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# Chartered Accountancy – BL 01

## Financial Accounting

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MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner.

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# Incomplete Records

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# Incomplete Records

When

- Proper Financial Records are not maintained
- Financial Records are being destroyed
- Important information is not available

We use Incomplete Records to prepare Financial Statements.



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## Items considered at Incomplete Records


- Accounting Equation
- Credit Sales and Debtors
- Credit Purchases and Creditors
- Inventory and Cost of Sales
- Destroyed or Stolen Inventory
- Accruals and Prepayments
- Cash Book
- Drawings



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## Opening Balances

If opening Financial Position is not given, using the basic accounting equation, required figures can be calculated.

**Assets = Equity + Liabilities**

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Question 01	
Following assets and liabilities are available as at 01 <sup>st</sup> January 20X9 of Sahan Enterprises. Find the capital and prepare the Statement of Financial Position.	
	Rs.
Fittings	7,000
Fittings – Accumulated Depreciation	4,000
Motor Vehicle	12,000
Motor Vehicle - Accumulated Depreciation	6,800
Inventory	4,500
Trade Receivables	5,200
Bank	1,230
Creditors	3,700
Prepayments	450
Accrued Rental	2,000

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## Credit Sales and Debtors

Determine the double entries based on information given and prepare

- Debtors Control Account
- Cash Book

To calculate the Credit Sales or Amount Received from Debtors.



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## Credit Purchases and Creditors

Determine the double entries based on information given and prepare

- Creditors Control Account
- Cash Book

To calculate the Credit Purchases or Amount Paid to Creditors.



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### Question 02

The debtors balance as at 01<sup>st</sup> April 20X4 of Kalindu Enterprises is Rs.1,750 and Rs.3,140 as at 31<sup>st</sup> March 20X5.

If the receipts from debtors during the year is Rs.28,490, how much is the credit sales?

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### Question 03

The debtors balance as at 01<sup>st</sup> April 20X5 of Visal Enterprises is Rs.6,700 and Rs.3,200 as at 31<sup>st</sup> March 20X6.

If the credit sales made during the year is Rs.69,400, how much is the amount received from debtors?

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### Question 04

The creditors balance as at 01<sup>st</sup> April 20X5 of Nemitha Enterprises is Rs.3,728 and Rs.2,645 as at 31<sup>st</sup> March 20X6.

If the payments to creditors during the year is Rs.31,479, how much is the credit purchases?

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### Question 05

Hasitha is not maintaining proper accounting records of his business. Following information was obtained for the year ended 31 March 20X9.

Cash Purchases	3,900
Amount paid to the Creditors	27,850
20X8/03/31 Creditor Balance	920
20X9/03/31 Creditor Balance	720

How much is the Total Purchases for the year 20X8/X9?

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# Inventory Adjustments and Cost of Sales

The cost of sales and purchases can be calculated using the gross profit margins and markups and inventory adjustment.

Let's recap our knowledge on Profit Margins and Profit Markups.



## 1. Profit Markup (Keeping Profit on Cost)

$$\text{Cost} + \text{Profit} = \text{Sales Price}$$

$$100 + 20 = 120$$

## 2. Profit Margin (Keeping Profit on Selling Price)

$$\text{Cost} + \text{Profit} = \text{Sales Price}$$

$$80 + 20 = 100$$

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## Question 06

The inventory balance of Aman Enterprises as at 01<sup>st</sup> April 20X2 was Rs.8,400 and the inventory balance as at 31<sup>st</sup> March 20X3 was Rs.9,350. The sales for the year 20X2/3 was Rs.80,000. The profit markup was 25%. Calculate the cost of purchases for the year.

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## Question 07

1. Harsha has a revenue of Rs.175,000 during the year. Harsha keeps a profit markup of 40%. If the inventory levels were reduced by 13,000 during the year, how much is the purchases?
2. Calculate the purchases for the year of same question above if there's a profit margin of 40%.

