



Single entry and incomplete records

Learning objectives

After you have studied this chapter, you should be able to:

- Deduce the figure of profits where only the increase in capital and details of drawings are known

- Draw up an income statement and statement of financial position from records not kept on a double entry system

Learning objectives (Continued)

- Deduce the figure for cash drawings when all other cash receipts and cash payments are known
- Deduce the figures of sales and purchases from incomplete records

Why double entry is not used

- Many small business owners keep their records by using a single entry system comprising a cash book and a list of debtors and creditors.
- This may be because they simply do not know double entry bookkeeping.
- However, they will have to prepare their financial statements each year.

Profit as an increase in capital

- If you know the capital figure at the start and end of a period, you can work out the profit figure for the year:

Net profit = This year's capital – Last year's capital

- If there are drawings, this would be worked out as:

Last year's capital + profits – drawings = This year's capital

Activity

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 2011.

- (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:

	<i>At 31.12.2010</i>	<i>At 31.12.2011</i>
	£	£
Accounts receivable	5,500	6,600
Accounts payable for goods	1,600	2,600
Rent owing	–	350
Bank balance	5,650	17,940
Cash balance	320	420
Inventory	6,360	6,800

- (f) The only non-current asset consists of fixtures which were valued at 31 December 2010 at £3,300. These are to be depreciated at 10 per cent per annum.

We'll 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 2010

	£	£
<i>Non-current assets</i>		
Fixtures		3,300
<i>Current assets</i>		
Inventory	6,360	
Accounts receivable	5,500	
Bank	5,650	
Cash	<u>320</u>	
Total assets		<u>17,830</u>
<i>Current liabilities</i>		
Accounts payable		<u>(1,600)</u>
Net assets		<u><u>19,530</u></u>
<i>Financed by:</i>		
Capital (difference)		<u><u>19,530</u></u>

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 31.12.2010	320	5,650	Suppliers		31,600
Receipts from debtors	13,500	48,000	Rent	400	3,800
			General expenses		310
			Drawings	13,000	
			Balances 31.12.2011	420	17,940
	<u>13,820</u>	<u>53,650</u>		<u>13,820</u>	<u>53,650</u>

Stage 3

Calculate the figures for purchases and sales to be shown in the trading account. Remember that the figures needed are the same as those which would have been found if double entry records had been kept.

Total Accounts Payable

	£		£
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>

Total Accounts Receivable

	£		£
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

Where there are no accruals or prepayments either at the beginning or end of the period, then the expenses paid will be the income statement figure. However, where accruals or prepayments exist, an expense account should be drawn up for that particular item.

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
Income Statement for the year ending 31 December 2011

	£	£
Sales (stage 3)		62,600
Less Cost of goods sold:		
Inventory at 1.1.2011	6,360	
Add Purchases (stage 3)	<u>32,600</u>	
	38,960	
Less Inventory at 31.12.2011	<u>(6,800)</u>	(32,160)
Gross profit		<u>30,440</u>
Less Expenses:		
Rent (stage 4)	4,550	
General expenses	310	
Depreciation: Fixtures	<u>330</u>	
		(5,190)
Net profit		<u><u>25,250</u></u>

Statement of Financial Position as at 31 December 2011

	£	£
<i>Non-current assets</i>		
Fixtures at 1.1.2011		3,300
Less Depreciation		<u>(330)</u>
		2,970
<i>Current assets</i>		
Inventory	6,800	
Accounts receivable	6,600	
Bank	17,940	
Cash	<u>420</u>	
		<u>31,760</u>
Total assets		34,730
<i>Current liabilities</i>		
Accounts payable	2,600	
Rent owing	<u>350</u>	
Total liabilities		<u>(2,950)</u>
Net assets		<u>31,780</u>
<i>Financed by:</i>		
Capital		
Balance 1.1.2011 (per Opening Statement of Affairs)		19,530
Add Net profit		<u>25,250</u>
		44,780
Less Drawings		<u>(13,000)</u>
Total capital		<u>31,780</u>

Dealing with missing figures

- Often there is missing information relating to cash receipts or payments.
- If the missing information is one type of payment, then it is normal to assume that the missing figure is the amount required to make both totals agree in the cash column of the cash book.

Activity

Exhibit 35.2

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 1.1.2010	235	11,200
Balances at 31.12.2010	250	44,670

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

	<i>Cash</i>	<i>Bank</i>		<i>Cash</i>	<i>Bank</i>
	£	£		£	£
Balances 1.1.2010	235	11,200	Bank ¢	35,500	
Received from debtors	47,250	46,800	Suppliers	1,320	44,930
Cash ¢		35,500	Expenses	150	3,900
			Drawings	?	
			Balances 31.12.2010	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.

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 1.1.2010	40	1,560
Balances at 31.12.2010	70	375

	<i>Cash</i>	<i>Bank</i>		<i>Cash</i>	<i>Bank</i>
	£	£		£	£
Balances 1.1.2010	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 31.12.2010	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).

Learning outcomes

You should have now learnt:

1. The difference between a single entry system and a double entry system.
2. How to calculate net profit for a small trader when you know the changes in capital over a period and the amount of drawings during the period.

Learning outcomes (Continued)

3. How to prepare an income statement and statement of financial position from records not kept on a double entry system.
4. How to deduce the figures for purchases and sales from a total accounts payable account and a total accounts receivable account.