Incomplete records

by **Neil Stein** 26 Aug 2004

Examiners like questions on incomplete records because they provide the opportunity to test a variety of bookkeeping and accounting techniques.

The two main instances in which incomplete records can be found are where:

- there are no records at all
- some records exist and information is available to calculate missing figures.

No records at all

It is still possible to calculate a profit or loss figure by using the fact that the profit of a business must be represented by more assets. We list and value the opening and closing net assets, then calculate the profit as the difference between the two: Profit = Closing net assets - Opening net assets

Allowance must be made for proprietor's drawings and extra capital introduced, so the formula becomes:

Profit = Closing net assets - Opening net assets + Drawings - Capital introduced

There is little scope here for a major question, but it could form the basis of a twomark multiple-choice question.

Incomplete records

This a more common scenario, both in exam questions and in practice. There are standard techniques for calculating missing figures:

- Opening capital
- Missing figures for sales and purchases
- Missing figures for cash.

Opening capital

We need to have the opening capital of the business at the beginning of a period to provide a starting point - the capital in the balance sheet account. Questions will usually give us a list of opening assets and liabilities, and we use this to arrive at the opening capital.

Missing figures for sales and purchases

If we know the opening and closing debtors of a business, and the cash received from customers, we can calculate sales. All we need to do is set up a sales ledger total account (see Figure 1).

Figure 1: Sales ledger total account (figures invented)		
	£	£
Opening debtors	38,600 Cash received	218,650

Sales (balancing figure)	221,250 Closing debtors 259,850	41,200 <u>259,850</u>
If any three of these figures is k	known, the fourth can be calculated.	

All we are doing here is using the sales ledger control account format, but instead of proving the accuracy of the sales ledger, we are calculating what the sales must have been in order for the other figures to be what they are. The same technique may be used to calculate credit purchases. If the sales figure is given we can calculate the cash received.

There is another way to calculate sales, purchases or stock figures, and that is to use the trading account format. We normally set up the trading account as (figures invented):

		£	£
Sales			100,000
Less:	cost of sales		
	opening stock	10,000	
	purchases	<u>78,000</u>	
		88,000	
	less: closing stock	<u>13,000</u>	<u>75,000</u>
gross pro	ofit		25,000

Suppose the closing stock has been destroyed by fire, along with all the stock records. Then we wouldn't have the closing stock total to include in our trading account. However, we can calculate it if we know the gross profit percentage on sales - or, of course, the mark-up on cost of sales.

In the example above, gross profit is 25 per cent of sales. If we are told this, we can insert the gross profit of £25,000 and so calculate the missing stock figure as a balancing item. We can also find a missing purchases figure, or even a missing sales figure.

Suppose we are given:

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	£	£
Cost of sales		
opening stock	10,000	
purchases	<u>78,000</u>	
	88,000	
less: closing stock	<u>13,000</u>	75,000

We are also told that gross profit percentage on sales is 25 per cent. If gross profit is 25 per cent on sales, cost of sales must be 75 per cent of sales. The sales total is therefore:

 $\pounds75,000 \ge 100/75 = \pounds100,000.$

Whenever the gross profit percentage is given in an incomplete records question, you know that this technique is needed.

Missing figures for cash

We may be given details of cash receipts and payments plus details of opening and closing balances, but with one figure missing, often the proprietor's drawings. We can calculate the missing figure by setting up a cash account to find the balancing item required.

Here are the incomplete records techniques:

Construct	To calculate
1 Opening assets and liabilities	Opening capital
2 Sales or purchases ledger total accounts	Any missing figure
3 Trading account (gross profit percentage must be given)	Any missing figure
4 Cash account	Any missing figure

There is only one way to develop fluency in incomplete records questions, and that is to practise as many questions as you can. Here are three short exercises:

- 1. The net assets of Altese, a trader, at 1 January 2003 amounted to £128,000. During the year to 31 December 2003, Altese introduced a further £50.000 of capital and made drawings of £48,000. At 31 December 2003, Altese's net assets totalled £184,000. Using this information compute Altese's total profit for the year ended 31 December 2003.
- 2. Senji does not keep proper accounting records, and it is necessary to calculate her total purchases for the year ended 31 January 2004 from the following information:

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Trade creditors	
31 January 2003	130,400
31 January 2004	171,250
Payments to suppliers	888,400
Cost of goods taken by Senji for her personal use	1,000
Refunds received from suppliers	2,400
Discounts received	11,200

Compute the figure for purchases for inclusion in Senji's financial statements.

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3. Aluki fixes prices to make a standard gross profit percentage on sales of 331/3%. The following information is available for the year ended 31 January 2004 to compute her sales total for the year:

Stock	
1 February 2003	243,000
31 January 2004	261,700
Purchases	595,400
Purchases returns	41,200

4.

Calculate the sales figure for the year ended 31 January 2004.

Answers

1.

	£
Opening capital	128,000
Capital introduced	50,000
	178,000
less: Drawings	48,000
	130,000
Closing capital	184,000
Profit is therefore	54,000

2. See Figure 2.

Figure 2: Purchases total account		
	£	£
Payments to suppliers	888,400 Balance brought forward	130,400
Discounts received	11,200 Goods taken by Senji	1,000
Balance carried forward	171,250 Refunds from suppliers	2,400
	Purchases (balancing figure)	937,050
	1,070,850	1,070,850

£

	£	£
Cost of sales		
Opening stock		243,000
Purchases	595,400	
less: Returns	41,200	554,200
		797,200
less: Closing stock		261,700
		535,500
Sales figure is therefore:		
$\pounds 535,500 \ge 3/2 =$		803,250

These three examples are quite elementary, but they illustrate techniques that you will find in nearly all incomplete records questions.

Neil Stein is examiner for Paper 1.1

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