank

Trading and Profit and Loss Account for the year ending 31 December 20X5

	£	£
Sales (stage 3)		62,600
Less Cost of goods sold:		
Stock at 1.1.20X5	6,360	
Add Purchases (stage 3)	<u>32,600</u>	
	38,960	
Less Stock at 31.12.20X5	<u>(6,800)</u>	
		<u>(32,160)</u>
Gross profit		30,440
Less Expenses:		
Rent (stage 4)	4,550	
General expenses	310	
Depreciation: Fixtures	<u>330</u>	
		<u>(5,190)</u>
Net profit		<u>25,250</u>

Incomplete records and missing figures

The following information on cash and bank receipts and payments is available:

	<i>Cash</i>	<i>Bank</i>
	£	£
Cash paid into the bank during the year	35,500	
Receipts from debtors	47,250	46,800
Paid to suppliers	1,320	44,930
Drawings during the year	?	-
Expenses paid	150	3,900
Balances at 1.1.20X4	235	11,200
Balances at 31.12.20X4	250	44,670

Now, you need to enter this information in a cash book:

Incomplete records and missing figures

Now, you need to enter this information in a cash book:

	<i>Cash</i>	<i>Bank</i>		<i>Cash</i>	<i>Bank</i>
	£	£		£	£
Balances 1.1.20X4	235	11,200	Bankings € (contra entry)	35,500	
Received from debtors	47,250	46,800	Suppliers	1,320	44,930
Bankings € (contra entry)		35,500	Expenses	150	3,900
			Drawings	?	
			Balances 31.12.20X4	250	44,670
	<u>47,485</u>	<u>93,500</u>		<u>47,485</u>	<u>93,500</u>

The amount needed to make the two sides of the cash columns agree is £10,265 i.e. £47,485 minus £(35,500 + 1,320 + 150 + 250). This is the figure for drawings.

Incomplete records and missing figures

Exhibit 35.3

Information on cash and bank transactions is available as follows:

	<i>Cash</i>	<i>Bank</i>
	£	£
Receipts from debtors	?	78,080
Cash withdrawn from the bank for business use (this is the amount which is used besides cash receipts from debtors to pay drawings and expenses)		10,920
Paid to suppliers	–	65,800
Expenses paid	640	2,230
Drawings	21,180	315
Balances at 1.1.20X7	40	1,560
Balances at 31.12.20X7	70	375

Incomplete records and missing figures

	<i>Cash</i>	<i>Bank</i>		<i>Cash</i>	<i>Bank</i>
	£	£		£	£
Balances 1.1.20X7	40	1,560	Suppliers		65,800
Received from debtors	?	78,080	Expenses	640	2,230
Withdrawn from Bank €	10,920		Withdrawn from Bank €		10,920
			Drawings	21,180	315
			Balances 31.12.20X7	70	375
	<u>21,890</u>	<u>79,640</u>		<u>21,890</u>	<u>79,640</u>

As it is the only missing item, receipts from debtors is, therefore, the amount needed to make each side of the cash column agree, £10,930 i.e. £21,890 minus £(10,920 + 40).

Cash sales and purchases for cash

- Where there are cash sales as well as sales on credit terms, then the cash sales must be added to sales on credit to give the total sales for the year.
- This total figure of sales will be the one shown in the trading account.
- Similarly, purchases for cash will need to be added to credit purchases in order to produce the figure of total purchases for the trading account.

Stock stolen, lost or destroyed

Exhibit 35.4

J Collins lost the whole of his stock in a fire on 17 March 20X9. The last time that a stock-taking had been done was on 31 December 20X8, the last balance sheet date, when stock was valued at cost at £19,500. Purchases from then until 17 March 20X9 amounted to £68,700 and sales in that period were £96,000. All sales were made at a uniform gross profit margin of 20 per cent.

First, the trading account can be drawn up with the known figures included. Then the missing figures can be deduced.

J Collins
Trading Account for the period 1 January 20X9 to 17 March 20X9

	£		£
Sales			96,000
Less Cost of goods sold:			
Opening stock	19,500		
Add Purchases	<u>68,700</u>		
	88,200		
Less Closing stock		(C) (<u> ?</u>)	
Gross profit			(B) (<u> ?</u>) (A) <u> ?</u>

Now the missing figures can be deduced:

It is known that the gross profit margin is 20 per cent, therefore gross profit (A) is 20% of £96,000 = £19,200.

Now (B) + (A) £19,200 = £96,000, so that (B) is the difference, i.e. £76,800.

Now that (B) is known, (C) can be deduced: £88,200 – (C) = £76,800, so (C) is the difference, i.e. £11,400.

The figure for goods destroyed by fire, at cost, is therefore £11,400.

Exhibit 35.5

T Scott had the whole of his stock stolen from his warehouse on the night of 20 August 20X6. Also destroyed were his sales and purchases journals, but the sales and purchases ledgers were salvaged. The following facts are known:

- (a) Stock was known at the last balance sheet date, 31 March 20X6, to be £12,480 at cost.
- (b) Receipts from debtors during the period 1 April to 20 August 20X6 amounted to £31,745.
Debtors were: at 31 March 20X6 £14,278, at 20 August 20X6 £12,333.
- (c) Payments to creditors during the period 1 April to 20 August 20X6 amounted to £17,270.
Creditors were: at 31 March 20X6 £7,633, at 20 August 20X6 £6,289.
- (d) The gross profit margin on all sales has been constant at 25 per cent.

Before we can start to construct a trading account for the period, we need to find out the figures for sales and purchases. These can be found by drawing up total debtors and total creditors accounts, sales and purchases figures being the difference on the accounts.

Total Creditors

	£		£
Cash and bank	17,270	Balances b/d	7,633
Balances c/d	<u>6,289</u>	Purchases (difference)	<u>15,926</u>
	<u>23,559</u>		<u>23,559</u>

Total Debtors

	£		£
Balances b/d	14,278	Cash and bank	31,745
Sales (difference)	<u>29,800</u>	Balances c/d	<u>12,333</u>
	<u>44,078</u>		<u>44,078</u>

**Activity
35.4**

You already did this for another example earlier in this chapter. Where?

The trading account can now show the figures already known.

Trading Account for the period 1 April to 20 August 20X6

	£		£
Sales			29,800
Less Cost of goods sold:			
Opening stock	12,480		
Add Purchases	<u>15,926</u>		
	28,406		
Less Closing stock		(C) (<u> ?</u>)	
Gross profit			(B) (<u> ?</u>) (A) (<u> ?</u>)

Gross profit can be found, as the margin on sales is known to be 25%, therefore (A) = 25% of £29,800 = £7,450.

Cost of goods sold (B) + Gross profit £7,450 = £29,800, therefore (B) is £22,350.

£28,406 – (C) = (B) £22,350, therefore (C) is £6,056.

The figure for cost of goods stolen is therefore £6,056.

The completed trading account is, therefore:

Trading Account for the period 1 April to 20 August 20X6

	£		£
Sales			29,800
Less Cost of goods sold:			
Opening stock	12,480		
Add Purchases	<u>15,926</u>		
	28,406		
Less Closing stock		(C) (<u>6,056</u>)	
Gross profit			(B) (<u>22,350</u>) (A) (<u>7,450</u>)