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## Cost of Destroyed or Stolen Inventory



$$\begin{array}{|c|} \hline \text{Cost of} \\ \text{Destroyed} \\ \text{or Stolen} \\ \text{Inventory} \\ \hline \end{array} = \begin{array}{|c|} \hline + \text{Opening} \\ \text{Inventory} \\ + \text{Purchases} \\ (-) \text{Closing} \\ \text{Inventory} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Cost of} \\ \text{Sales} \\ \hline \end{array}$$

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## Accounting for Destroyed Inventory and Stolen Inventory

Cost of Stolen or Destroyed inventory are not a part of the cost of sales. Therefore, it shall be removed from cost of sales and recognized as an other expense.

Dr. Other Expense

Cr. Cost of Sales



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## Insurance Receivable on Inventory Loss

If the inventory is insured, the stolen or destroyed inventory will not be a cost to the entity. Cost of such inventory shall be removed from cost of sales and insurance receivable shall be recognized.

Dr. Insurance Receivable

Cr. Cost of Sales



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### Question 08

Amaali is manufacturing garments. The inventory as at 01<sup>st</sup> January 20X5 was Rs.7,345. Purchases for the 09 months ended 30<sup>th</sup> September 20X5 was Rs.106,420. Revenue was Rs.154,000. Profit markup was 40%. There was a fire on 30<sup>th</sup> September 20X5 and except for an inventory worth of Rs.350 all the other inventory was destroyed. Calculate the cost of destroyed inventory.

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### Question 09

Raju has jewelry shop. The inventory as at 01<sup>st</sup> January 20X9 was Rs.4,700 and the creditors balance was Rs.3,950. The total sales for the 06 months ended 30<sup>th</sup> June 20X9 was Rs.42,000 and profit margin of 33.333% is maintained. On 30/6/20X9 all the stock was stolen. During the 06 months Rs.28,400 was paid to the creditors and the balance payable to creditors was Rs.5,650.

1. Calculate the cost of stolen inventory
2. Calculate the gross profit for the period

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# Cash Book and Cash Control Account

Cash book is prepared to record the cash receipts, cash payments and to calculate the closing cash balance. Using the information within the business and using the information in bank statements the cash book is prepared. Cash book can be used to identify.



1. Cash Purchases
2. Cash Sales
3. Receipts from Debtors
4. Payments to Creditors
5. Other Expenses
6. Drawings

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## Two-Column Cash Book

Cash book that separately shows the cash and bank receipts and payments separately.



	Cash	Bank		Cash	Bank

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## Question 10

Asanka is selling computers and he keeps a profit markup of 25%. Asanka does not prepare a cash book. The statement of financial position as of 01 January 20X7 is as follows.

Non-Current Assets		20,000
Current Assets		
Inventory	10,000	
Cash in Bank	3,000	
Cash in hand	200	13,200
		<b>33,200</b>
Capital		32,000
Current Liabilities		
Creditors		1,200
		<b>33,200</b>

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## Question 10

Up to 31 of December 20X7,

1. Total receipts of Rs.41,750 was deposited in the bank.
2. Payments made through the bank
  - a) Creditors 36,000
  - b) Expenses 5,600
  - c) Drawings 4,400
3. Payments made through the cash in hand
  - a) Creditors 800
  - b) Various Expenses 1,500
  - c) Drawings 3,700

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## Question 10

4. As of 31 December 20X7, the cash in hand was Rs.450 and creditors balance was Rs.1,400. The balance as per bank and inventory value is not available. Accruals or prepayments are not there.

5. Depreciation for the year is Rs.900

### Required

1. Two-column cash book
2. Statement of financial position and profit or loss account for the year ended 31 December 20X7

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## Accrued Expenses and Prepayments

Accrual and prepayment T accounts are used to calculate the accruals and prepayments.



