



# *Accountancy Notes PDF*

*On*

*Accounts from Incomplete Records*

*(Class - 11 / Chapter - 9)*

Incomplete records refer to a condition wherein; an establishment is not practising double-entry bookkeeping. Instead, it is practising an unconventional accounting system, namely, a single-entry system, to sustain a decreased amount of data about its financial results.

Under a single-entry system, it is reasonable to keep a cash-basis income statement, although not a balance sheet. It is also feasible that the administrators of a firm resolve to maintain a double-entry bookkeeping system, but the accounting records are incomplete.

### Reasons for Incomplete Records:

- **Fraudulent behaviour:** Employees may voluntarily confuse or nevermore record some transactions, that they can flee with the company assets or record extreme degrees of profitability.
- **Inadequate systems:** There may be an incomplete system of methods and helping authorities in place that different business transactions are not recorded in the accounting system.
- **Loss during the transition:** A company may not sufficiently shield its old records when moving to a new accounting system, and loses a few or all the old records.

### Features of Incomplete Records:

- It is an irregular process of recording transactions.
- Personal transactions of owners might be recorded in the cash book.
- To determine profit or loss or for taking any other data, certain figures can be obtained only from the original vouchers such as sales or purchase invoice, etc.. Therefore, dependency on original vouchers is necessary.
- Many companies maintain records according to their preference and requirements, and their accounts are not relative due to lack of consistency.

### Limitations of Incomplete Records:

- Accurate evaluation and ascertainment of the financial outcome of business operations cannot be done.
- The owners encounter numerous challenges in registering an insurance claim in case of loss of inventory, either by fire or theft.
- It becomes hard to convince the income tax authorities about the reliability of the computed income.

### Benefits of Using the Single Entry System of Accounting

- **Simple to Follow:** Small scale traders and businessmen use this system. They cannot afford to employ dedicated staff for accounting or set up a sophisticated accounting system. This system is easy to follow. It does not require extensive technical knowledge of bookkeeping and accountancy
- **Inexpensive:** This system of accounting does not require a dedicated team. It can be done by one employee who possesses basic accounting skills. Therefore, there is minimal labour cost involved in this system. Additionally, it does not require expensive IT infrastructure or customized software. Thus, there are minimal setup and installation charges
- **Flexibility:** This system can be customized according to the needs of the business and convenience of the trader
- **Apt for small scale enterprises and concerns:** This system is widely used by small firms who do not have large turnover and large volumes of daily transactions. It is useful to track daily cash transactions and a small number of assets and liabilities

### Limitations of Single Entry System of Accounting

- **Arithmetical Accuracy:** Real and nominal accounts are not maintained. Therefore, accuracy is compromised in this system since it is not possible to prepare a trial balance and check the balances

- **Accurate Gain or Loss Cannot be Ascertained:** All accounts are not prepared in this system. Thus, the actual amount of profit or loss cannot be ascertained since nominal accounts are necessary for that purpose
- **A True and Fair View of the Financial Statements Cannot be Guaranteed:** Not all real accounts are prepared under this system of Accounting. Therefore, it is not possible to prepare a balance sheet to judge the true and fair view and the financial performance of the entity
- **Not Useful in Income Tax and other Statutory Assessments:** This system is not reliable when it comes to ascertaining the actual amount of profit or loss. Therefore, it is not accepted by tax authorities in assessments and proceedings
- **Not Completely Reliable:** This method lacks credibility since accounting principles and assumptions are not followed. Therefore, it is not completely reliable.

[Follow on Facebook](#)[Follow on Instagram](#)[Join us on Telegram](#)*Commerce***CLASSES**