

# Unit-1

## ACCOUNTING FROM INCOMPLETE RECORDS I (SINGLE ENTRY SYSTEM)

### Unit Structure :

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Types of Single Entry
- 1.3 Incomplete form of Double Entry
- 1.4 Conversion Method
- 1.5 How to search for Required Information?
- 1.6 Preparation of Final Accounts under Conversion of Single Entry
- 1.7 Single Entry Illustration
- 1.8 Exercise

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### 1.0 OBJECTIVES

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After studying the unit the students will be able to:

- Understand the types of Single Entry.
- Know the Advantages and disadvantages of Single Entry.
- Explain the difference between Double entry and Single entry.
- Understand the Conversion Method.
- Calculate the required figures.

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### 1.1 INTRODUCTION

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The term 'Single Entry' refers to a method of maintaining the accounts in a manner convenient to a business house. Single Entry system does not follow the principles of double entry system. Under this system businessman maintains / records only few accounts which are absolutely essential. i.e. Personal accounts of debtors and creditors under Single Entry System. Real and Nominal accounts are normally not maintained. The system of recording transactions varies from person to person. E.g. Trader may record

amount receivable from customers and when he receives money he either cancels the amount or circle the amount indirectly where he noted credit sale.

E.g. Goods sold to Anand on credit

Anand 5 Kgs Sugar	Rs. 150
10 Kgs Rice	<u>Rs. 500</u>
Total	Rs. 650

On receipt of the cash from Anand, the above records may be cancelled OR the original amount recorded may be circled as amount is received Rs.650. On Receipt of cash no other entry is passed. For credit purchases he may maintain file or folder for unpaid invoice / bill on payment of amount, he may remove the bill / invoice or just cancels on payment. In simple words ,Single Entry System is incomplete form of account keeping.

Eric Kohler has defined “**Single Entry System is a system of book keeping in which as a rule only records of cash and of personal accounts are maintained.** It is always incomplete double entry. The incompleteness varying under different circumstances”

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## 1.2 TYPES OF SINGLE ENTRY

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### 1. Pure Single Entry

Under this method entries are made directly in personal accounts of debtor and creditor because the subsidiary books are not maintained at all. In this type the dual aspect of each transaction is ignored, hence it is called Pure Single Entry System.

### 2. Quasi Single Entry / Impure Double Entry :

Under this system businessman maintains some of the subsidiary books like cash book, sales book, purchases book etc. in addition to the personal accounts of Debtors and Creditors. But they do not maintain real and nominal account.

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## 1.3 INCOMPLETE FORM OF DOUBLE ENTRY

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### 1.3.1 Introduction:

A small businessman who carries business himself and he may not be familiar with the system of double entry and the complex accounting principles, concepts etc. Such businessman maintains records of the transaction by way of note without

following accounting principles. He may record only one aspect or partial records of same transaction and the same way he may ignore some transactions. For E.g. Depreciation of assets, loss of uninsured stock of goods by fire. Goods/cash withdrawn from business etc. such accounting is known as Single Entry.

### 1.3.2 Special Features:

Following are special features of incomplete records.

- 1] Some transactions are recorded properly by giving effect for both the receipt and payments.
- 2] Some transactions are not recorded at all e.g. Goods / cash withdrawn from business for personal use.
- 3] Some transactions are recorded partially either Debit or Credit aspect is recorded.
- 4] Some personal transactions are recorded wrongly E.g. Insurance Premium paid is recorded as business expenses.
- 5] Single Entry System is defective and unscientific and their form is unsuitable for big business. Only Sole Trader and Partnership Organisations may keep their books of accounts under this system.
- 6] Under Single Entry System only Personal and Cash accounts are maintained. Real and Nominal accounts are not maintained.
- 7] The Single Entry System of accounting varies from person to person, from business to business.
- 8] No rigid rules and principles are followed under this system and therefore the records suffer from all types of errors.

### 1.3.3 Advantages:

Following are relative advantages of this System

- 1] Simplicity:** It is very simple method of accounting business transactions. Any person can record transactions which he feels necessary, the way he wants to record.
- 2] Requires no expertise:** Maintenance of accounting records does not require adequate knowledge of Book Keeping.
- 3] Economical:** It is less costly than double entry book keeping method.
- 4] Suitable for small concerns:** It is most suitable for small concerns having limited transaction and few assets and liabilities. It is suitable as owners are having full control in business as regards cash, goods etc.

**5] Speed:** The business transactions are recorded immediately / simultaneously.

**6] To ascertain the profit or loss:** Determination of Profit or Loss is much easier.

#### **1.3.4 Disadvantages / Defects:**

Incomplete records suffer from the following defects:-

- 1] It is not based on recognized accounting principles.
- 2] It does not record all transactions. Some transactions record only one effect. In some transactions both effects are recorded and some transactions are not recorded at all. Therefore these accounting records are not accepted by Tax Authorities.
- 3] Arithmetical accuracy of accounts cannot be checked as trial balance cannot be prepared.
- 4] Final Account i.e. Trading and Profit and Loss Account and Balance Sheet cannot be prepared as all transactions are not recorded. Hence Gross Profit, Net Profit OR Loss cannot be ascertained. Balance Sheet cannot be prepared as Real Accounts and other accounts are not maintained.
- 5] This system gives scope for misappropriations and frauds relating to cash / goods etc.
- 6] In the absence of real accounts, it becomes difficult to know the exact financial position of the business and valuation of goodwill on sale of the business.
- 7] This system of account is inaccurate, crude, defective and unscientific and hence not recognized under various statues of Government, Bank etc.

#### **1.3.5 Difference between Single Entry System and Double Entry System:**

<b>Double Entry System</b>	<b>Single Entry System</b>
1] Two aspects of each and every transactions are recorded.	1] Two aspects of each and every transactions are not recorded.
2] It is a complete scientific and satisfactory system of book keeping.	2] It is incomplete and unscientific system of book keeping.

3] It is possible to prepare trial balance to verify the arithmetic accuracy of transaction.	3] It is not possible to prepare Trial balance to verify arithmetic accuracy of transaction.
4] There is no much scope for misappropriation and fraud as the accounting is full proof.	4] There is much scope for negligence, misappropriation & fraud as accounting is a faulty.
5] All the personal, real and nominal accounts are maintained	5] Only personal accounts of debtors & creditors and cash book are maintained.
6] It is possible to prepare trading and profit and loss account as accounts of purchases, sales, returns & expenses are maintained.	6] It is not possible to prepare trading profit & loss A/cs as accounts of purchases, sales, Returns & expenses are not maintained.
7] Balance sheet can be prepared on the basis of book values of assets and liabilities and capital	7] Statement of affairs can be prepared basis of book values of some assets accounts maintained and on estimates & owners memory.
8] It is suitable for all types of suitability business	8] It is suitable only for very small business whether small or large concerns.
9] It is complex, costly and requires expert knowledge and skill and elaborate books of accounts	9] It is simple, economical and does not need expert knowledge and detailed books of accounts

### 1.3.6 Ascertainment of Profit or Loss under Single Entry System.

When accounts are kept under Single Entry system, there are two methods to ascertain Profit or Loss.

4.1 Statement of Affairs Method [Not in Syllabus]

4.2 Conversion Method.

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## 1.4 CONVERSION METHOD

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### 1.4.1 Introduction:

In order to come over various limitations of Single Entry System, it becomes necessary to prepare final account by converting Single Entry into Double Entry. So, it is possible for the trader to ascertain Gross Profits, Profit or Loss for the period, to ascertain net worth of business. Conversion of single entry into double entry involves the complete process of journalising, posting, balancing, preparing Trial Balance and the Final accounts. However, instead of preparing all ledger accounts this is done by preparing control accounts. These control accounts are to be prepared within the scattered information which is equivalent to

Trial Balance. If such information is inadequate or missing, it should be ascertained first from various control accounts before preparing Final Accounts.

Thus, conversion of single entry into double entry is nothing but preparation of final accounts with or without trial balance.

**1.4.2 Sources of information.** Missing information can be ascertained from the following sources;

- i] Cash book
- ii] Opening control accounts of Sundry Debtors, Sundry Creditors, Bills receivable, Bills payable.
- iii] Opening Balances of Real Accounts.

### 1.4.3 Analysis of Ledger Account:

#### 1. Sundry Debtors Account:

Sundry Debtors account is prepared to find out either the missing credit sales or closing balance or cash received etc.

Sundry Debtors A/c			
Dr		Cr	
To Opening balance of debtors		By Cash Received from Debtors	
To credit sales if given (if not given balancing figure is credit sales)		By Bills receivable received	
To Bills Receivable dishonoured		By Returns Inwards	
		By Discount Allowed	
		By Bad Debts	
		By Transfers to Creditors	
		By Transfers to Creditors	
		By balance (closing) (either given or balancing figure)	

**Note:** Only one amount of either credit sales or cash received or closing balance can be missing and not all.

#### 2. Sundry Creditors Account:

Sundry Creditors Account is prepared to find out either credit purchases or cash paid or closing balance of sundry creditors.

Sundry Creditors A/c	
DR	CR
To Cash paid to Creditors	By Opening Balance of Creditors
To Bill payable accepted	By Credit Purchases (either given or balancing figure)
To Discount received	By Bills Payable Dishonoured.
To Returns outward	
To Transfer from debtors	
To Closing balance of Creditors (either given or balancing figure)	

**Note:** Any one to the above item will be missing not all.

### 3. Bills Receivable Account:

This account is prepared to find out Acceptance received or Bills honored (cash received) or Bills dishonored or opening balance or closing balances.

Bills Receivable A/c	
DR	CR
To opening balance (if given)	By Cash Received (on presentation of Bills)
To Sundry Debtors (Bills received from Debtors (if given)	By Sundry Debtors (Bills returned dishonoured.)
	By Closing Balance (balancing figure if not given)

Note: Any one of the above item will be missing.

### 4. Bills Payable Account:

This account is prepared to find out bills payable accepted or honored or opening balance or closing balance of bills payable account.

Dr.	Bills Payable Account	CR.
To cash paid (on account of Bills Payable	By Opening balance	
To Sundry Creditors (Bills payable dishonoured)	By Sundry Creditors (Bills accepted in their favour)	
To Closing Balance.		

**Note:** 1] Any one of the above item will be missing.

2] First Bills Receivable and Bills Payable Account should be closed. Then, Sundry Debtors and Sundry Creditors should be closed.

### 5. Cash / Bank A/c.

It is prepared to find out opening or closing balances of cash in hand or cash sales or cash purchases etc.

## 1.5 HOW TO SEARCH FOR REQUIRED INFORMATION?

### How to Search for Required Information?

Final Accounts	Items	Where to find it out
A) Trading Account (Debit Side)	1) Opening Stock 2) Purchases Cash Purchases Credit Purchases 3) Buying Expenses such as Freight Carriage, Octroi, Duty etc. 4) Manufacturing Expenses 5) Purchases Returns	Opening Statement of Affairs Payment side of Cash Book Creditors Account Payment side of Cash Book and / or Adjustment  Payment side of Cash Book and / or Adjustment Sundry Creditors Account
B) Trading Account (Credit Side)	1) Sales 2) Cash Sales 3) Credit Sales	i) Receipt side of Cash Transaction ii) Total Debtors Account iii) Other Information
C) Gross Profit	1) Sales Returns (to be Deducted from sales) Gross Profit	Other Information or total Debtors Account If gross profit % is given, ascertained from Sales or Cost of goods sold, Closing Stock may be balance figure on Trading A/c Credit side. Payment side of Cash Book : Adjustment and from other information
D) P & L A/c (Debit Side)	a) Administrative Expenses b) Selling Expenses c) Distribution Expenses  d) Other Expenses such as Discount, Bad debts etc. e) Depreciation	Total Debtors Account and or other information Comparison of Opening & Closing value of assets  From Trading Account Receipt side of Cash Transactions
E) P & L A/c (Credit Side)	a) Gross Profit b) Income received c) Income receivable from adjustment or income received	From Adjustments From Receipt side of cash book or opening statement of affairs
F) Balance sheet (Liabilities)	a) Sundry Creditors & Bills Payable b) Opening Capital c) Additional Capital Introduced	a) From closing Balance given or other information, or b) from Opening Statement of Affairs c) Cash Book Receipt side
G) Balance Sheet (Assets)	1) Cash in hand and Bank Balance 2) Sundry Debtors and Bills receivable 3) Fixed Assets Buildings, Machinery etc. and Addition to them	From Receipt side of cash book opening or opening statement of affairs a) From closing balance given or other information or b) by preparing debtors account & Bills receivable account From Opening statement of affairs or from other information

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## 1.6 PREPARATION OF FINAL ACCOUNTS UNDER CONVERSION OF SINGLE ENTRY

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**Open the following Ledger Accounts.**

- 1] Trading Account
- 2] Profit and Loss Account
- 3] Balance Sheet at the end of the Year
- 4] Sundry Debtors A/c
- 5] Sundry Creditors A/c
- 6] Bills receivable A/c if it is required.
- 7] Bills payable A/c if it is required.
- 8] Cash / Bank A/c (If Bank transactions are given separately two columns Cash Book should be opened)
- 9] Statement of affairs at the beginning of the period.

**After opening the above Account, following steps should be taken:**

- 1] Transfer Opening Balances in Opening Statement of Affairs and respective Ledger Account as 'To Opening Balance b/d'
- 2] For transactions during Year. Pass Journal entry in mind and post the same in Ledger A/c
- 3] Transfer closing balance in Balance Sheet at the end of the year and show as closing balance in respective Account.
- 4] Ascertain missing item and record the missing items respectively. The missing item is ascertained from the concerned Ledger Account from the information available. Such Ledger would not tally due to missing items. Hence, the balancing figure in the Ledger Account would indicate the missing debit or credit item. Then record the missing item, tally the concerned account and complete the double entry of all transactions.
- 5] Lastly prepare final accounts by using the balances of such tallied accounts. Ascertained net profit from profit and loss account and thereafter it should be added to capital account in the closing balance sheet. The balance sheet at the end of the year tallies.

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## 1.7 EXERCISES

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### A. Essay-type Questions

1. Explain the term "Single Entry System." Enlist the limitations of maintaining incomplete records.
2. Distinguish between Single Entry System and Double Entry System.
3. Distinguish between Statement of Affairs and Balance Sheet.
4. Explain the term "Conversion Method." Enlist the important stages involved in the preparation of final accounts under Single Entry System.
5. Explain the accounting procedure required to be taken to convert single entry books into double entry when all the subsidiary books are maintained.

### B. Fill In the blank

1. Single Entry system does not follow the principles of -----system.
2. If Bank transactions are given separately----- columns Cash Book should be opened.
3. The Opening Balances are to be transferred to ----- and respective Ledger Accounts.
4. The closing balance has been transferred in ----- at the end of the year and show as closing balance in respective Account.
5. Under conversion method credit purchases are ascertained by preparing -----A/c.
6. If cash sales or cash purchases are the missing figures they are ascertained by preparing -----A/c.
7. ----- account is prepared to find out either the missing credit sales or closing balance or cash received etc.
8. Cash paid on account of bills honored is ascertained by preparing -----a/c.
9. Before closing the Sundry Debtors and Sundry Creditors A/c -----and -----should be closed.