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## Question 11

The rent paid in advance of Sarasi enterprises as of 01 April 20X6 is Rs.300. Rs.9,300 rent has been paid for the year ended 31<sup>st</sup> March 20X7. On 31 March 20X7, there is a rent payment in advance of Rs.1,000.

The accrued telephone bill payment as of 01 April 20X6 was Rs.850. The telephone bill paid during the year is Rs.6,720. The accrued telephone bill as of 31 March 20X7 is Rs.1,140.

How much is the rent and telephone expense for the year ended 31 March 20X7?

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## Drawings

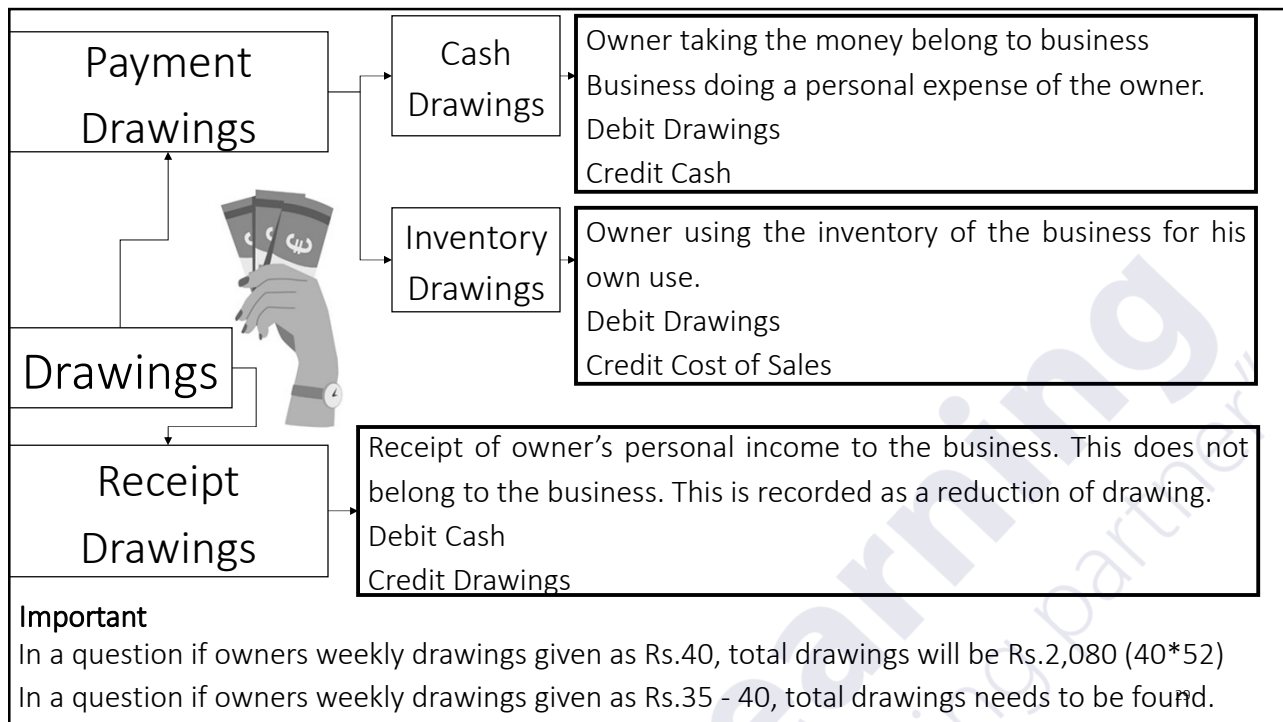


As per the business entity concept the business and owner are two different independent parties.

