Topic 12

Incomplete Records

Single Entry / Incomplete Records

Important areas ::

1. Accounting for expense and revenue
2. Accounting for trade receivables and trade payables [Control A/cs]
3. Bank and Cash Account.
4. Concept of Margin/Markup [Accounting Ratios]
5. Use of double entry.

2. Trade Receivables [Credit Customers] :·

i. Credit Sales

	dr	cr
Trade Receivables	x	
Sales		x

ii. Credit Sales Returns

Sales Returns	x	
Trade receivables		x

iii. Collection from TR

bank	x	
TR		x

iv. Discount allowed

discount allowed	x	
TR		x

v. Bad Debt

bad debt	x	
TR		x

↑ **Trade Receivables** ↓

	$		$
balance b/d	10000	credit sales returns	8000
credit sales	90000	receipts	48000
		discount allowed	3000
		bad debts	4000
		balance c/d	37000
	100000		100000

Note:: Any 1 missing figure can be calculated from above ledger account

Trade Payables [Credit Suppliers]

i. Credit purchases

	dr	cr
Purchases	x	
TP		x

ii Credit Purchases Returns

TP	x	
Purchases Returns		x

iii Payment

TP	x	
Cash / Bank		x

iv Discount Received

TP	x	
Discount Received		x

Trade Payables

↓	$		$ ↑
cash / bank [payment]	50000	balance b/d	5000
discount received	2000	credit purchases	70000
purchase returns	3000		
balance c/d	20000		
	75000		75000

Note:- Any 1 missing figure can be calculated from above ledger account

3. Cash/Bank

Bank Account

	$		$
balance b/d [Debit]	xxx	balance b/d [overdraft] [credit]	xxx
trade receivables (receipts)	xxx	expenses	xxx
capital	xxx	trade payables (payment)	xxx
loan	xxx	purchase of non current asset	xxx
sale of non current asset	xxx	drawings	xxx
Commission/Rent/Interest Recd.	xxx	loan repayment	xxx
cash	xxx		
balance c/d [overdraft] [credit]	xxx	balance c/d [Debit]	xxx
	xxx		xxx

Cash Account

	$		$
balance b/d [debit]	xxx	bank	xxx
cash sales	xxx	cash purchases	xxx
		expenses	xxx
		drawings	xxx
		balance c/d [debit]	xxx
	xxx		xxx

Note:- Any 1 missing figure can be calculated from above ledger accounts
- Cash account will always have debit opening and closing balances.
- Discount allowed, discount received, bad debts, depreciation, provision for doubtful debts, gain on disposal, loss on disposal, sales returns, purchase returns are neither inflows nor outflows, therefore they are not adjusted through bank and cash account.

4. Concept of Markup and margin

margin: Profit expressed as a percentage of net sales

$$\frac{\text{gross profit}}{\text{net sales}} \times 100 = \quad \%$$

markup: Profit expressed as a percentage of cost of sales

$$\frac{\text{gross profit}}{\text{cost of sales}} \times 100 = \quad \%$$

Example:

	\$	\$
Sales Revenue		108000
(-) Sales Returns		(8000)
Net Sales		100000
(-) Cost of Sales		
Opening inventory	12000	
+ purchases	90000	
(-) closing inventory	(22000)	(80000)
gross profit		20000

i. margin $= \frac{\text{Gross profit}}{\text{Net Sales}} \times 100$

$= \frac{\$20000}{\$100000} \times 100 = 20\%$

ii. markup $= \frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100 =$

$= \frac{\$20000}{\$80000} \times 100 = 25\%$

Note: margin is always lower than markup or markup is always higher than margin.

Application of margin and markup

Example 1

	$	$
Sales Revenue		225000
(-) Sales Returns		(5000)
Net Sales		220000
(-) Cost of Sales		
Opening inventory	15000	
+ purchases [132000+36000 - 15000] ?	153000	
(-) closing inventory	(36000)	? (132000) ← [220000 (-) 88000]
gross profit [220000 x 40%] ?		88000

x40%

Additional information

i. Gross profit margin is 40%.

Calculate the missing figures

Example 2

	$	$
Sales Revenue [110000 + 5000]		? 115000
(-) Sales Returns		(5000)
Net Sales [22000 + 88000]		? 110000
(-) Cost of Sales		
Opening inventory	11000	
+ purchases	99000	
(-) closing inventory [11000 x 2] ?	(22000)	? (88000)
gross profit [88000 x 25%]		? 22000
(-) expenses [110000 x 15%]		? (16500)
Net Profit		? 5500

+

Additional Information :

1. Gross Profit markup is 25%.
2. Expenses are 15% of net sales
3. Closing inventory is twice the amount of opening inventory.