**(Answers: 1. Double Entry, 2. Two, 3. Opening Statement of Affairs, 4. Balance Sheet, 5. Total Creditors A/c, 6. Cash A/c, 7. Sundry Debtors, 8. Bills Payable, 9. Bills Receivable A/c and Bills Payable A/c)**

**C. State whether the following statements are True or False**

1. In single entry system, only one entry is made for all types of transactions.
2. Single entry system is similar to double entry system.
3. Companies may follow single entry system,
4. Small traders follow single entry system only.
5. Statement of affairs differs from balance sheet.
6. Trial balance can be prepared from the books kept under single entry system.
7. In single entry both the aspect of the transaction are recorded.
8. In single entry system usually personal accounts and cash account are maintained.

**(Answers: False:-1, 2, 3, 4, 6, 7. True:-5, 8.)**



# Unit-2

## ACCOUNTING FROM INCOMPLETE RECORDS - II

### Unit Structure:

- 2.0 Objectives
- 2.1 Practical Problems
- 2.2 Exercise

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### 2.0 OBJECTIVES

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After studying the unit the students will be able to solve the practical problems on single entry.

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### 2.1 PRACTICAL PROBLEMS

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#### Illustration: 1

Mr. Ketan carries on a small business, but he does not maintain complete set of account books. He banks all receipts makes all payments by means of cheques. He maintains properly a Cash Book, Sales Ledger and Purchase Ledger. He also makes a proper record of the assets and Liabilities as at the close of every accounting year. From such records you are able to gather the following facts.

Receipts for the year ended 31 <sup>st</sup> Dec, 2017	RS.	RS.
From Sundry Debtors	17,625	
Cash Sales	4,125	
Paid in by Ketan, the Proprietor	<u>2,500</u>	<u>24,250</u>
	24,250	24,250

#### Payments made in the year ended 31<sup>st</sup> Dec, 2017.

New plant purchased	625
Drawings	1,500
Wages	6,725
Salaries	1,125
Interest paid	75
Telephone	125
Rent	1,200

Light and Power	475
Sundry Expenses	2,125
Sundry Creditors (purchases Ledger Account)	7,625
	<b>21,600</b>

**Assets and Liabilities**

	31.12.2016	31.12.2017
	RS.	RS.
Sundry Creditors	2,525	2,400
Sundry Debtors	3,750	6,125
Bank	625	?
Stock	6,250	3,125
Plant	7,500	7,315

From the above data, prepare the Trading and Profit & Loss Account for the year ended 31st December, 2017 & the Balance Sheet as on that date.  
[Adapted, C.A. Inter]

**Solution:****Mr. Ketan****Trading and profit & Loss Account**

**Dr.** For the year ended 31st December, 2012. **Cr.**

Particulars	Rs.	Particulars	Rs
To Opening Stock	6,250	By Sales: Cash	4,125
To Purchases(1)	7,500	Credit	20,000
To Wages	6,725		----- 24,125
To Light & power	475	By Closing Stock	3,125
To Gross Profit C/d	6,300		-----
	<b><u>27,250</u></b>		<b><u>27,250</u></b>
	-----		
To Salaries	1,125	By Gross Profit	6,300
To Interest	75		
To Telephone	125		
To Rent	1,200		
To Sundry Expenses	2,125		
To Depreciation(3)	810		
To Net Profit transferred to Capital Account	840		
	<b><u>6300</u></b>		<b><u>6,300</u></b>
	=====		=====

**Mr. Ketan**  
**Balance Sheet**  
**As on 31st Dec, 2017**

Liabilities	RS	Assets	RS.
Sundry Creditors	2,400	Cash as Bank (4)	3,275
Capital Account			
As on 1.01.2017	15,600	Sundry Debtors	6,125
Add Introduced		Stock	3,125
During the year	2,500	Plant : On 1-1-17	7,500
Add Net Profit	840	Add Purchased	
	-----	During the year	625
	18,940		-----
Less Drawings	(1,500)		8,125
	-----	Less Depreciation	(810)
	17,440		7,315
	-----		-----
	<u><u>19,840</u></u>		<u><u>19,840</u></u>

**Working Notes:**

**(1) Calculation of Credit Purchases:**

Dr.	RS.	Sundry Creditors Account	Cr.	RS.
To Cash Account	7,625	By Balance b/d		2,525
To Balance c/d	2,400	By Credit Purchases		7,500
		( Bal. Fig.)		
	-----			-----
	<u><u>10,025</u></u>			<u><u>10,025</u></u>

**(2) Calculation of Credit Sales:**

Dr.	RS.	Sundry Debtors Account	Cr.	RS.
To Balance b/d	3,750	By Cash Account		17,625
To Credit Sales (Bal. Fig.)	20,000	By Balance c/d		6,125
	-----			-----
	<u><u>23,750</u></u>			<u><u>23,750</u></u>

**(3) Calculation of Depreciation on Plant**

	RS.
Book Value of Plant on 1.1.2017	7,500
Add New Plant Purchased	<u>625</u>
	8,125
Less : Book Value of Plant on 31.12.17	7,315
	-----
<b>Depreciation for the year</b>	<u><u>810</u></u>

**(4) Calculation of Balance at Bank**

	Rs.
Balance as at 1.1.17	625
Add Receipts for the year	<u>24,250</u>
	24,875
Less Payments made during the year	21,600
<b>Balance as at 31.12.2017</b>	<b><u><u>3,275</u></u></b>

**(5) Statement of Affairs as on 1.1.2017**

	RS.		RS.
Sundry Creditors	2,525	Cash at Bank	625
Capital (Balancing fig)	15,600	Sundry Debtors	3,750
		Stock	6,250
		Plant	7,500
	<u><u>18,125</u></u>		<u><u>18,125</u></u>

**Illustration: 2**

Mr. Sharma does not maintain his books according to the Double Entry System. From the Following information prepare Profit and Loss Account and Balance Sheet as at June 30,2018.

**(A) Assets and Liabilities:**

Particulars	30.06.17	30.06.18
	Rs.	Rs.
Stock	19,800	1,13,200
Creditors	31,000	14,500
Debtors	1,18,000	1,25,000
Premises	90,000	90,000
Furniture	11,000	11,500
Air Conditioner	15,000	15,000

**(B)** Creditors as at 30.6.2018 include Rs.15,000 for the purchase of Air Conditioner.

**(C) Cash Transactions.**

Particulars	RS.
Cash as at July 1, 2017	15,000
Collections from Customers	1,60,800
Payment to Creditors (Trade)	1,44,000
Rent, Rate, Taxes	11,500
Salaries	1,12,000
Sundry Expenses	18,000
Drawings by Sharma	30,000
Loans from Mrs. Mishap	23,000
Capital Introduced	12,000
Sundry Income	16,500
Cash Sales	11,500
Cash Purchases	15,000
Paid to creditors for Air conditioner	15,000

(D) Bad Debts written off Rs.1,200.

**Solution:**

<b>Trading and Profit and Loss Account</b>			
<b>For the year ended 30 June 2017</b>			
<b>Dr.</b>			<b>Cr.</b>
Particulars	RS.	Particulars	Rs.
To Opening Stock	19,800	By Sales :	
To Purchases		Cash	11,500
Cash	15,000	Credit (1)	<u>1,69,000</u>
Credit (2)	1,42,500		1,80,500
	-----	By Closing Stock	1,13,200
To Gross Profit c/d	1,16,400		
	<u><b>2,93,700</b></u>		<u><b>2,93,700</b></u>
To Salaries	1,12,000	By Gross Profit b/d	1,16,400
To Rent, Rates & Taxes	11,500	By Sundry Income	16,500
To Sundry Expenses	18,000	By Net Loss transferred	
To Bad Debts	1,200	to Capital A/c	9,800
	<u><b>1,42,700</b></u>		<u><b>1,42,700</b></u>

**Balance Sheet**  
**As on 30 June 2017**

<b>Liabilities</b>	<b>RS.</b>	<b>Assets</b>	<b>RS.</b>
Mr. Sharma Capital A/c		Premises	90,000
As at 1.7.2016 (4)	2,37,800	Furniture	11,500
Add Capital		Air Conditioner	15,000
Introduced	<u>12,000</u>	Stock	1,13,200
		Debtors	1,25,000
	2,49,800		
Less Drawings	(30,000)		
	-----		
	2,19,800-		
Less : Loss for the			
Year	(9,800)		
	-----		
	2,10,000		
Loan from Mr. Mishap	23,000		
Bank Overdraft Balance (3)	1,07,200		
Sundry Creditors	14,500		
	<u><b>3,54,700</b></u>		<u><b>3,54,700</b></u>

**Working Notes:****1. Total Debtors Account:**

Particulars	RS.	Particulars	RS.
To Balance b/d		By Bank	1,60,800
To Credit Sales	1,18,000	By Bad Debts	1,200
(Balancing figure)	1,69,000	By Balance c/d	1,25,000
	<u>2,87,000</u>		<u>2,87,000</u>

**2. Total Creditor A/C**

To Bank	1,44,000	By Balance b/d	16,000
To Balance b/d	14,500	(RS.31,000 – 15,000)	
		for Air Condition	
		By Credit Purchases	1,42,500
		(Balancing figure)	
	<u>1,58,500</u>		<u>1,58,500</u>

**3. Bank Account**

Dr Particulars	Rs.	Particulars	Cr. RS.
To Balance b/d	15,000	By Payment to Creditors	
To Collection from Debtors	1,60,800	(trade)	1,44,000
To Sundry Income	16,500	By Rent Rate & Taxes	11,500
To Loan From Mr. Shula	23,000	By Salaries	1,12,000
To Capital Introduced	12,000	By Sundry Expenses	18,000
To Cash Sales	11,500	By Drawing	30,000
To Balance b/d		By Cash Purchases	15,000
(Balancing figure	1,07,200	By payment to Creditor	
Bank Overdraft)		For Air Conditioner	15,000
		By Purchase of Furniture	
		Cl. Bal. of Furniture	11,500
		Less Open Bal:	11,000
	<u>3,46,000</u>		<u>3,46,000</u>

**4. Opening Balance Sheet as at 1.7.2017.**

Liabilities	Rs	Assets	Rs.
Creditors:		Premises	90,000
Trade cred. (31000-15000)		Furniture	11,000
16,000		Air Conditioner	15,000
For air Conditioner	15,000	Stock	19,800
	31,000	Debtors	1,18,000
Capital ( Bal. fig. )	2,37,800	Cash	15,000
	<u>2,68,800</u>		<u>2,68,800</u>

**Illustration:3**

From the following information, prepare Trading and Profit and Loss Account and the Balance Sheet as on 31<sup>st</sup> Dec, 2017.

Assets and Liabilities	1.1.2017	31.12.2017
	Rs	Rs.
Sundry Creditors	15,770	12,400
Outstanding Expenses	600	330
Sundry Expenses	11,610	12,040
Stock	8,040	11,120
Cash in hand and at Bank	6,960	8,080
Sundry Debtors	?	17,870

Following further details of the transaction for the year 2017 are available from the incomplete records.

Particulars	RS.	Particulars	RS.
Cash and Discount Credited to Debtors	64,000	Cash Purchases	1,030
Returns From Debtors	1,450	Sundry Assets Purchased & Paid by Cheques	430
Bad Debts	420	Personal Drawings by	3,180
Cash and credit Sales	71,810	Cheques	
Discount Allowed by Creditors	700	Cash deposited into the Bank	5,000
Returns to Creditors	400	Cash withdrawn from Bank	9,240
Capital Introduced-Paid in to Bank	8,500	Cash on hand 31.12.17	1,200
Cash received from Debtors Paid into the Bank	62,500	Payments to Creditors by Cheques	60,270
		Expenses paid	9,570

(Mumbai University)

**Solution**

<b>Bank Account</b>			
<b>(To find out opening Bank Balance)</b>			
Dr. Particulars	RS.	Cr. Particulars	RS.
To Opening Balance ( Bal.. fig)	4,000	By sundry Assets	430
To Sundry Debtors	62,500	By Drawing	3,180
To Capital Brought	8,500	By Cash Withdrawn	9,240
To Cash Deposited	5,000	By Sundry Creditors	60,270
		By Balance C/d	6,880
	<u>80,000</u>		<u>80,000</u>

a) Closing Cash Balance and Bank Balance is Rs.8,080 of which Closing Cash Balance is Rs.1,200. Hence Closing Bank Balance is Rs.6,880.

b) With the help of opening Bank Balance, Cash in hand at the beginning can be found out as under.

<b>CASH Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>RS.</b>	<b>Particulars</b>	<b>RS.</b>
To Opening Balance (6,960-4,000)	2,960	By Cash Purchases (given)	1,030
		By Bank (Deposited)	5,000
To Bank (Drawn for Office use)	9,240	By Expenses Paid in Cash	9,570
To Cash Sales (Balancing Figure)	4,600	By Closing Balance (as given)	1,200
	<u>16,800</u>		<u>16,800</u>

d) Credit Sales should be ascertained by deducting Cash Sales from total Sales. Thus

<b>Particulars</b>	<b>RS.</b>
Cash and Credit Sales (as given)	71,810
Less Cash Sales ( as ascertained)	4,600
	<b>67,210</b>

<b>Total Creditors Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>RS.</b>	<b>Particulars</b>	<b>RS.</b>
To Bank (Paid to Creditors by cheques)	60,270	By Opening Balance (as given)	15,770
To Discount Received	700	By Credit Purchases (Balancing Fig.)	58,000
To Returns Outwards	400	Given)	
To Closing Balance (as	12,400		
	<u>73,770</u>		<u>73,770</u>

<b>Total Debtors Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>RS.</b>	<b>Particulars</b>	<b>RS.</b>
To Opening Balance (Difference)	16,530	By Bank (Cash received)	62,500
To Credit Sales (as found out)	67,210	By Discount Allowed (64,000-62,500)	1,500
		By Returns Inwards	1,450
		By Bad Debts	420
		By Closing Balance	17,870
	<u>83,740</u>		<u>83,740</u>

**Balance Sheet**  
**As on 31.12.16**

Particulars	RS.	Particulars	RS.
Sundry Creditors	15,770	Cash in hand (as per Cash/c	2,960
Outstanding Expenses	600	Cash at Bank 9as per Bank/c	4,000
Capital (Balancing fig.)	26,770	Sundry Debtors	16,530
		Sundry Assets (given	11,610
		Stock in Hand (given)	8,040
	<u>43,140</u>		<u>43,140</u>

**Trading Account**  
**For the year ending 31.12.2017**

Dr. Particulars	RS.	Particulars	Cr. RS.
To Opening Stock Purchases	8,040	By Sales	
To Purchase		Cash	4,600
Cash	1,030	Credit	<u>67,210</u>
Credit	<u>58,000</u>		<u>71,810</u>
	<u>59,030</u>	Less Returns	1,450
Less Returns	<u>400</u>	By Closing Stock	70,360
To Gross Profit	58,630		11,120
	14,810		-----
	<u>81,480.</u>		<u>81,480</u>
	=====		=====

**Profit and Loss Account**  
**For the year ending 31.12.2017**

Dr.	Rs.		Cr. Rs.
To Expenses	9,570	By Gross Profit	14,810
Less of 2018	600	By Discount	700
	-----		
	8,970		
Add of 2017	<u>330</u>		
	-----		
	9,300		
To Discount	1,500		
To Bad Debts	420		
To Net Profit	<u>4,290</u>		
	-----		
	<u>15,510</u>		<u>15,510</u>
	=====		=====

**Balance Sheet**  
**As on 31.12.2017**

<b>Liabilities</b>		<b>Rs</b>	<b>Assets</b>		<b>Rs.</b>
Opening Capital	26,770		Sundry Assets	11,610	
Add Addi, Capital	8,500		Add Purchases of Assets	430	12,040
Add, Net Profit	<u>4,290</u>	-----			-----
Total	39,560		Sundry Debtors		17,870
Less Drawings	<u>3,180</u>	36,380	Closing Stock		11,120
Outstanding Expenses		330	Cash at Bank		6,880
Sundry Creditors		12,400	Cash in hand		1,200
		<u><b>49,110</b></u>			<u><b>49,110</b></u>

**Illustration 4**

You are given:

- (a) The Balance Sheet of Jani at 31<sup>st</sup> December, 2017.
- (b) The Cash Account for the year ended 31st December, 2017.
- (c) Additional Information.