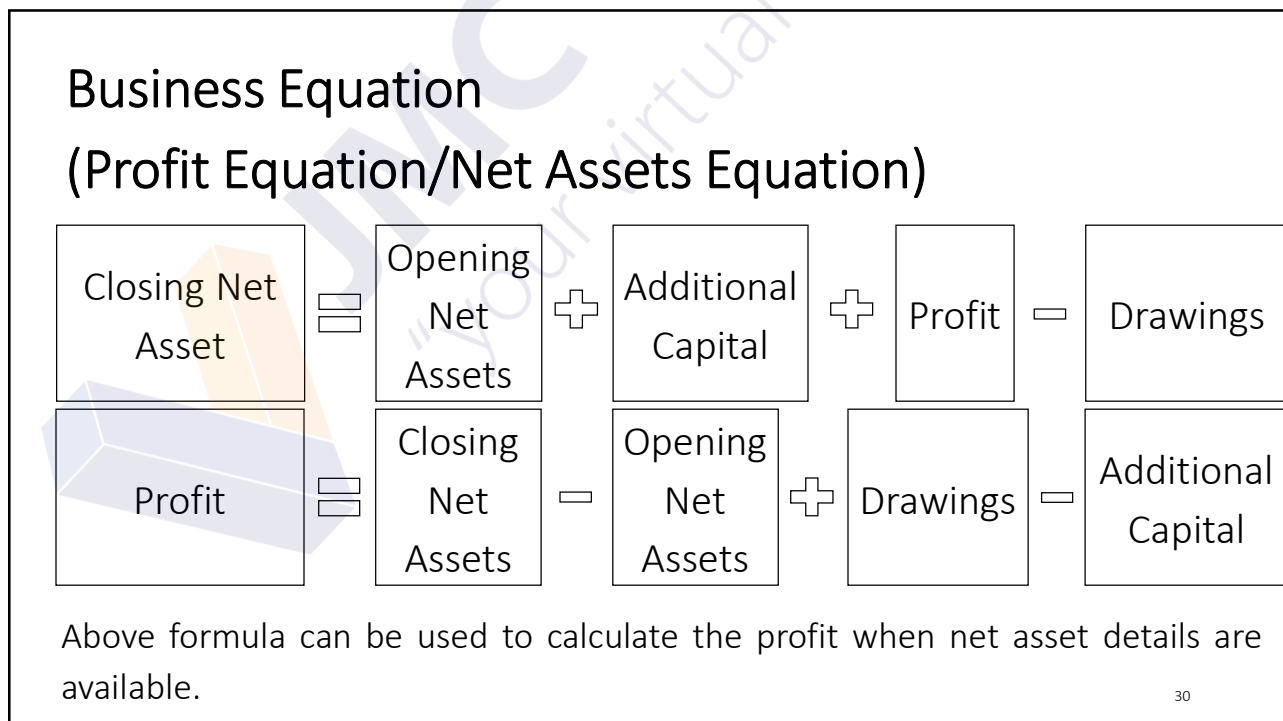
Drawings means the value of money or inventory, that the owner has taken for his personal use.

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### Question 12

Opening net assets Rs.101,700.

Additional capital invested Rs.8,000.

Drawings made Rs.2,200.

Closing net assets Rs.180,000.

Calculate the profit earned.

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### Question 13

Janani started a Camera selling business on 01<sup>st</sup> January 20X1 with an opening stock of Rs.5,000 and Rs.3,000 in bank. Closing stock is Rs.6,600, closing bank balance was Rs.15,000 and closing creditor balance was Rs.3,000. During the year an additional capital of Rs.5,000 was invested and Rs.2,000 drawings were made.

Calculate the profit for the year.

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## Steps to solve Incomplete Records

Step 01	Calculate the opening financial position and Capital.
Step 02	Open following 04 accounts and put opening balances Profit or Loss Two-column cash book Debtors control account Creditors Control Account
Step 03	Put the double entries for the information given
Step 04	Find balances using calculations or remaining balance. E.g. Sales, Purchases, Cost of Sales, Damaged Inventory, Closing Bank Balance
Step 05	Complete Profit or Loss and Financial Position

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### Question 14

Ranil works as a distribution agent of tiles. He is purchasing tiles with a 20% trade discount. An annual commission of 1% is given to him from his net purchases for the year.