Example 3

		$	$
Net Sales [80000+20000]			? 100000
(-) Cost of Sales			
Opening inventory	15000		
+ purchases	75000		
(-) closing inventory	(10000)		(80000)
gross profit			? 20000

Additional Information :
i. Gross profit margin is 20%

method 1

Sales	:	100%	=	?
(-) Cost of Sales	:	80%	=	$80000
= gross profit	:	20%	=	? 20000

[80000 x 20/80]

method 2 - equation method

sales - cost of sales = gross profit

$x - \$80000 = 0.2(x)$

$x - 0.2x = \$80000$

$0.8x = \$80000$

$x = \frac{\$80000}{0.8}$

$x = \$100000$ sales

method 3 - Conversion of margin into markup

margin = 20%

markup = ?

margin = 20% $\xrightarrow{\text{simplify}}$ $\frac{20}{100} = \frac{1}{5}$ $\xrightarrow{\text{denominator (-) numerator}}$ $\frac{1}{5-1} = \frac{1}{4} \times 100 = 25\%$ markup

When converting from margin to markup numerator will be deducted from denominator.

Example

markup = 25%

margin = ?

Conversion of markup to margin

markup = 25% $\xrightarrow{\text{simplify}}$ $\frac{25}{100} = \frac{1}{4}$ $\xrightarrow{\text{denomintor + numerator}}$ $\frac{1}{4+1} = \frac{1}{5} \times 100 =$ 20% margin

Note: when converting from markup to margin numerator will be added to denominator.

Basic Conversions

Margin	Markup
16.67% or 1/6	20% or 1/5
20% or 1/5	25% or 1/4
25% or 1/4	33.33% or 1/3
33.33% or 1/3	50% or 1/2
50% or 1/2	100% or 1/1
100% or 1/1	∞
40% or 2/5	66.67% or 2/3
42.86% or 3/7	75% or 3/4

2 Sara has a wholesale clothing business. She provides you with the following figures.

	Balance at 31 May 2008 $	Balance at 31 May 2009 $
Trade Payables	12 000	14 000
Trade Receivables	13 300	13 600
Inventory (cost price)	21 500	18 500

During the year ended 31 May 2009 the following transactions took place:

	$
Cash paid to suppliers for goods	45 000
Takings banked	58 000
Cash discount received	1 000
Cash discount allowed	1 200
Bad debts written off	1 100

The takings banked during the year ended 31 May 2009 included $250 for 31 May 2008.

Takings of $400 for 31 May 2009 were banked on 2 June 2009.

REQUIRED

(a) (i) Calculate total purchases for the year ended 31 May 2009.

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.... [7]

For Examiner's Use

(ii) Calculate total sales for the year ended 31 May 2009.

[13]

(b) Calculate the cost of sales for the year ended 31 May 2009.

[4]

For Examiner's Use

1 Maneesh has not maintained a full set of accounting records for the year ended 31 December 2015. The following information has been provided:

Assets and liabilities at 1 January 2015

	Assets	Liabilities
	$	$
Non-current assets at net book value	83 400	
Inventory	18 500	
Trade receivables	22 460	
Prepaid rent	1 900	
Cash in hand	180	
Trade payables		12 770
Accrued general expenses		1 320
Bank overdraft		5 640
Balance at 1 January 2015		106 710
	126 440	126 440

Summary bank account for the year ended 31 December 2015

	$		$
Receipts from credit customers	176 750	Balance at 1 January 2015	5 640
Cash sales banked	7 450	Payments to credit suppliers	138 132
Balance at 31 December 2015	17 272	Non-current assets	5 200
		Drawings	14 120
		General expenses	11 280
		Rent	27 100
	201 472		201 472
		Balance at 1 January 2016	17 272

Additional information

1 Maneesh makes both cash and credit sales. All sales were made at 40% gross margin.

2 Credit sales for the year totalled $184 190.

3 Credit purchases for the year totalled $136 422. There were no cash purchases.

4 The business maintains a cash float of $180.

5 Maneesh withdrew $20 per week from cash sales for drawings, before banking the rest.

6 Maneesh depreciates his non-current assets at 20% per annum using the reducing balance method.

7 The rent charge for the year was $24 600.

8 The general expenses charge for the year was $14 160.

9 Irrecoverable debts of $900 should be written off at 31 December 2015.

REQUIRED

(a) Prepare the income statement for the year ended 31 December 2015.

[6]

(b) Prepare the statement of financial position at 31 December 2015.

[9]