You are required to prepare Trading and Profit and Loss Account for the year ended 31st December 2017 and Balance sheet as on that date.

**Balance Sheet as on 31-12-2017**

<b>Liabilities</b>		<b>Rs</b>	<b>Assets</b>		<b>Rs.</b>
Sundry Creditors	2,000		Cash		1,500
Bills Payable	4,000		Bills Receivable		2,000
Outstanding Wages	100		Sundry Debtors		2,500
Capital	9,900		Stock		2,000
			Furniture		1,000
			Plant and Machinery		7,000
		<b>16,000</b>			<b>16,000</b>
		=====			=====

**Cash A/c for the year ended 31-12-2017**

<b>Receipts</b>		<b>Rs.</b>	<b>Payments</b>		<b>Rs.</b>
To Balance	1,500		By Wages		2,000
To Cash Sales	3,500		By Drawings		1,200
To Debtors	8,000		By Payment to Creditors		3,500
To Bills Receivable	7,500		By Bills Payable		6,000
			By Sundry Expenses		3,000
			By Rent, Rates and Taxes		2,000
			By Balance c/d		2,800
		<u><b>20,500</b></u>			<u><b>20,500</b></u>

<b>Additional Information :</b>	<b>Rs</b>
Sundry Debtors 31-12-2017	4,000
Sudry Creditors 31-12-2017	2,200
Bills Receivable 31-12-2017	4,500
Bill Payable 31-12-2017	5,000
Stock 31-12-2017	3,000
Bills Receivable dishonoured during the year	500
Bills payable dishonoured	200
Discount allowed	250
Bills Receivable Endorsed	1,500
Bills Receivable endorsed dishonored	200
Discount Received	650

**Jani's**  
**Dr. Trading and Profit and Loss Cr.**  
**Account for the year ended 31-12-2017**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>	<b>Rs.</b>
To Opening Stock	2,000	By Sales		
To Purchase [WN 2]	12,950	Cash	3,500	
To Wages		-Credit [WN] 4]	21,050	24,550
(2,000 – 100[O/s for P.Y.]	1,900			
To Gross Profit c/d	10,700	By Closing Stock		3,000
	<b><u>27,550</u></b>			<b><u>27,550</u></b>
To Discount Allowed	250	By Gross Profit b/d		10,700
To Rent rates Taxes	2,000	By Discount received		650
To Sundry Expenses	3,000			
To Net Profit tr to Capital	6,100			
	<b><u>11,350</u></b>			<b><u>11,350</u></b>

**Balance Sheet**  
**As at 31-12-2017**

<b>Liabilities</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Capital Account :			Plant	7,000
Balance b/d (opening)	9,900		Furniture	1,000
Add : Net Profit	<u>6,100</u>		Stock	3,000
	16,000		Sundry Debtors	4,000
Less : Drawings	<u>1,200</u>	14,800	Bills Receivable	4,500
Sundry Creditors		2,500	Cash	2,800
Bills payable		5,000		
		<b><u>22,300</u></b>		<b><u>22,300</u></b>

**Working Notes:**

<b>Dr.</b>		<b>(1) Bills Payable Account</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>		
To Cash	6,000	By Balance b/d	4,000		
To Creditors (B/P Dishonoured)	200	By Sundry Creditors	7,200		
To Balance c/d	5,000	(Balancing figure)			
	<u>11,200</u>		<u>11,200</u>		

<b>(2) Dr</b>		<b>(2) Sundry Creditors Account</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>Rs</b>	<b>Particulars</b>	<b>Rs.</b>		
To Cash	3,500	By Balance b/d	2,000		
To Discoun	650	By Bills Payable (Dishonoured)	200		
To Bills Payable [WN 1]	7,200	By Debtors (endorsed B/R dishonoured)	200		
To Bills Receivable (B.R. Endorsed)	1,500	By <i>Credit Purchases</i> (bal.figure)	12,950		
To Balance c/d	<u>2,500</u>		<u>15,350</u>		
	<u>15,350</u>		<u>15,350</u>		

<b>(3) Dr.</b>		<b>Bills Receivable Account</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>		
To Cash	3,500	By Balance b/d	2,000		
To Discount	650	By Bills Payable (Dishonoured)	200		
To Bills Payable [WN 1]	7,200	By Debtors (endorsed B/R Dishonoured)	200		
To Bills Receivable (B.R. Endorsed)	1,500	By <i>Credit Purchases</i> (bal.figure)	12,950		
To Balance c/d	<u>2,500</u>		<u>15,350</u>		
	<u>15,350</u>		<u>15,350</u>		

<b>(4) Dr.</b>		<b>Sundry Debtors Account</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>		
To Balance b/d	2,500	By Cash	8,000		
To B/R (Dishnoured)	500	By Discount	250		
To Creditors		By Bills Receivable (WN 3)	12,000		
(endorsed B/R dishonoured)	200	By Balance c/d	4,000		
To Credit Sales (balancing figure)	21,050		<u>24,250</u>		
	<u>24,250</u>		<u>24,250</u>		

**Illustration 5**

You are given :- (I) A Balance Sheet of Z as on 1st January 2017  
 (II) A Summary of Cash Transactions for 2017 (III) A List of remaining transactions for that year.

**(I)**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>	<b>Rs.</b>
Loans	12,000	Debtors	40,000	
Creditors	27,000	Less : Provision	<u>750</u>	39,250
Bills Payable	1,500	Bills receivable		10,000
Capital	1,40,000	Stock		45,000
		Plant		30,000
		Buildings		55,000
		Cash		1,250
	<u>1,80,500</u>			<u>1,80,500</u>

**(II)**

<b>Receipts</b>	<b>Rs</b>	<b>Payments</b>	<b>Rs.</b>
To Balance on 1-1-2008	1,250	By Payment to Creditors	1,10,000
To Amount received form debtors	1,72,000	By Cash Purchases	25,000
To Bills receivable	35,000	By Bills Payable	45,000
To Cash Sales	24,500	By Loans Paid	12,000
		By Salaries	9,000
		By Rent	6,000
		By Interest	450
		By General charges	750
		By Drawings	15,500
		By Balance on 31-12-2008	9,050
	<u>2,32,750</u>		<u>2,32,750</u>

**(III)**

	<b>Rs.</b>
Total Purchases	2,15,000
Total Sales	2,35,000
Discount allowed to customers	1,250
Discount allowed by creditors	1,850
Bills receivable received during the year	60,000
Bill payable granted during the year	50,000
Stock 31st December 2017	90,000
Owing for outstanding liabilities	1,500
Commission earned by the firm but not received	1,200
Provide 5% reserve for doubtful debts and 2½% for discount on debtors and depreciate buildings by 2½% and plant by 5% p.a. You are required to prepare Trading and Profit and Loss Account and Balance Sheet from the above. (Mar. 95, adapted)	

**Solution :**

**Trading and Profit and Loss Account**  
**For the year ended 31-12-2017**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Opening Stock	45,000	By Sales :	
To Purchases		Cash	24,500
-Cash	25,000	-Credit	<u>2,10,500</u>
-Credit	1,90,000	By Closing Stock	90,000
To Gross profit	65,000		
	<u>3,25,000</u>		<u>3,25,000</u>
To Discount Allowed	1,250	By Gross profit b/d	65,000
To Salaries	9,000	By Discount Received	1,850
To Ren	6,000	By Commission Receivable	1,200
To Interes	450		
To General Charges	750		
To Outstanding payable	1,500		
To Reserve for Bad debts (5% x 16,500)	825		
To Reserve for Discount on debtors [(2.5% x (16,500 – 825))]	392		
To Depreciation :			
-Building (2.55% x 55,000 )	1,375		
-Plant (5% x 30,000)	1,500		
To Net Profit tfd. To Capital	45,008		
	<u>68,050</u>		<u>68,050</u>

**Balance Sheet**  
**As on 31-12-2017**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Account of X			Building	55,000	
Opening Balance	1,40,000		Less : Depreciation	1,375	53,625
Add : Net Profit	45,008		Plant	30,000	
	1,85,008		Less : Depreciation	1,500	28,500
Less : Drawings	15,500	1,69,508	Closing Stock		90,000
Sundry Creditors [WN 2]		55,150	Sundry Debtors [WN 4]	16,500	
Bills Payable [WN 1]		6,500	Less : Reserve for Doubtful		
Outstanding Liabilities		1,500	Debts 5%	825	
				15,675	
			Less : Reserve for Discount on Debtors 2.5%	392	15,283
			Bills Receivable [WN 3]		35,000
			Commission Receivable		1,200
			Cash		9,050
				<u>2,32,658</u>	<u>2,32,658</u>

**Working Notes :****(1) Ascertaining Closing Balance of Bills Payable A/c:**

<b>Bills Payable Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Cash	45,000	By Balance b/d	1,500
To <i>Balance c/d</i> (Balancing figure)	6,500	By Sundry Creditors	50,000
	<u>51,500</u>		<u>51,500</u>

**(2) Ascertaining Closing Balance of Creditors:**

<b>Sundry Creditors Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Cash	1,10,000	By Balance b/d	27,000
To Discount Received	1,850	By Credit Purchases	1,90,000
To Bills Payable	50,000		
To <i>Balance c/d</i> (Balancing figure)	55,150		
	<u>2,17,000</u>		<u>2,17,000</u>

**(3) Ascertaining Closing Balance of B.R. A/c :**

<b>Bills Receivable Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Balance b/d	10,000	By Cash	35,000
To Sundry Debtors A/c	60,000	By <i>Balance c/d</i> (balancing figure)	35,000
	<u>70,000</u>		<u>70,000</u>

**(4) Ascertaining Closing Balance of Debtors:**

<b>Sundry Debtors Account</b>			
<b>Dr.</b>			<b>Cr.</b>
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Balance b/d	39,250	By Cash	1,72,000
To Credit Sales	2,10,500	By Discount	1,250
		By Bills Receivable	60,000
		By <i>Balance c/d</i> (Balancing figure)	16,500
	<u>2,49,750</u>		<u>2,49,750</u>

**Illustration 6**

From the following particulars of Ada Teda Associates, prepare Trading, Profit & Loss A/c. for the year ended 31<sup>st</sup> March, 2018 and Balance sheet as on that date :

Assets and Liabilities	31 <sup>st</sup> March 2017	31 <sup>st</sup> March 2018
	Rs.	Rs.
Furniture	8000	10000
Stock	12000	15000
Debtors	25000	?
Creditors	19000	24000
Outstanding General Expenses	1500	1800
Cash at Bank	12000	15600
Bills Receivables	12400	18550
Bills Payables	8400	7400

**Receipts & Payments during the year**

Particulars	Rs.
Receipts from Debtors	105600
Payments to Creditors	64500
Carriage	2400
Paid for Printing & Stationary	12350
Paid for Salaries	6800
Paid for Rent	7200
Paid for General Expenses	9450
Commission received	24550

- Goods costing Rs.5,240 were used by the proprietor for his personal use.
- Goods are sold at a profit margin of 25% on sales.
- Goods costing Rs.2,460 were distributed as free samples.
- Discount allowed to debtors Rs.480 and discount received from creditors Rs.820.
- Bills of exchange accepted in favour of creditors Rs.41,300 and drawn on Debtors Rs.34,540.
- Any difference in cash book should be assumed to be drawings made or capital introduced by the proprietor.

**Solution:**

**In the books of Ada Teda Associates,  
Opening Balance Sheet  
As on 1<sup>st</sup> April 2017**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Capital	40500	Furniture	8000
		Stock	12000
Creditors	19000	Debtors	25000
O/s General Expenses	1500	Cash at Bank	12000
Bills payable	8400	Bills Receivables	12400
	<b>69400</b>		<b>69400</b>

**Sundry Debtors A/c**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Balance B/d	25000	By bank	105600
To credit sales	137760	By bills receivable	34540
		By discount allowed	480
		By balance C/d	22140
	<b>162760</b>		<b>162760</b>

**Bills Receivable A/c**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Balance B/d	12400	By bank	28390
To sundry debtors	34540		
		By balance C/d	18550
	<b>46940</b>		<b>46940</b>

**Sundry Creditors A/c**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Bank	64500	By Balance b/d	19000
To Discount Received	820	By Credit Purchases	111620
To Bills Payable	41300		
To Balance c/d	24000		
	<b>130620</b>		<b>130620</b>

**Bills Payable A/c**

Particulars	Rs.	Particulars	Rs.
To Bank	42300	By Balance b/d	8400
		By Sundry Creditors	41300
To Balance B/d	7400		
	<b>49700</b>		<b>49700</b>

**Cash/ Bank A/c**

Particulars	Rs.	Particulars	Rs.
To Balance B/d	12000	By Furniture	2000
To Receipts from Debtors	105600	By Bills Payable	42300
To Commission Received	24550	By Payments to Creditors	64500
To Bills Receivable	28390	By Carriage	2400
		By Printing & Stationary	12350
		By Paid for Salaries	6800
		By Paid for Rent	7200
		By Paid for Gen. Expenses	9450
		By Drawings	7940
		By balance C/d	15600
	<b>170540</b>		<b>170540</b>

**Trading Profit & Loss A/c****Dr.****For the year ended 31-03-2017****Cr.**

Particulars	Rs.	Particulars	Rs.
To Opening Stock	12000	By Sales	137760
To Purchases	111620	By Goods Withdrawn	5240
To Carriage	2400	By Free Samples	2460
To Gross Profit c/d	34440	By Closing Stock	15000
	<b>160460</b>		<b>160460</b>
To Printing & Stationary	12350	By Gross Profit b/d	34440
To Salaries	6800	By Disc Received	820
To Rent	7200	By Commission Recd	24550
To Gen. Exp 9450			
Add :clo.o/s 1800			
Less op.o/s 1500)	9750		

To Advt	2460		
To Discount Allowed	480		
To Net Profit c/d	20770		
	<b>59810</b>		<b>59810</b>

**Balance Sheet**  
**As on 31<sup>st</sup> March 2017**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
Capital 40500		Furniture	10000
Add Net Profit 20770		Stock	15000
Less Goods (5240)		Debtors	22140
Less Drawing (7940)	48090	Cash at Bank	15600
Creditors	24000	Bills Receivables	18550
O/s General Expenses	1800		
Bills payable	7400		
	<b>81290</b>		<b>81290</b>

## 2.2 EXERCISES

### 2.3.1 Practical Problems:

Q.1. Siddharth carries on a grocery business and does not keep his books on a double entry basis. The following have been extracted from his books

	01.04.2017	31.3.2018
	Rs	Rs
Cash	1800	400
Bank	3,000	8,400
Credit balance in Debtors A/c	500	700
Debit balance in Creditors A/c	1,000	1,500
Debit balance in Debtors A/c	18,000	8,200
Credit balance in Creditors A/c	9,000	12,000
Bills payable	9,000	16,000
Bills receivable	18,000	16,000
Stock	60,000	25,000
Building	1,00,000	1,00,000

The following information is available from his records:

	Rs
Renewals of the bills of exchange during the year	5,000
Bills of exchange dishonoured	3,000
Bills of exchange discounted with bank	8,500
Interest on discount of Bills	4,000
Collection from Debtors by cash	5,000
Collection from debtors by cheque	95,000
Cash discount to debtors	2,000
Sales returns	18,000
Purchases by cash	10,000
Purchases by cheque	30,000
Payment to creditors by cash	6,000
Payment to Creditors by cheque	80,000
Cash discount allowed by creditors	5,000
Purchase returns	7,000
Drawings by cash	2,000
Drawings by cheque	3,000
Capital introduced during the year	15,000
Bills payable honoured (net amount paid)	55,000
Discount as retirement of Bills payable	2,000
Expenses paid during the year	Rs
Salaries	12,000
Rent	9,000
Transport	6,000
<b>Expenses outstanding at the year end: -</b>	Rs
Salaries	1,000
Transport	500

Prepare Trading & Profit & Loss A/c for the year ended 31<sup>st</sup> March, 2017 & Balance sheet as on the date.