Ranil keeps a 40% profit margin. Rs.4,000 worth of items were stolen in January 20X1. Ranil does not keep proper accounting records.

Following information were found.

1. Statement of Financial position as of 31 March 20X0 is as follows.

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## Question 14

Buildings - Cost	10,000
Buildings - Accumulated Depreciation	6,000
Motor Vehicle - Cost	5,000
Motor Vehicle - Accumulated Depreciation	2,000
Inventory	3,200
Debtors	6,300
Agent Commission Receivable	300
Prepaid Distribution Expense	120
Bank Balance	4,310
Creditors	4,200
Accrued Administration Expenses	230

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## Question 14

1. Agent commission received on 01 May 20X1 is Rs.440.
2. Closing stock is Rs.3,000 higher than the opening stock.
3. Rs.1,000 worth of stocks were lost during October 20X0.
4. Gross value of creditors as at 31<sup>st</sup> March 20X1 is Rs.9,500.
5. Discounts received was Rs.1,200.
6. Closing prepayments balance is Rs.80
7. Administration expenses for the year Rs.7,020.
8. Closing debtor balance Rs.6,300.
9. All the receipts were made through bank account.

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## Question 14

10. Depreciation rates are 5% for the buildings and 20% for the motor vehicles.

11. Agent commission is directly remitted to bank account.

12. Following payments made through the bank

Administration expenses    6,720

Drawings                            4,300

Distribution expenses        7,360

13. Inventory has not been insured.

14. Bad debt of Rs.1,620 to be written off.

### Required

Prepare the profit or loss and financial position for the year ended 31 March 20X1.

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## Question 15

The debtor balance as at 01<sup>st</sup> January 20X8 is Rs.2,000. Cash in bank and cash in hand is Rs.3,000 and Rs.300 respectively. Rs.95,000 received during the year ended 31 December 20X8 has been deposited. Following expenses were paid using cash in bank.

Drawings                    1,200

Other Expenses        800

Rs.400 was stolen on 29<sup>th</sup> August 20X8. Closing debtor balance as at 31 December 20X8 is Rs.3,500, closing bank balance is Rs.2,500 and cash in hand is Rs.150.

How much is the sales for the year?

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## Question 15

Malaka is a vegetables and fruit seller. He is not maintaining proper accounting records. Following information extracted from his business records.

Bank account summary for the year ended 20X8/03/31

20X7/04/01 Balance B/F	1,970	Payments to Suppliers	72,000
Receipts from Debtors	96,000	Purchasing New Motor Car	13,000
Selling a Personal Vehicle	20,000	Rent and Rates	2,600
Disposing Van	2,100	Salaries	15,100
		Distribution Expenses	3,350
		Postage and Stationary Expenses	1,360
		Drawings	9,200
		Repair and Maintenance	650
		Insurance	800
		Balance C/D	2,010
	<b>120,070</b>		<b>120,070</b>
Balance B/F	2,010		<small>39</small>

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## Question 16

Other assets and liabilities except bank balance.

	20X7/04/01	20X8/03/31
Creditors	4,700	2,750
Debtors	7,320	9,500
Accrual rent and rates	200	260
Old Vehicle – Cost	10,000	-
Old Vehicle – Accumulated Depreciation	8,000	-
New Motor Vehicle – Cost		13,000
New Motor Vehicle – Accumulated Depreciation		To be Decided
Inventory	4,900	5,900
Insurance Pre-paid	160	200

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## Question 16

1. All the receipts are banked, and all payments made through the bank.
2. There's a Rs.300 receivable from Jayantha in closing debtor balance. It shall be written off as a bad debt.
3. Malaka applies 20% for depreciation of motor vehicles. Full depreciation for the year of purchase is made and no depreciation in the year of disposal.
4. Discount received is Rs.1,100.

### Required

1. Profit or loss account for the year ended 31<sup>st</sup> March 20X8.
2. Statement of financial position as at 31<sup>st</sup> March 20X8.

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