MEANING OF KEY TERMS USED IN THE CHAPTER

1.	**Incomplete Records**	It is a system of recording business transactions. In some of the transactions, both aspects are recorded; while in others one aspect is recorded or it is not recorded at all.
2.	**Single Entry System**	It is an incomplete double entry system varying with circumstances.
3.	**Statement of Affairs**	It is a statement of assets and liabilities. The difference between the amounts of the two sides represents proprietor's capital.
4.	**Capital**	Amount invested by the owner.
5.	**Drawings**	Money or goods taken by the proprietor from the business for his/her personal use.

CHAPTER SUMMARY

- Accounting records that are not prepared according to the double-entry principles are known as **Accounts from Incomplete Records** or **Single Entry System** of Accounting.

  Single Entry System is a system under which accounting record is not maintained following the Double Entry System. It is a system of book keeping in which only records of cash and individual accounts of parties are maintained.

  Single Entry System is simple, economical and time saving system of recording transactions.

- **Disadvantages of Single Entry System** are: (*i*) Arithmetical accuracy of accounts cannot be checked; (*ii*) Difficult to detect fraud; (*iii*) True profit cannot be known; and (*iv*) True financial position of business cannot be ascertained.

- **Ascertainment of Profit/Loss by Statement of Affairs Method:** Under this method, to find out the capitals on the opening and closing dates, the Accounting equation 'Capital = Assets – Liabilities of Outsiders' is used and statement of affairs prepared accordingly. Proper adjustments regarding drawings, further capital introduced, depreciation, etc., are made to closing capital and then true profit earned or loss incurred is ascertained.

  In this method, we take following steps for calculating profit/loss:

  Step 1: *Ascertain closing capital* by preparing a Statement of Affairs at the end of the accounting period.

STATEMENT OF AFFAIRS

as at ...

Liabilities	₹	Assets	₹
Sundry Creditors	...	Cash in hand	...
Bills Payable	...	Cash at Bank	...
Outstanding Expenses	...	Sundry Debtors	...
Bank Overdraft	...	Bills Receivable	...
Capital (Balancing Figure)	...	Stock	...
		Prepaid Expenses	...
		Fixed Assets	...
	...		...

Step 2: *Add:* Drawings for the period to the closing capital (calculated as per Step 1)

Step 3: *Deduct:* the amount of Capital introduced from the closing capital (Step 1)

Step 4: *Calculate opening Capital* by preparing a statement of affairs at the beginning of the accounting period.

Step 5: *Calculate Profit or Loss* by deducting opening capital from the adjusted closing capital.

Adjusted Closing Capital = Closing Capital + Drawings – Capital introduced during the year.

Step 6: *Ascertain Profit or Loss* by deducting opening capital from adjusted closing capital.

Step 7: *Make Adjustment* for the items not yet adjusted while calculating closing capital *e.g.*, Depreciation, outstanding/prepaid expenses etc.

STATEMENT OF PROFIT OR LOSS *for the year ended...*

Particulars	₹
Capital at the end	...
Add: Drawings (whether in cash or kind) during the accounting period	...
	...
Less: Additional Capital introduced (whether in cash or in kind) during the year	...
Adjusted Capital at the end	...
Less: Capital at the beginning	...
Profit (if Adjusted Capital is more than the Opening Capital) *or* Loss (if Adjusted Capital is less than the Opening Capital)	...