**Q.2.** Anil who was carrying business, not maintaining proper books of accounts. The following figures could, however, be ascertained from incomplete records.

Particulars	31.12.2016	31.12.2017
	Rs	Rs
Balance at bank	3,950	7,070
Stock in trade	22,550	20,360
Trade Debtors	22,500	?
Trade Creditors		12,740
Furniture	15,000	?
Motor Cycle	2,000	?

Sales during 2017 amounted to Rs. 1,60,380 and purchase Rs. 1,23,020

### Analysis of Cash Book 2017

Paid for Credit Purchases	1,27,920	Electric Charges	2,500
Received for Credit Sales	1,45,480	Advertising & Pub	1,740
Further Capital brought in By Anil	10,000	Delivery charges	1,360
Salaries paid	17,500	Motor cycle expenses	3,620
Rent paid for 6 months	6,000	Sundry Expenses	1,400
Ending 30th June 2012			
Taxes paid for 6 months upto 31.3.12	6,000	Drawing	5,520

On 31<sup>st</sup> Dec. 2017, there were outstanding liabilities for Electricity charges Rs.520; advertisement Rs.260 and Sundry expenses Rs. 150. Provide 5% for doubtful Debts. Anil is to be charged with one third of the expenses of the motor cycle.

From the above information, prepare a profit and loss A/c for the year ended 31<sup>st</sup> Dec. 2017 and Balance sheet on that date



# Unit-3

## CONSIGNMENT ACCOUNTS I

### Unit Structure:

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Salient Features of Consignment Sale
- 3.3 Meaning of Terms Involved in Consignment
- 3.4 Distinction between Consignment and Sale
- 3.5 Valuation of Closing Stock
- 3.6 Accounting Treatment
- 3.7 Exercises

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### 3.0 OBJECTIVES

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After studying the unit the students will be able to:

- Know the meaning and features of Consignment.
- Understand the important terms in Consignment.
- Distinguish between Consignment and Sales.
- Record the transactions in the books of consignor and consignee.

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### 3.1 INTRODUCTION

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Manufacturers concentrate on manufacturing goods and product. Selling is a specialized activity. It requires expert knowledge. Wholesalers are also interested in wholesale business. They do not wish to reach individual buyer and they do not have such capacity. There are many ways in which goods can ultimately reach the consumer. One of the ways to channelize the goods to the ultimate consumer is consignment sale. In this type of sale, a businessman (the Consignor) sends goods to another businessman (the Consignee) to be sold at the risk of the consignor. The relationship between consignor and consignee is that of Principal and Agent. The ownership of the goods remains with the consignor until the goods are sold. Goods which are sent to the consignee is called as consignment.

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### 3.2 SALIENT FEATURES OF CONSIGNMENT SALE

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1. Goods are sent by the consignor to the consignee with an objective to earn profit.
2. The relationship of consignor and consignee is that of Principal and Agent.
3. Both the parties enter into an agreement of consignment sale. The transactions between both the parties are governed by this agreement. The law applicable is THE LAW OF AGENCY.
4. The property and ownership of the goods remains with the consignee until the goods are sold.
5. The goods sent on consignment are at entire risk of the consignor. The consignee is not responsible for any loss.
6. When goods are sent to the consignee, it is not sale, therefore, consignor cannot prepare sale invoice. He prepares a document called as proforma invoice.
7. When goods are sent to the consignee, it is not sale, therefore, consignor cannot ask for price, therefore, he asks for an advance from the consignee.
8. The consignee is entitled to claim and deduct all the reasonable expenses incurred by him.
9. The consignee is responsible to pay to the consignor the amounts realized from sale of goods.
10. The consignee agrees to sell goods for commission at agreed rate and therefore, he is entitled to deduct his commission due from sale proceeds.
11. Any stock remaining unsold with the consignee belongs to the consignor.
12. The profit or loss on sale of goods sent on consignment belongs to the consignor.

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### 3.3 MEANING OF TERMS INVOLVED IN CONSIGNMENT

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1. **CONSIGNOR:** The person who sends the goods, owner of the goods. He is the Principal.
2. **CONSIGNEE:** The person who receives the goods and who sells the goods. He is the agent.

3. **CONSIGNMENT** : The goods which are sent to be sold by the consignee
4. **COMMISSION**: The consignee sells goods on behalf of the consignor. The remuneration paid by the consignor for this activity is commission. The consignee is supposed to sell the goods at a fixed price, if he sells the goods at higher price then he may be paid additional commission. This is known as overriding commission. The consignee may sell goods for cash or on credit terms. When goods are sold on credit there is a risk of bad debts. This loss by bad debts is borne by the consignor. Goods are sold on credit by the consignee. He knows the local market and the customers very well. The consignor, in such case may allow additional commission to the consignee and pass on the risk of bad debts to the consignee. This additional commission is called as Del Credre Commission. In such case, all the bad debts are to be borne by the consignee. Del Credre Commission is calculated on total sales, unless otherwise specified.
5. **PROFORMA INVOICE**: When goods are sent by the consignor, he sends one document giving details of goods sent along with it. This document is called as Proforma Invoice. Proforma Invoice gives the particulars of goods sent as regards quantity, weight, rate etc. Proforma Invoice may be prepared at cost price or at a higher price, called as invoice price. When it is prepared at invoice price, the consignee does not know the profit made by the consignor.

**Sample of Proforma Invoice.**

PROFORMA INVOICE				
VAIBHAV CYCLE TRADERS 125, S.V.S ROAD DADAR MUMBAI 400 028  SENT TO : SURJEET CYCLES ,PUNE DATE: 1 <sup>ST</sup> June 2013				
Sr. No.	Particulars	Quantity	MRP	Amount Rs.
1.	BSA SLR	50	3200	1,60,000
2.	Hero CLS	60	3600	2,16,000
	Total			3,76,000
	Less:20%Trade Discount			75,200
				3,00,800
E.& O.E.				
Sd/-  (For Vaibhav CycleTraders)				

- 6. ACCOUNT SALES:** After the sales the consignee informs the consignor about the sales made by him by sending him one document called as Account Sales. This is a statement giving details of quantity of goods sold, type of goods sold, expenses incurred, commission due etc.

**Sample of Account Sales**

ACCONUT SALES				
SURJEET CYCLES 424,KARVE ROAD PUNEI 411 005  SENT TO : VAIBHAV CYCLE TRADERS DATE:15 <sup>TH</sup> JULY 2013 RE: Consignment of 110 cycles received on 1 <sup>st</sup> June 2013				
Sr. No.	Particulars of goods sold	Quantity	MRP	Amount Rs.
1.	BSA SLR	40	3200	1,28,000
2.	Hero CLS	40	3600	1,44,000
	Total			2,72,000
	Less: Expenses incurred			75,200
	Unloading		2500	
	Freight		2000	
	Godown rent		3500	
	Commission@10%		7520	15,520
				59,680
	Less: Advance sent by DD on 5 <sup>th</sup> June 2013			25,000
	Balance due remitted as per Bank Draft enclosed			34,680
E.& O.E.				
Sd/- (For Surjeet Cycles )				

### 3.4 DISTICTION BETWEEN CONSIGNMENT AND SALE

Sr. No.	Consignment Sale	Normal Sale
1.	The two parties involved are consignor and consignee.	The two parties involved are seller and buyer.
2.	The relationship between consignor and consignee is that of principal and agent.	The relationship is seller and buyer both are principals and there is no agent.
3.	Consignor sends a proforma invoice to the consignee.	The seller sends a regular invoice to the buyer.
4.	Ownership of goods remains with the consignor.	Ownership of the goods is transferred to the buyer immediately.
5.	Consignee is entitled to commission on goods sold by him.	The buyer is not entitled to any commission for goods sold.
6.	Profit on goods sold belongs to consignor.	Profit on goods sold by the buyer belongs to the buyer.
7.	Risk of loss/damage is borne by consignor	Risk of loss/damage is borne by buyer.
8.	Consignee can return the unsold goods to the consignor.	Buyer cannot return unsold goods to the seller.
9.	The governing law is Law of Agency.	The governing law is Sale of Goods Act.

### 3.5 VALUATION OF CLOSING STOCK

At the end of the year, it may happen that consignee has not sold all the goods which were sent to him for sale. These goods belong to the consignor and hence must be included in his closing stock. As usual, these goods are valued at cost or market value whichever is lower. Valuation of these goods is done as follows:

Particulars	Rs.	Rs.
Cost of goods to the consignor		Xx
Add: Proportionate Expenses incurred by the consignor		
Carriage	Xx	
Freight	Xx	
Insurance	Xx	
Packing and Forwarding	Xx	Xx
Add: Proportionate Expenses incurred by the consignee		
Carriage	Xx	
Freight	Xx	
Octroi	Xx	
Unloading	Xx	
Clearing charges	Xx	
Any other direct expense	Xx	Xx
		Xx

Only proportionate expenses are to be taken into account while valuing the closing stock.

$$\frac{\text{Total Expenses} \times \text{Quantity of Goods in Closing Stock}}{\text{Total Quantity of Goods Received}}$$

**Note:** Following expenses are not to be considered in the above

- Godown Rent.
- Warehouse Charges.
- Discount.
- Bad Debts.
- Office and Administration Expenses.
- Selling and Distribution Expenses.

### CHECK YOUR PROGRESS

1. Define the following terms:
  - a. Consignment
  - b. Consigner
  - c. Consignee
  - d. Account Sale
  - e. Proforma Invoice
  - f. Del Credere Commission
  - g. Overriding Commission
2. Give the specimens of the following
  - a. Account Sale
  - b. Proforma Invoice
3. Explain how the value of the closing stock is ascertained?

### 3.6 ACCOUNTING TREATMENT

#### A) In the books of consignor:

The consignor opens following accounts in his Ledger.

1. Consignment A/c. This is similar to Trading, Profit And Loss A/c.
2. Consignee A/c (Type of the A/c is Personal A/c)
3. Goods Sent on Consignment A/c (Type of the A/c is Real A/c)

#### PROFORMA JOURNAL ENTRIES

Sr. No.	Particulars	Dr. Rs.	CR. Rs.
1.	Goods sent on consignment		
	Consignment A/c Dr.	Xx	
	To Goods Sent on Consignment A/c		Xx
2.	Loading on goods sent		
	Goods Sent on Consignment A/c Dr.	Xx	
	To Consignment A/c		Xx
3.	Expenses incurred by the consignor		
	Consignment A/c Dr.	Xx	
	To Cash A/c		Xx
4.	Advance received from the consignee		
	Bank A/c Dr.	Xx	
	To Consignee A/c		Xx
5.	Bill drawn on consignee and accepted by him		
	Bills Receivable A/c Dr.	Xx	
	To Consignee A/c		Xx
6.	Discounting of the bill with the bank		
	Bank A/c Dr.	Xx	
	Consignment/ Discount A/c Dr.	Xx	
	To Bill Receivable A/c		xx
7.	Goods returned by the consignee		
	Goods Sent on Consignment A/c Dr.	xx	
	To Consignment A/c		Xx

8.	Expenses incurred by the consignee		
	Consignment A/c Dr.	Xx	
	To Consignee A/c		Xx
9.	Cash sales made by the consignee		
	Consignee A/c Dr.	Xx	
	To Consignment A/c		Xx
10.	Credit sales made by the consignee		
	Consignee A/c Dr.	Xx	
	To Consignment A/c		Xx
11.	Amount collected by the consignee from debtors		
	NO ENTRY		
12.	Consignees commission		
	Consignee A/c Dr.	Xx	
	To Consignment A/c		Xx
13.	Del Credre commission		
	Consignee A/c Dr.	Xx	
	To Consignment A/c		Xx
14.	Bad debts (if Del Credre commission is paid)		
	NO ENTRY		
15.	Bad debts (if no Del Credre)		
	Consignment A/c Dr.	Xx	
	To Consignee A/c		Xx
16.	Amount remitted by consignee		
	Bank/ Bills Receivable A/c Dr.	Xx	
	To Consignee A/c		Xx
17.	Closing sock with consignee		
	Stock on Consignment A/c Dr.	Xx	
	To Consignment A/c		Xx

18.	Loading on closing stock with consignee		
	Consignment A/c Dr.	Xx	
	To Stock Reserve		Xx
19.	Transfer of profit on Consignment		
	Consignment A/c Dr.	Xx	
	To Profit and Loss A/c		Xx
20.	Transfer of Loss on Consignment		
	Profit and Loss A/c Dr.	Xx	
	Consignment A/c		Xx
21.	Closing stock of goods sent on consignment A/c		
	Goods sent on consignment A/c Dr.	Xx	
	To Trading A/c		Xx

### B) In the books of consignee:

The consignor opens following accounts in his Ledger.

1. Consignor A/c (Type of the A/c is Personal A/c)
2. Consignment Debtors A/c (Type of the A/c is Personal A/c)

### PROFORMA JOURNAL ENTRIES

Sr. No.	Particulars	Dr. Rs.	Cr. Rs.
1.	Goods received on consignment		
	NO ENTRY		
2.	Expenses incurred by the consignor		
	NO ENTRY		
4.	Advance paid to the consignor		
	Consignor A/c Dr.	Xx	
	To Bank A/c		Xx
5.	Bill drawn on consignor and accepted by Consignee		
	Consignor A/c Dr.	Xx	
	To Bills Payable A/c		Xx

6.	Discounting of the bill with the bank		
	NO ENTRY		
7.	Goods returned by the consignee		
	NO ENTRY		
8.	Expenses incurred by the consignee		
	Consignor A/c Dr.	Xx	
	To Cash A/c		Xx
9.	Cash sales made by the consignee		
	Cash A/c Dr.	Xx	
	To Consignor A/c		Xx
10.	Credit sales made by the consignee		
	Consignment Debtors A/c Dr.	Xx	
	To Consignor A/c		Xx
11.	Amount collected by the consignee from debtors		
	Cash A/c Dr.	Xx	
	To Consignment Debtors A/c		Xx
12.	Consignees commission		
	Consignor A/c Dr.	Xx	
	To Commission A/c		Xx
13.	Del Credre Commission		
	Consignor A/c Dr.	Xx	
	To Commission A/c		Xx
14.	Bad debts (if Del Credre Commission is paid)		
	Bad Debts A/c Dr.	xx	
	To Consignment Debtors A/c		Xx
15.	Bad debts (if no Del Credre)		
	Consignor A/c Dr.	Xx	
	To Consignment Debtors A/c		Xx

16.	Amount remitted by consignee		
	Consignor A/c              Dr.	Xx	
	To Bank A/c		Xx

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### 3.7 EXERCISE

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1. Distinguish between Consignment and Sales.
2. Describe how the consignment account is maintained in the books of (a) the consignor (b) the consignee.
3. If a consignment remains partly unsold (closing stock or unsold stock) at the time of balancing the books, how do you deal with it?
4. Objective Type Questions:

- MULTIPLE CHOICE QUESTIONS

1. Ownership of goods sent on consignment remains with
  - a. Consignee
  - b. Consignor
  - c. Both Consignor & Consignee
  - d. Either with consignee or consignor
2. The relationship between Consignee and Consignor is that of
  - a. Agent and principal
  - b. Principal and Agent
  - c. Creditor and Debtor
  - d. Supplier and Customer
3. Consignee sells goods for consignor for
  - a. Profit
  - b. Commission
  - c. Friendship
  - d. Service to his customers
4. Expenses incurred by consignee on goods received on consignment are borne by
  - a. Consignor
  - b. Consignee
  - c. Both of them in agreed ratio
  - d. Either by consignee or consignor

5. Consignment A/c is prepared in the books of
  - a. Consignee
  - b. Consignor
  - c. Both Consignor & Consignee
  - d. Either in consignees books or in consignor's books
6. An Account sales is
  - a. Prepared by the consignor
  - b. Sent by the consignee to the consignor
  - c. A ledger account in the books of consignee
  - d. A ledger account in the books of consignor
7. Type of consignment account is
  - a. Real A/c
  - b. Nominal A/c
  - c. Personal A/c
  - d. Artificial A/c
8. Profit on sale of goods on consignment belongs to
  - a. Consignor
  - b. Consignee
  - c. Both of them in agreed ratio
  - d. Neither consignee nor consignor
9. Proforma invoice is sent by
  - a. Consignee to consignor
  - b. Consignor to consignee
  - c. Consignee to cash customers
  - d. Consignee to credit customer
10. Closing stock with consignee is shown in
  - a. The Balance Sheet of the consignor
  - b. The Balance Sheet of the consignee
  - c. The Balance Sheet of the consignor and consignee both
  - d. The Balance Sheet of neither consignor nor consignee
11. Del Credere Commission is paid by consignor to consignee
  - a. On total sales
  - b. On credit sales only
  - c. On cash sales only
  - d. On closing stock

12. In the books of consignee the sale of goods is credited to:
- (a). consignor's account
  - (b). sales account
  - (c). consignee's account
13. Goods sent on consignment should be debited by consignor to:
- (a). consignment account
  - (b). goods sent on consignment account
  - (c). consignor's account
14. In the books of consignor, the balance of the consignment stock would be shown:
- (a). as an asset in the balance sheet.
  - (b). as liability in the balance sheet.
  - (c). On the credit side of the trading account.
15. In the books of consignee, on dispatch of goods by the consignor the entry would be:
- (a). Consignment Account [Dr.]  
                                     To Goods Sent on Consignment Account [Cr.]
  - (b). Consignment Account [Dr.]  
                                     To Consignor Account [Cr.]
  - (c). No entry
16. In the books of consignee the expenses incurred by him on consignment are debited to:
- (a). consignment account
  - (b). cash account
  - (c). consignor's account

**Answers: 1. b, 2. a, 3. b, 4. d, 5. b, 6. b, 7. b, 8. a, 9. b, 10. a, 11. b, 12. a, 13. a, 14. a, 15. c, 16. c.**



# Unit-4

## CONSIGNMENT II

### Unit Structure :

- 4.0 Objectives
- 4.1 Solved Problems
- 4.2 Exercises

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### 4.0 OBJECTIVES

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After studying the unit students will be able to solve the practical problems on Consignment Accounting.

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### 4.1 SOLVED PROBLEMS

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#### Illustration 1:

Ratanlal consigned 500 boxes of tea costing Rs.100 per box to Sohanlal. Ratanlal paid freight Rs.500, insurance Rs.200 and sundry expenses Rs.80. He drew a bill of exchange on Sohanlal and received it from Sohanlal duly accepted for Rs.10,000. The bill was discounted with the Bank by giving a discount of Rs.100.

Mr. Sohanlal sold 300 boxes of tea at Rs.150. He paid Rs.180 for carriage. He was entitled to a commission of 5% on total sales. The balance due was sent by bank draft.

Give Consignment Account and Sohanlal's Account in the books of the consignor.

**Solution :**

**In the Books of Ratanlal  
Consignment to Sohanlal A/c**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment	50,000	By Sohanlal (Sales)	45,000
To Bank		By Consignment Stock	20,384
Freight 500			
Insurance 200			
Sundry Expenses <u>80</u>	780		
To Discount	100		
To Sohanlal's A/c			
Carriage 180			
Commission <u>2,250</u>	2,430		
To Profit & Loss A/c	12,074		
	<b>65,384</b>		<b>65,384</b>

**In the Books of Ratanlal  
Consignment to Sohanlal A/c**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Consignment A/c	45,000	By Consignment A/c	
		Carriage 180	
		Commission <u>2,250</u>	2,430
		By Bills Receivable	10,000
		By Bank A/c	32,570
	<b>45,000</b>		<b>45,000</b>

**Note :**

- Valuation of Stock :
 

	Rs.
200 boxes @ Rs.100	= 20,000
+ Proportionate Expenses $200 * 960 / 500$	= <u>384</u>
	<b><u>20,384</u></b>

**Illustration 2 :**

The Mumbai Indian consigned to their Calcutta agent Kolkatta Riders Rs.10,000 worth of goods, drawing a bill of exchange on Calcutta for the amount. They pay freight and Insurance on the consignment amounting to Rs.650. The goods were received in Calcutta and in due course the Account sales was received as follows.

Account sales of 200 Bales of goods from Mumbai Indian.

Particulars	Rs.	Rs.
200 Bales of goods sold at		14,000
Less : Consignee's Expenses		
Delivery Charges etc.	500	
Godown rent	70	
Insurance	80	
Sundry Charges	18	
Commission	700	1,368
		12,632
Bill of Exchange		10,000
Balance Cash herewith		2,632

Enter these particulars in the Ledger of the consignor and complete the transactions showing final profit or the loss on the consignment. Show the Consignor's Account in the books of the consignee.

**Solution :**

**LEDGER OF MUMBAI INDIAN**  
**Consignment Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Goods Sent on Consignment A/c	10,000	To Kolkatta Rider A/c (Sales)	14,000
To Cash / Bank A/c (Mumbai Indian's Expenses)	650		
To Kolkatta Rider A/c (Expenses)	668		
To Kolkatta Rider A/c (Comm.)	700		
To Profit & Loss A/c (Profit)	1,982		
	<b>14,000</b>		<b>14,000</b>

**Kolkatta Rider's Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment A/c (Sales)	14,000	By Bills Receivable A/c (Advance)	10,000
		By Consignment A/c (Expenses)	668
		By Consignment A/c (Comm.)	700
		By Cash / Bank A/c (Remittance)	2,632
	<b>14,000</b>		<b>14,000</b>

**Goods sent on Consignment Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Trading A/c (transfer)	10,000	By Consignment A/c	10,000
	<b>10,000</b>		<b>10,000</b>

**LEDGER OF KOLKATTA RIDER  
Mumbai Indian's Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bills Payable A/c (Advance)	10,000	By Cash / Bank A/c (Sales)	14,000
To Cash / Bank A/c (Expenses)	668		
To Commission A/c	700		
To Cash / Bank A/c (remittance)	2,632		
	<b>14,000</b>		<b>14,000</b>

**Illustration 3:**

Sen & Co. of Calcutta consign goods costing Rs.25,000 to their agent, Mustak of Mysore, on which they pay freight, Insurance and charges Rs.1,500, drawing on him a bill of exchange at 90 days for Rs.20,000. They discount the bill at Mercantile Bank being charged Rs.200 thereof. After two months they received from their agent an Account Sales informing that the entire consignment has been sold for Rs.35,000, that expenses amounting to Rs.700 have

been incurred and showing as a deduction the agreed commission of 2 percent on the amount realized. A draft on the Syndicate Bank was enclosed for the balance due.

Show important ledger accounts in the books of both the parties.

**Solution :**

**LEDGER OF SEN & CO  
Consignment Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Goods sent on Consignment A/c	25,000	By Mustak A/c (Sales)	35,000
To Cash / Bank A/c	1,500		
To Bills Receivable A/c (Discount)	200		
To Mustak A/c (Expenses & Comm.)			
Expenses 700			
Commission (2% × 35,000) <u>700</u>	1,400		
To Profit & Loss A/c (Profit)	6,900		
	<b>35,000</b>		<b>35,000</b>

**Mustak's Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment A/c (Sales)	35,000	By Bills Receivable A/c (Advance)	20,000
		By Consignment A/c (Expenses & Comm.)	1,400
		By Bank A/c (Remittance)	13,600
	<b>35,000</b>		<b>35,000</b>

**Goods sent on Consignment Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Trading A/c (transfer)	25,000	By Consignment A/c	25,000
	<b>25,000</b>		<b>25,000</b>

## LEDGER OF MUSTAK

## Sen &amp; Co.'s Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bills Payable A/c (Advance)	20,000	By Cash/Bank A/c (Sales)	35,000
To Cash / Bank A/c (Expenses)	700		
To Commission A/c	700		
To Bank A/c (remittance)	13,600		
	<b>35,000</b>		<b>35,000</b>

## Illustration 4:

Jayesh of Mumbai consigned 100 pieces of shirting @ Rs.30 per piece to Bhavesh on consignment basis. The consignee is entitled to commission of 5% on sales. Jayesh spent its Rs.1,000 for dispatching the goods. Bhavesh spent Rs.300 for freight & insurance. Jayesh draws a bill on Bhavesh Rs.2,000 which is discounted for Rs.1,960. All the goods were sold by Bhavesh for Rs. 6,000.

Pass entries and show necessary Ledger A/c is in the books of Consignor and Consignee.

## Solution :

**Journal Entries**  
**In books of Jayesh (Consignor)**

Date	Particulars		Debit (Rs.)	Credit (Rs.)
1	Consignment A/c To Goods Sent on Consignment A/c (Being goods sent to Bhavesh on consignment)	Dr.	3,000	3,000
2	Consignment A/c To Cash / Bank A/c (Being expenses paid)	Dr.	1,000	1,000
3	Bills Receivable A/c To Bhavesh A/c (Being bill draw on Bhavesh)	Dr.	2,000	2,000
4	Bank A/c Discount A/c To Bill Receivable A/c (Being bill Discounted)	Dr.	1,960 40	2,000

5	Bhavesh A/c To Consignment A/c (Being consignment sales by Bhavesh)	Dr.	6,000	6,000
6	Consignment A/c To Bhavesh A/c (Being consignment expenses paid by Bhavesh)	Dr.	300	300
7	Consignment A/c To Bhavesh A/c (Being 5% commission on sales payable to Bhavesh)	Dr.	300	300
8	Consignment A/c To Profit & Loss A/c (Being consignment profit transferred to P/L A/c)	Dr.	1,400	1,400
9	Goods Sent on Consignment A/c To Trading A/c	Dr.	3,000	3,000

Dr.		Consignment A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Goods sent on Consignment A/c	3,000	By Bhavesh A/c (Sales)	6,000		
To Cash Bank A/c (Expenses)	1,000				
To Bhavesh A/c (Expenses)	300				
To Bhavesh A/c (Commission)	300				
To Profit & Loss A/c (Profit)	1,400				
	<b>6,000</b>			<b>6,000</b>	

Dr.

Bhavesh A/c.

Cr.

Particulars	Rs.	Particulars	Rs.
To Consignment A/c	6,000	By Bills Receivable A/c	2,000
		By Consignment A/c (Expenses)	300
		By Consignment A/c (Commission)	300
		By Balance c/d (Unpaid)	3,400
	<b>6,000</b>		<b>6,000</b>

Dr.

Goods sent on Consignment A/c.

Dr.

Particulars	Rs.	Particulars	Rs.
To Trading A/c (bal. fig.)	3,000	By Consignment A/c	3,000
	<b>3,000</b>		<b>3,000</b>

[Note: Discount is not considered as consignment expenses therefore not debited to Consignment A/c. It will be debited to P/L A/c.]

### Journal Entries

In books of Bhavesh (Consignee)

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
(1)	Jayesh A/c Dr. To Bills Payable A/c (Being bill accepted)		2,000	2,000
(2)	Jayesh A/c Dr. To Bank A/c (Being consignment expenses paid)		300	300
(3)	Bank A/c Dr. To Jayesh A/c (Being goods sold)		6,000	6,000
(4)	Jayesh A/c Dr. To Commission A/c (Being commission @ 5% charged)		300	300

Dr.

Jayesh A/c

Cr.

Particulars	Rs.	Particulars	Rs.
To Bills Payable A/c	2,000	By Bank A/c	6,000
To Bank A/c	300		
To Commission A/c	300		
To Balance c/d	3,400		
	<b>6,000</b>		<b>6,000</b>

**Illustration - 5 :**

Amit of Bombay consigned 150 T.V. sets at Rs.4,000 each to Nitin of Nagpur. He paid Rs.24,000 for freight and Rs.4,000 for wages. Nitin took delivery of the T.V. sets and paid Rs.40,000 for octroi and other charges.

The consignee accepted a bill of Rs.1,60,000 drawn by the Consignor for 3 months.

The Consignee sent an account sale after two months stating that he has sold 120 sets at Rs.6,000 each and paid Rs.10,000 for advertisement and other selling expenses.

The Consignee is entitled to a commission of 4% on gross sale proceeds.

Pass necessary journal entries in the books of Amit and prepare Consignment A/c.

**Solution:****Journal Entries in the Books of Amit**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
?	Consignment A/c Dr. To Goods Sent on Consignment A/c (Being goods sent to Nitin of Nagpur on Consignment)		6,00,000	6,00,000
?	Consignment A/c Dr. To Bank A/c (Being freight and wages paid)		28,000	28,000
?	Consignment A/c Dr. To Nitin's A/c (Being expenses paid by Nitin)		40,000	40,000

?	Bills Receivable A/c Dr. To Nitin's A/c (Being bill received duly accepted by Nitin)		1,60,000	1,60,000
?	Nitin's A/c Dr. To Consignment A/c (Being goods sold by Nitin)		7,20,000	7,20,000
?	Consignment A/c Dr. To Nitin's A/c (Being advertisement expenses paid by Nitin)		10,000	10,000
?	Consignment A/c Dr. To Nitin's A/c (Being commission @4% on Rs.7,20,000)		28,800	28,800
?	Consignment Stock A/c Dr. To Consignment A/c (Being unsold stock adjusted in the Account). [Note 1]		1,33,600	1,33,600
?	Consignment A/c Dr. To Profit & Loss A/c (Being profit transferred to Profit & Loss A/c)		1,46,800	1,46,800

**Note :**

<b>Valuation of Closing Stock : (30 sets unsold)</b>	<b>Rs.</b>
30 sets at Rs. 4,000	1,20,000
Add : Proportionate expenses of Consignor $28,000 \times 30/150$	5,600
Add : Proportionate non-recurring expenses of Consignee $40,000 \times 30/150$	8,000
	<b>1,33,600</b>

Dr.		Consignment A/c		Cr	
Particulars	Rs.	Particulars	Rs.		
To Goods sent on Consignment A/c	6,00,000	By Nitin's A/c (Sales)	7,20,000		
To Bank A/c (Expenses)	28,000				
To Nitin's A/c (Expenses)	40,000				
To Nitin's A/c (Adv. & Selling exp.)	10,000	By Consignment Stock A/c	1,33,600		
To Nitin's A/c (Commission)	28,800	(see working)			
To Profit & Loss A/c (Profit)	1,46,800				
	<b>8,53,600</b>		<b>8,53,600</b>		

**Illustration 6:**

On 15 January, 2017 Jamshed & Co. of Mumbai sent to Mukherjee Co. of Kolkata 400 bicycles at an invoice price of Rs.100 per bicycle to be sold on commission. Freight and insurance were Rs.600. Account sale was received from consignee as follows 15<sup>th</sup> March – 100 bicycles were sold @ Rs.145 on which 5% Commission and Rs.375 for expenses were deducted.

10<sup>th</sup> April – 150 bicycles were sold @ Rs.140 on which 5% Commission and Rs.290 for expenses were deducted.

From the above information, prepare Consignment A/c in the books of Jamshed & Co. and close it on 30<sup>th</sup> April, 2013 keeping in mind that no sales were made afterwards. Also show accounts in the books of Mukherjee & Co.

**Solution:****LEDGER OF JAMSHED & CO.**

Dr.		Consignment Account		Cr.	
2017	Particulars	Rs.	2017	Particulars	Rs.
Jan. 15	To Goods sent on Consignment A/c	40,000	Mar. 15	By Mukherjee & Co. A/c (Sales)	14,500
Jan. 15	To Cash/Bank A/c (Jamshed & Co.'s Expenses)	600	Apr. 10	By Mukherjee & Co. A/c (Sales)	21,000
Mar, 15	To Mukherjee & Co. A/c (Expenses)	375	Apr. 30	By Stock on Consignment A/c	15,225

Mar. 15	To Mukherjee & Co. A/c	725			
Apr. 10	To Mukherjee & Co. A/c (Expenses)	290			
Apr. 10	To Mukherjee & Co. A/c (Comm.)	1,050			
Apr. 30	To Profit & Loss A/c (Profit)	7,685			
		<b>50,725</b>			<b>50,725</b>

Dr. Mukherjee & Co.'s Account			Cr.		
2017	Particulars	Rs.	2017	Particulars	Rs.
Mar. 15	To Consignment A/c (Sales)	14,500	Mar. 15	By Consignment A/c (Expenses)	375
Apr. 10	To Consignment A/c (Sales)	21,000	Mar. 15	By Consignment A/c (Comm.)	725
			Apr. 10	By Consignment A/c (Expenses)	290
			Apr. 10	By Consignment A/c (Comm.)	1,050
			Apr. 30	By Balance c/d	33,060
		<b>35,500</b>			<b>35,500</b>

Dr. Goods sent on Consignment Account			Cr.		
2017	Particulars	Rs.	2017	Particulars	Rs.
Apr. 30	To Trading A/c (transfer)	40,000	Jan. 15	By Consignment A/c	40,000
		<b>40,000</b>			<b>40,000</b>

## LEDGER OF MUKHERJEE &amp; CO.

Dr. Jamshed & Co.'s Account			Cr.		
2017	Particulars	Rs.	2017	Particulars	Rs.
Mar. 15	To Cash/Bank A/c (Expenses)	375	Mar 15	By Cash/Bank A/c (Sales)	14,500
Mar. 15	To Commission A/c	725	Apr 10	By Cash/Bank A/c (Sales)	21,000
Apr. 10	To Cash/Bank A/c (Expenses)	290			
Apr. 10	To Commission A/c	1,050			
Apr. 30	To Balance c/d	33,060			
		<b>35,500</b>			<b>35,500</b>

Valuation of Closing Stock

Cost = 40,000

+ Expenses = 600

-----  
**40,600**

Cl. St. 150 sets out of total 400 sent =  $40,600 \times 150 / 400$   
= **Rs.15,225**

**Illustration 7:**

Keshav of Kanpur consigned 150 T.V., sets at Rs.4,000 each to Kamalakar of Kolhapur. He paid Rs.24,000/- for freight and Rs.4,000/- for wages. Kamalakar took delivery of T.V. sets & paid Rs.40,000 for customs duties and other charges.

The Consignee accepted a bill of Rs.1,60,000 drawn by the Consignor for 3 months. The Consignee sent an Account Sales after two months stating that he has sold 120 sets at Rs.6,000 each. He had paid Rs.10,000 for advertisement and other selling expenses. The Consignee is entitled to a commission of 4% of gross sale proceeds. Consignment stock should be valued after taking Consignor's expenses and customs duty into consideration. Prepare Consignment Account and Consignee's Account in the books of the Consignor.

**Solution :**

**In the books of Keshav of Kanpur.**

Dr.		Consignment Account.		Cr.	
Particulars		Rs.	Particulars	Rs.	
To Good sent on Consignment A/c (150 x 4,000)		6,00,000	By Kamalkar's A/c (Sales) (120 x 6,000)	7,20,000	
To Cash A/c:			By Stock on Consignment A/c		
Freight	24,000		(Cost 30 x 4,000) =	1,20,000	
Wages	<u>4,000</u>	28,000	Expenses		
			30/150 x 68,000		
To Kamalkar's A/c (Custom duties)		40,000		13,600	
				1,33,600	
To Kamalkar's A/c (Advertisement & Other Expenses)		10,000			
To Kamalakar's A/c (Commission 4%)		28,800			
To P/L Loss A/c (Profit)		1,46,800			
		<b>8,53,600</b>		<b>8,53,600</b>	

Dr.		Kamalkar's Account.		Cr.	
Particulars		Rs.	Particulars		Rs.
To Consignment A/c (Sales)		7,20,000	By Consignment A/c (Customs duty)		40,000
			By Bills Receivable A/c		1,60,000
			By Consignment A/c (Expenses)		10,000
			By Consignment A/c (Commission)		28,800
			By Balance c/d		4,81,200
		7,20,000			7,20,000

**Illustration 8:**

Namdeo of Nagar consigned 250 Refrigerators at Rs.6,000 each to Vasant of Pune. He paid Rs.15,000 for carriage and Rs.20,000 for insurance. Vasant took delivery of the refrigerators and paid Rs.60,000 for octroi and other charges. The consignee accepted a bill of Rs.2,00,000 drawn by consignor for four months.

The consignee sold 200 refrigerators at Rs.7,500 each. He has paid Rs.18,000 for selling expenses and Rs.12,000 for other expenses. The consignee is entitled to a commission at 10% on the gross sales.

**Prepare consignment account in the book of consignor.**

**Solution:**

<b>In the books of Namdeo of Nagar</b>			
<b>Dr.</b>		<b>Cr.</b>	
<b>Consignment to Pune A/c.</b>			
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Goods Sent on Consignment A/c (250 x 6,000)	15,00,000	By Vasant's A/c (Sales 200 x 7,500)	15,00,000
To Cash/Bank A/c.		By Closing Stock	3,19,000
Carriage 15,000			
Insurance <u>20,000</u>	35,000		
To Vasant's A/c (Octroi & other charges)	60,000		
To Vasant's A/c.			
Selling Exps. 18,000			
Other Exps. 10% 12,000			
10% Commission <u>1,50,000</u>	1,80,000		
To Profit on Consignment transferred to P & L A/c.	44,000		
	<b>18,19,000</b>		<b>18,19,000</b>

**Illustration 9:**

Karant sold goods on behalf of Vijay Sales on consignment basis. On January 1, 2017, he had with him a stock of Rs.20,000 on consignment.

Karant had instruction to sell the goods at cost plus 25% and was entitled to a commission of 4% on sales. In addition to 1% del credere commission on total sales for guaranteeing collection of all the sales proceeds.

During the year ended 31<sup>st</sup> December, 2017, cash sales were Rs.1,20,000, credit sales Rs.1,05,000 and Karant's expenses relating to the consignment Rs.3,000 being salaries and insurance. Baddebts were Rs.3,000 and goods sent on consignment Rs. 2,00,000.

From the above, prepare Consignment Account and Consignee's Account in the books of Vijay Sales and important Ledger accounts in the books of Karant.

Solution:

**Ledger of Vijay Sales**

Dr.		Consignment Account		Cr.	
Particulars		Rs.	Pariculars		Rs.
To Stock on Consignment A/c b/d		20,000	By Karanth A/c (cash Sales)		1,20,000
To Goods sent on Consignment A/c		2,00,000	By Karanth A/c (Cr. sales)		1,05,000
To Karanth A/c (Expenses)		3,000	By Stock on consignment A/c		40,000
To Karanth A/c (Comm.)		9,000			
To Karanth A/c (Del Cr. Comm.)		2,250			
To Profit & Loss A/c (Profit)		30,750			
		2,65,000			2,65,000

Dr.		Karanth's Account		Cr.	
Particulars		Rs.	Particulars		Rs.
To Consignment A/c (Cash Sales)		1,20,000	By Consignment A/c (Expenses)		3,000
To Consignment A/c (Cr. Sales)		1,05,000	By Consignment A/c (Comm.)		9,000
			By Consignment A/c (Del Cr. Comm.)		2,250
			By Balance c/d		2,10,750
		2,25,000			2,25,000

Dr.		Goods sent on Consignment Account		Cr.	
Particulars		Rs.	Particulars		Rs.
To Trading A/c (transfer)		2,00,000	By Consignment A/c		2,00,000
		2,00,000			2,00,000

### Ledger of Karanth

Dr. <b>Vijay Sales's Account</b>		Cr.	
Particulars	Rs.	Particulars	Rs.
To Cash/Bank A/c (Expenses)	3,000	By Cash/Bank A/c (Sales)	1,20,000
To Commission A/c	9,000	By Consignment Debtors A/c. (Cr. Sales)	1,05,000
To Del Credere Commission A/c	2,250		
To Balance c/d	2,10,750		
	<b>2,25,000</b>		<b>2,25,000</b>

Dr. <b>Consignment Debtors Account</b>		Cr.	
Particulars	Rs.	Particulars	Rs.
To Vijay Sales A/c	1,05,000	By Cash/Bank A/c (collection)	1,02,000
		By Del Credere Commission A/c	3,000
	<b>1,05,000</b>		<b>1,05,000</b>

Dr. <b>Commission Account</b>		Cr.	
Particulars	Rs.	Particulars	Rs.
To Profit & Loss A/c (Bal. Tfd.)	9,000	By Vijay Sales's A/c	9,000
	<b>9,000</b>		<b>9,000</b>

Dr. <b>Del Credere Commission Account</b>		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment Debtors A/c (Bad Debts)	3,000	By Vijay Sales's A/c	2,250
		By Profit & Loss A/c (Bal. Tfd.)	750
	<b>3,000</b>		<b>3,000</b>

Dr. <b>Profit &amp; Loss Account</b>		Cr.	
Particulars	Rs.	Particulars	Rs.
To Del Credere Commission A/c (Net tfd.)	750	By Commission A/c	9,000
To Profit c/d to Balance Sheet	8,250		
	<b>9,000</b>		<b>9,000</b>

**Working Note :****Closing Stock**

Cost of Opening Stock	20,000
Cost of Goods Sent	2,00,000
	-----
Total Cost of Goods	2,20,000
Less : Cost of Goods Sold (2,25,000 x 80%)	1,80,000
	-----
Value of Closing Stock	<b><u>40,000</u></b>

**Illustration 10:**

Amiankusum of Calcutta consigned on 1-1-2017 goods at invoice value of Rs.12,500 which was made up by adding 25% on cost, to Manasumukul of Arunachal. Amlankusum paid Rs.300 as freight and Rs.200 as insurance on these goods.

On 30-6-2017 Amlankusum received a remittance of Rs.7,000 with an Account Sales from Manasumukul showing that he had –

- (1) Sold 3/5 of goods for Rs.9,000.
- (2) Paid Rs.150 as landing charges and Rs.250 as selling expenses.
- (3) Retained his commission of 10% on gross sales.

You are required to write up –

- (a) The Consignment to Arunachal A/c, and
- (b) Manasumukul's Personal A/c

as they would appear in the books of Amlankusum for the period ended 30-06-2017 which is the end of his accounting year.

**Solution :****LEDGER OF AMLANKUSUM**

Dr.		Consignment Account		Cr.	
Particulars		Rs.	Particulars		Rs.
To Goods Sent on Consignment A/c		12,500	By Manasmukul A/c (Sales)		9,000
To Cash/Bank A/c (Amlankusum's Expenses)		500	By Stock on Consignment A/c		5,260
To Manasmukul A/c (Expenses)		400	By Goods sent on Consignment A/c (Load)		2,500
To Manasmukul A/c (Comm.) [9,000 x 10%]		900			
To Stock Reserve (Load)		1,000			
To Profit & Loss A/c (Profit)		1,460			
		16,760			16,760

Dr. Manasmukul's Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment A/c (Cash Sales)	9,000	By Consignment A/c (Expenses)	400
		By Consignment A/c (Comm.)	900
		By Cash/Bank A/c (Remittance)	7,000
		By Balance c/d	700
	<b>9,000</b>		<b>9,000</b>

Dr. Goods Sent on Consignment Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment A/c (Load)	2,500	By Consignment A/c	12,500
To Trading A/c (transfer)	10,000		
	<b>12,500</b>		<b>12,500</b>

#### Ledger of Manasmukul

Dr. Amlankusum's Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Cash/Bank A/c (Expenses)	400	By Cash/Bank A/c (Sales)	9,000
To Commission A/c	900		
To Cash/Bank A/c (Remittance)	7,000		
To Balance c/d	700		
	<b>9,000</b>		<b>9,000</b>

#### Working Notes :

- Closing Stock
 

Value of Goods Sent	12,500
Amlankusum's Expenses	500
Manasmukul's Expenses (landing charges)	<u>150</u>
<b>Total value</b>	<b>13,150</b>

#### Illustration 11:

H. Ltd. forwarded on 1-7-2017, 100 bicycles to Vasu of Hyderabad to be sold on behalf of H Ltd. The cost of each bicycle was Rs.150 but the Invoice price was Rs.200. H. Ltd. incurred Rs.1,000 on freight and insurance. Vasu received the consignment on 14-7-2017 and accepted a three months draft drawn upon him

by H. Ltd. for Rs.10,000. Vasu paid Rs.400 as rent and Rs. 250 as insurance and by 31-12-2017 had disposed of 80 bicycles at Rs.205 each. Vasu is entitled to a commission of 5 per cent on sales including a del credere commission of 1%. Vasu sold 20 bicycles on credit and was not able to recover sales proceeds of 5 bicycles because of insolvency of the debtor.

Prepare Ledger Accounts to record the above transactions in the books of H. Ltd. and Vasu.

**Solution :**

<b>LEDGER OF H LTD.</b>			
<b>Dr.</b>	<b>Consignment Account</b>		<b>Cr.</b>
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Goods sent on Consignment A/c	20,000	By Vasu A/c (Cash Sales)	12,300
To Cash/Bank A/c (H. Ltd.'s Expenses)	1,000	By Vasu A/c (Cr. sales)	4,100
To Vasu A/c (Expenses)	650	By Stock on Consignment A/c	4,200
To Vasu A/c (Comm.)	656	By Goods sent on Consignment A/c (Load)	5,000
[4% x (12,300 + 4,100)]			
To Vasu A/c (Del Cr. Comm.)	164		
[1% x (12,300 + 4,100)]			
To Stock Reserve (Load)	1,000		
To Profit & Loss A/c (Profit)	2,130		
	<b>25,600</b>		<b>25,600</b>

<b>Dr.</b>	<b>Vasu's Account</b>		<b>Cr.</b>
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Consignment A/c (Cash Sales)	12,300	By Bills Receivable A/c (Advance)	10,000
To Consignment A/c (Cr. Sales)	4,100	By Consignment A/c (Expenses)	650
		By Consignment A/c (Comm.)	656
		By Consignment A/c (Del Cr. Comm.)	164
		By Balance c/d	4,930
	<b>16,400</b>		<b>16,400</b>

Dr. Goods sent on Consignment Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment A/c (Load)	5,000	By Consignment A/c	20,000
To Trading A/c (transfer)	15,000		
	<b>20,000</b>		<b>20,000</b>

### LEDGER OF VASU

Dr. H Ltd.'s Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bills Payable A/c (Advance)	10,000	By Cash/Bank A/c (Sales)	12,300
To Cash/Bank A/c (Expenses)	650	By Consignment Debtors A/c (Cr. Sales)	4,100
To Commission A/c	656		
To Del Credere Commission A/c	164		
To Balance c/d	4,930		
	<b>16,400</b>		<b>16,400</b>

Dr. Consignment Debtors Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To H Ltd.'s A/c	4,100	By Cash/Bank A/c (collection)	3,075
		By Del Credere Commission A/c	1,025
	<b>4,100</b>		<b>4,100</b>

Dr. Commission Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Profit & Loss A/c (Bal. Tfd.)	656	By H Ltd.'s A/c	656
	<b>656</b>		<b>656</b>

Dr. Del Credere Commission Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Consignment Debtors A/c (Bad Debts)	1,025	By H Ltd.'s A/c	164
		By Profit & Loss A/c (bal. Tfd.)	861
	<b>1,025</b>		<b>1,025</b>

Dr. Profit & Loss Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Del Creditor Commission A/c	861	By Commission A/c	656
(Net t/d.)		By Loss c/d to Balance Sheet	205
	<b>861</b>		<b>861</b>

**Working Notes :**

1. Closing Stock	
Value of Goods Sent (Quantity x Rate)	20,000
H Ltd.'s Expenses	1,000
Vasu's Direct/Non-recurring Expenses	Nil
	-----
Total Value	21,000
Closing Stock Value $21,000 \times \frac{20}{100}$	<u>4,200</u>

**4.2 EXERCISES**

1. On 1<sup>st</sup> June, 2013; Bendre of Bombay consigned 100 cases costing Rs.700 each to Shirole of Solapur. Bendre paid Rs.500 for carriage. Shirole paid Rs.100 for Octroi and Rs.350 for carriage and other expenses. Shirole sent Rs.4,000 as an advance against the consignment. Shirole sold 90 cases for Rs.72,000. Shirole is entitled to a Commission of 5% on total sales.

Pass journal entries in the books of both the parties.

[Ans. Profit Rs. 4,545]

2. Ajay of Delhi sent on consignment goods to Banita of Baroda 100 sewing machines on consignment costing Rs.200 each. The consignor paid Rs.1,000 by way of freight and insurance. Banita spent Rs.500 by way of godown rent and other expenses. At the end of the year, 10 machines remaining unsold with Banita. The consignee sold sewing machines @ Rs.250 per machine. Banita remitted the sale proceeds after deducting expenses and her commission which was 5% of the goods sold.

Prepare Consignment Account and Consignee's Account in the books of the consignor.

[Ans. Profit on Consignment	Rs. 1,975
Value of Unsold stock	Rs. 2,100
Amount remitted by Consignee	Rs. 20,875]

3. M/s Raman & Co. consigned to Arora of Akola 500 radio sets costing Rs.450 each. They paid freight Rs.2,500, insurance Rs.500 and sundry expenses Rs.3,000. Arora took delivery of the goods by paying clearing charges Rs.700 and carriage Rs.500. M/s. Raman & Co. drew three months bill for Rs.1,00,000 which was discounted

at 5% p.a. Arora sold 300 sets at Rs.600 each and the balance at Rs.550 each. Arora is entitled to commission of 5% on sale proceeds. Arora remitted the balance due by a bank draft.

Show Consignment Account and Arora's Account in the books of M/s Raman & Company.

**(Ans. Profit Rs. 46,000; Commission Rs. 14,500; Balance received from Arora Rs. 1,74,300.)**

4. M/s Ramesh Oil Mills, Mumbai, consigned 4,000 litres of Castor oil (in 10 litre tins) to Chatterji of Kolkatta on 1<sup>st</sup> April, 2017. The cost of oil was Rs.20 per litre. The consignors paid Rs.10,000 as freight and insurance. During transit, 5 tins were totally destroyed for which the Insurance Company paid directly to the consignor Rs.900 in full settlement of the claim.

Chatterji took delivery of the consignment on 10<sup>th</sup> April 2017 and accepted bill drawn on him by Ramesh Oil Mills for Rs. 20,000 for 3 months. On June 30, 2017, Chatterji reported that 3,500 litres were sold at Rs.30 per litre. The expenses were as following:

Particulars	Rs.
Godown Rent	400
Advertisement	2,000
Salaries to Salesmen	4,000

Chatterji charged a normal commission of 3% and del credere commission of 3%. He sold the remaining stock of oil for Rs.19,000 to X and C, who were declared bankrupt after two months and only 50 paise per rupee were realised from them.

Prepare the following accounts in the books of consignor, assuming that the consignee paid the amount due by bank draft:

- 1) Consignment Account.
- 2) Consignee's Account.
- 3) Goods Sent on Consignment Account.

**(Ans. Profit Rs. 21,285; Final Remittance Rs. 1,24,000; Abnormal Loss Rs. 1,125)**

5. M & Co of Nagpur sent 100 sewing machines on consignment to Nandini of Nasik, spent Rs.250 on packing. The cost of each machine was Rs.112 but it was now invoiced at 25% above cost.

One case containing 5 machines was lost in transit. Nandini paid Rs.475 as freight on the remaining machines. He had to spend Rs.95 as cartage and octroi duty and Rs.190 as godown rent and Rs.50 as other expenses. He sold 75 machines @ Rs.190. He found 10 machines defective and therefore returned them to Nagpur at cost, Nandini is entitled to a commission of 5% on

invoice price and 20% of any excess price realised on the invoice price and 1% del credere commission. Nandini could not realise sale proceeds of 5 machines.

Prepare Consignment Account, Consignee's Account, Consignment Stock Account and Consignment Stock Reserve Account in the books of M & Co.

**[Ans. Profit on consignment Rs. 3,470. Loss Rs. 572.50. Stock Account Rs. 1,485 Commission Rs. 1417.50]**



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# Unit-5

## BRANCH ACCOUNTS I

### Unit Structure:

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Types of Branches
- 5.3 Debtors System
- 5.4 Stock and Debtors System
- 5.5 Exercises

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### 5.0 OBJECTIVES

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After studying the unit the students will be able to:

- Explain the types of Branches.
- Understand the methods of accounting of Branch transactions
- Journalise the transactions related to Branch Account.

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### 5.1 INTRODUCTION

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A large business enterprise may have one main office and one or more small offices maintained mainly for the purpose of increasing sales. Such small outlet is called as a branch. The main office is called as Head Office.

Branch is an additional place of business opened mainly for the convenience of customers.

The basic purpose of maintaining branch accounts is to evaluate the performance of the branch and ascertain profit made by the branch.

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### 5.2 TYPES OF BRANCHES

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- A) Dependent Branch
- B) Independent Branch

- A) **Dependent Branch:** Head office sends goods to the branch, either at cost or at a price higher than the cost, called as invoice price. The branch sells the goods on cash or credit basis and remits all the cash received to the head office. The branch expenses are paid by the branch itself or by the head office depending upon the policy of the enterprise. This branch depends upon the head office for the purpose of maintaining accounts. The branch does not maintain complete set of double entry books of accounts. The branch maintains only necessary records on memorandum basis and sends periodic reports to the head office. It is the head office that does all the accounting work.
- B) **Independent Branch:** This branch, as the name suggests, does not depend upon head office. It does all the accounting work by itself. It maintains complete set of double entry books of accounts. At the end of the year, a trial balance is extracted from the ledger. This trial balance is then sent to the head office for finalization.

In case of Dependent Branches, Head Office can maintain accounts of the branch by adopting any one of the following two methods:

1. Debtors System
2. Stock and Debtors System

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### 5.3 DEBTORS SYSTEM

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In this type of system, the head office opens one account in its Ledger for every branch. The type of this account is personal account.

The rule applicable is

**“ Debit the Receiver and Credit the Giver”**

All transactions between branch and head office are recorded in this account. All the transactions between branch and third party are not recorded by the head office. Here, the branch is treated as a debtor and hence, only transactions between branch and head office are recorded. Since actual owner of the branch is head office itself, assets and liabilities of the branch are assets and liabilities of head office, these are also recorded through branch account.

Sometimes goods are sent to the branch at a price higher than the cost price. This price is called as Invoice Price. The profit element added to the cost price is called as Loading. Branch Manager is expected to sell the goods at this price. In such case, we have to find out the loading on all the transactions of goods between branch and head office.

**Chart showing calculation of loading:**

% on Cost		% on Sales	
100% on cost	(1/1 of Cost)	50% on sales	(1/2 on sales)
50 % on cost	(1/2 of cost)	33 1/3 <sup>rd</sup> on sales	(1/3 on sales)
33 1/3 <sup>rd</sup> on cost	(1/3 of cost)	25% on sales	(1/4 on sales)
25% on cost	(1/4 of Cost)	20% on sales	(1/5 on sales)
20% on cost	(1/5 of Cost)	16 2/3% on sales	(1/6 on sales)

**PROFORMA JOURNAL ENTRIES**

Sr. No.	Particulars	Dr. Rs.	Cr. Rs.
1	Branch Assets at the beginning		
	Branch A/c Dr.		
	To Opening Stock A/c	xx	
	To Furniture A/c		xx
	To Debtors A/c		xx
	To Cash A/c		xx
	To Prepaid Expenses A/c		xx
2	Branch liabilities at the beginning		
	Branch Creditors A/c Dr.	xx	
	Loading on opening stock A/c Dr.	xx	
	Outstanding Expenses A/c Dr.	xx	
	To Branch A/c		xx
3	Goods sent to branch		
	Branch A/c Dr.	xx	
	To Goods Sent to Branch		xx
4	Loading on above		
	Goods Sent to Branch A/c Dr	xx	
	To Branch A/c		xx

5	Goods Returned by Branch		
	Goods Sent to Branch A/c Dr.	xx	
	To Branch A/c		xx
6	Loading on above		
	Branch A/c Dr.	xx	
	To Goods Sent to Branch A/c		xx
7	Expenses of branch paid by head office		
	Branch A/c Dr.	xx	
	To Cash A/c		xx
8	Cash sent to branch for expenses		
	Branch A/c Dr.	xx	
	To Cash A/c		xx
9	Cash remitted by branch to head office		
	Cash A/c Dr.	xx	
	To Branch A/c		xx
10	Branch Assets at the end of the year		
	Closing Stock A/c Dr.	xx	
	Furniture A/c Dr.	xx	
	Debtors A/c Dr.	xx	
	Cash A/c Dr.	xx	
	Prepaid Expenses A/c Dr.	xx	
	To Branch A/c		xx
11	Branch liabilities at the end of the year	xx	
	Branch A/c Dr.		
	To Branch Creditors A/c		xx
	To Loading on Closing Stock A/c		xx
	To Outstanding Expenses A/c		xx
12	Net Profit made by the Branch		
	Branch A/c Dr.	xx	
	To Profit & Loss A/c		xx
13	Net Loss made by the Branch		
	Profit & Loss A/c Dr.	xx	
	To Branch A/c		xx

## PROFORMA OF BRANCH A/C

Particulars	Dr. Rs.	Particulars	Cr. Rs.
To Balance B/d Opening Stock xx Opening Cash xx Opening Debtors xx Opening Furniture xx Opening Prepaid Exp xx	xx	By Balance B/d Opening Stock Reserve xx Opening Creditors xx Opening O/S Expenses xx	Xx
To Goods Sent to Branch A/c (sent by HO to Branch)	Xx	By Goods Sent to Branch A/c (Loading on goods sent to branch)	Xx
To Goods Sent to Branch A/c (loading on goods returned by branch)	Xx	By Goods Sent to Branch A/c (goods returned by branch)	xx
To Cash A/c -branch expenses paid by HO xx -Cash remitted to branch for expenses xx	Xx	By Cash A/c -cash remitted by branch to head office xx -cash sales xx -*cash from debtors xx	Xx
To Balance B/d Closing Stock Reserve xx Closing Creditors xx Closing O/S Expenses xx	xx	To Balance B/d Closing Stock xx Closing Cash xx Closing Debtors xx Closing Furniture xx Closing Prepaid Exp xx	Xx
	xxx		xxx

Following transactions between branch and third party are not recorded in the above Branch A/c

1. Cash Sales made by branch
2. Credit Sales made by branch
3. Credit Sales returns at the branch
4. Discount allowed to branch debtors
5. Cash collected from debtors
6. Bad debts at branch
7. Expenses paid by branch out of cash collected

\*If any one of these three figures is not given then Prepare Branch Debtors A/c as follows

#### Proforma of Branch Debtors A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	Xx	By Bad Debts	Xx
To Credit Sales	Xx	By Branch cash	Xx
		By Discount allowed	Xx
		By Credit Sales returns	Xx
		By Balance c/d	Xx
	Xx		Xx

If branch manager is allowed to make expenses out of cash collected and remits the balance cash to Head Office, then prepare Branch Cash A/c as follows:-

#### Proforma of Branch Cash A/c

Particulars	Rs.	Particulars	Rs.
To balance B/d	Xx	By Branch Expenses	
To Cash Sales	Xx	Rent	Xx
To Branch Debtors	Xx	Salaries	Xx
		Insurance	Xx
		Sundry expenses	Xx
		By Cash remitted to head office	Xx
		By Balance C/d	Xx
	Xx		Xx

## 5.4 STOCK AND DEBTORS SYSTEM

Under this system, head office maintains following accounts for each branch:

- 1. Branch Stock Account:** Type of this account is Real Account. This account is always maintained at invoice price. This account gives us stock at branch at any given time at invoice price. Normally balancing figure in this account is closing stock. If closing stock and all other relevant figures are already given then this account should balance by itself. If it does not balance

then balancing figure indicates either shortage of stock or surplus of stock. If debit side is heavy (i.e. Dr. balance) then it is surplus of stock and if credit side is heavy (i.e. Cr. balance) then it is shortage of stock. If the Dr. balance is more then it is regarded as excess Gross Profit

2. **Goods Sent to Branch Account:** Type of this account is Real account. Transactions of goods between Branch and Head Office are recorded through account. This account gives us cost of goods sent to the branch. At the end of the year, this account shows credit balance and it is transferred to Trading A/c.
3. **Branch Stock Adjustment Account:** Type of this account is Nominal account. Entries regarding loading are passed through this account. This account gives us gross profit made by the Branch at any given time. The gross profit as shown by this account is transferred to Branch Profit and Loss Account.
4. **Branch Profit and Loss Account:** Type of this account is Nominal Account. All the losses and expenses pertaining to the Branch are debited to this account and all the profits pertaining to the branch are credited to this account. This account gives us Net Profit or Net Loss made by the branch.
5. **Branch Debtors Account:** Type of this account is Personal Account. Entries regarding Branch Debtors are recorded through this Account.
6. **Branch Cash Account:** Type of this account is Real Account. Transactions pertaining to branch cash are recorded through this account. This account gives us cash position at the branch at any given time.
7. **Branch Expenses Account:** All the expenses of the Branch are debited to this account. At the end of the year, balance in this account is transferred to Branch Profit and Loss account.

**If the branch expenses are directly debited to Branch Profit and Loss Account, then this account is not opened at all.**

## PROFORMA JOURNAL ENTRIES

Sr. No.	Particulars	Dr. Rs.	Cr. Rs.
1	Branch Assets at the beginning		
	Branch stock(at invoice price)		
	Branch Cash		
	Branch Debtors		
	Taken as opening Dr. balances in the respective accounts		
2	Branch liabilities at the beginning		
	Branch Creditors A/c		
	Taken as opening cr. balance in the Branch Creditors Account		
	Loading on Opening Stock A/c		
	Taken as opening cr. balance in the Branch Stock Adjustment Account		
3	Goods sent to branch		
	At Invoice Price		
a.	Branch Stock A/c Dr.	xx	
	To Goods Sent to Branch A/c		xx
b.	Loading on above		
	Goods Sent to Branch A/c Dr.	xx	
	To Branch Stock Adjustment A/c		xx

4	Goods Returned by Branch		
a.	At Invoice Price		
	Goods Sent to Branch A/c Dr.	xx	
	To Branch Stock A/c		xx
b.	Loading on above		
	Branch Stock Adjustment A/c Dr.	xx	
	To Goods Sent to Branch A/c		xx
5.	Cash sales at Branch		
	Branch Cash A/c Dr.	Xx	
	To Branch Stock A/c		Xx
6.	Cash Sales Returns		
	Branch Stock A/c Dr.	Xx	
	To Branch Cash A/c		Xx
7.	Credit Sales at Branch		
	Branch Debtors A/c Dr.	Xx	
	To Branch Stock A/c		Xx
8.	Credit Sales Returns		
	Branch Stock A/c Dr.	Xx	
	To Branch Debtors A/c		Xx
9.	Cash collected from Branch Debtors		
	Branch Cash A/c Dr.	Xx	
	To Branch Debtors A/c		Xx
10.	Bad debts at Branch		
	Branch Profit And Loss A/c Dr.	Xx	
	To Branch Debtors A/c		Xx

11.	Discount allowed to Branch Debtors		
	Branch Profit And Loss A/c Dr.	Xx	
	To Branch Debtors A/c		Xx
12.	Cash sent to Branch		
	Branch Cash A/c Dr.	xx	
	To Cash A/c		Xx
13.	Cash remitted by Branch to Head Office		
	Cash A/c Dr.	xx	
	To Branch Cash A/c		Xx
14.	Expenses incurred at branch		
	Branch Expenses A/c Dr.	Xx	
	To Branch Cash A/c		Xx
15.	Expenses of Branch paid by Head Office		
	Branch Expenses A/c Dr.	Xx	
	To Cash A/c		Xx
16.	Surplus of Stock at branch		
	Branch Stock A/c (at invoice price) Dr.	Xx	
	To Branch Stock Adjustment A/c (loading)		Xx
	To Branch Profit and Loss A/c (cost Price)		Xx
17.	Shortage of Stock at branch		
	Branch Stock Adjustment A/c (loading) Dr.	Xx	
	Branch Profit and Loss A/c (cost Price) Dr.	Xx	
	To Branch Stock A/c (at invoice price)		Xx
18.	Closing of Goods Sent To Branch A/c		
	Goods Sent To Branch A/c Dr.	Xx	
	To Trading A/c		Xx

19.	Closing of Branch Expenses		
	Branch Profit And Loss A/c Dr.	Xx	
	To Branch Expenses A/c		Xx
20.	Transfer of Gross Profit		
	Branch Stock Adjustment A/c Dr.	Xx	
	To Branch Profit And Loss A/c		Xx
21.	Closing of Branch Profit and Loss A/c		
a.	If it shows Credit Balance i.e. Profit		
	Branch Profit & Loss A/c Dr.	xx	
	To Profit & Loss A/c		Xx
b.	If it shows Debit Balance i.e. Loss		
	Profit & Loss A/c A/c Dr.	xx	
	To Branch Profit & Loss A/c		Xx
22	Branch Assets at the end of the year		
	Closing Stock (at Invoice Price)		
	Debtors		
	Cash		
	--Shown as debit balances in respective Accounts		
23.	Branch liabilities at the end of the year		
	Branch Creditors		
	Loading on Closing stock		
	--Shown as credit balances in respective Accounts		

**PROFORMA OF VARIOUS ACCOUNTS****Branch Stock A/c(At Invoice Price)**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Balance b/d (Opening Stock)	Xx	By Branch Debtors A/c (Credit Sales )	Xx
To Goods Sent to Branch A/c	Xx	By Branch Cash A/c (Cash Sales )	Xx
To Branch Debtors A/c (Sales Returns)		By Goods Sent to Branch A/c (Goods Returned)	Xx
To Branch Cash A/c (Sales Returns)		By Shortage	Xx
To Surplus	Xx	By Balance c/d (Closing Stock)	Xx
	<b>Xx</b>		<b>Xx</b>

**Goods Sent to Branch A/c**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Branch Stock Adjustment A/c (loading on goods sent)	Xx	By Branch Stock A/c (Invoice Price)	Xx
To Branch Stock A/c (Goods Returned by branch)	Xx	By Branch Stock Adjustment A/c (Loading on goods returned)	Xx
To Trading A/c	Xx		Xx
	<b>Xx</b>		<b>Xx</b>

**Branch Stock Adjustment A/c (Loading Element)**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Goods Sent to Branch A/c (Loading on goods returned)	Xx	By Balance B/d (Loading on opening Stock)	Xx
To Shortage (Loading)	Xx	By Goods Sent to Branch A/c (Loading on goods sent)	Xx
To Branch Profit & Loss A/c (Transfer of gross profit)	Xx	By Surplus (Loading)	Xx
To Balance B/d (Loading on closing stock)	Xx		
	<b>Xx</b>		<b>Xx</b>

**Branch Profit and Loss A/c**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Branch Expenses	Xx	By Branch Stock Adjustment (Gross Profit )	Xx
To Branch Debtors (Bad Debts)	Xx		
To Branch Debtors (Discount )	Xx	By Net Profit Transferred to general P& L A/c	Xx
To Depreciation on Branch Assets	Xx		
To Net Profit Transferred to general P& L A/c	Xx		
	Xx		Xx

**Branch Debtors A/c**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Balance b/d	Xx	By Branch P & L A/c (Bad debts)	Xx
To Branch Stock A/c (Credit sales )	Xx	By Branch cash	Xx
		By Branch P & L A/c (Discount allowed)	Xx
		By Branch Stock A/c (Credit sales returns)	Xx
		By Balance c/d	Xx
	Xx		Xx

**Branch Cash A/c**

Particulars	Rs.	Particulars	Rs.
To Balance B/d	Xx	By Branch Expenses A/c	
To Branch Stock A/c (Cash sales)	Xx	Rent	Xx
To Branch Debtors	Xx	Salaries	Xx
To Cash A/c (from head office for expenses)		Insurance	Xx
		Sundry expenses	Xx
		By Branch Cash A/c (Cash Sales returns )	
		By Branch Debtors A/c (Credit Sales returns)	
		By Cash remitted to head office A/c	Xx
		By Balance C/d	Xx
			Xx
	Xx		Xx

Sometimes all the cash collected by the branch is remitted to head office and expenses of Branch are paid out of petty cash maintained at branch.

**Branch Petty Cash A/c**

Particulars	Rs.	Particulars	Rs.
To balance B/d	Xx	By Branch Expenses A/c	
To Cash A/c (from head office for expenses)		Rent	Xx
		Salaries	Xx
		Insurance	Xx
		Sundry expenses	Xx
		By Balance C/d	Xx
	Xx		Xx

Sometimes goods are sent to branch at cost price then Branch Stock A/c is maintained at cost price and Branch Stock Adjustment Account is not at all required.

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## 5.5 EXERCISE

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1. Explain the types of branches.
2. Elaborate the accounting procedure under the Debtors Method.
3. Which accounts are opened under the Stock and Debtors Account System?
4. Objective type questions:
  - State whether the following statements are True or False.
1. Under Debtors System, bad debts and discount allowed are shown in the Branch Account.
2. Under Debtors System, Debtors at close are shown on the Debit Side of the Branch Account after adjusting for bad debts, discount allowed etc.
3. Under Debtors System, Depreciation is not shown in the Branch Account.
4. Reserve for Bad Debts and Reserve for Discount on Debtors will be recorded separately in the Branch account under the Debtors System.
5. Actual petty expenses incurred by the Branch Account under the Debtors system will not be recorded in the Branch Account.
6. Sales Returns will not appear directly in the Branch Account under the Debtors System.
7. Branch Account under Debtors System is a Real Account.
8. Under Debtors System, Branch Account is debited with losses like bad debts, discounts allowed and depreciation.
9. When the Branch Manager is allowed petty cash on Imprest System, the amount remitted by Head Office to reimburse the actual expenses will be debited to the Branch Account.
10. Branch Account is a nominal account in nature and is prepared in the Branch Books.

**(Answers: False – 1, 2, 4, 7, 8, 10 True – 3, 5, 6, 9)**

• **Indicate the correct answers:**

1. Under Debtors System, the Debtors at close are shown
  - (i) On the credit side of the Head Office Account
  - (ii) On the debit side of the Branch Account
  - (iii) On the credit side of the Branch Account after adjusting for bad debts, discount allowed etc.
  - (iv) Are not shown in the Branch account
2. Under Debtors System, treatment of Reserve for Bad debts is
  - (i) Shown it on the credit side of Branch a/c
  - (ii) It is not shown in Branch a/c
  - (iii) It is deducted from the Branch Debtors and the good Branch debtors are shown in the Branch account
  - (iv) It is shown on the debit side of the general Profit and Loss account
3. The treatment of petty expenses made by the Debtors System is as follows
  - (i) It is not recorded in the Branch account
  - (ii) It is shown on the debit side of the Branch account
  - (iii) It is shown on the general Profit and Loss account of Head Office
  - (iv) Only the closing balance of Petty Cash (Opening balance plus amount reduced from Head Office less petty expenses) will appear in the credit side of the Branch account
4. Under Debtors System, the Branch Account is
  - (i) Real Account
  - (ii) Nominal Account
  - (iii) Personal Account
  - (iv) None of the above
5. Stock Reserve in relation on opening Stock appears (under the Debtors System)
  - (i) On the debit side of the Branch Account
  - (ii) On the credit side of the Branch Account
  - (iii) On the Credit side of Head Office Account
  - (iv) None of the above
6. Stock reserve in relation to closing stock appears (under the Debtors System)
  - (i) On the debit side of the Branch Account
  - (ii) On the credit side of the Branch Account
  - (iii) On the debit side of Head Office Account
  - (iv) None of the above

7. The cash and credit sales of the branch are Rs.5,000 and Rs.15,000 respectively. The amount collected from debtors is Rs.10,000. The amount to be credited to Branch Account under the Debtors System will be
- |                 |                |
|-----------------|----------------|
| (i) Rs.20,000   | (ii) Rs.15,000 |
| (iii) Rs.10,000 | (iv) Rs.25,000 |
8. The opening balance of Petty Cash at the Branch is Rs.2,000, Amount received from the Head Office for Petty Expenses is Rs.10,000, the closing balance of Petty Cash is Rs. 3,000; Which of the following is the right answer under the Debtors System?
- Rs.9,000 on the Debit side of the Branch Account as Petty Expenses.
  - Rs.3,000 on the Credit side of the Branch Account as Petty Cash.
  - Rs.7,000 on the Credit side of the Branch Account as Petty Cash Expenses.
  - None of the above.

**(Answers: 1-(iii); 2-(iii); 3-(iv); 4-(ii); 5-(ii); 6-(i); 7-(ii); 8-(ii) )**

• **Fill in the Blanks:**

- The system of operating at several places through one's own establishments is called \_\_\_\_\_.
- The main establishment located at the main place of activity is called the \_\_\_\_\_ and the subsidiary establishment located at various places are called \_\_\_\_\_.
- Branches may be divided into 3 categories, \_\_\_\_\_ branches, \_\_\_\_\_ branches and foreign branches.
- Goods supplied to Dependent Branches by the Head Office may be either at \_\_\_\_\_ or at \_\_\_\_\_ price.
- The One Account System or Debtors System is generally adopted when the branch is fairly \_\_\_\_\_ in size.
- Branch Account is a \_\_\_\_\_ in nature and is prepared in the Head Office Books.
- Under Debtors System, bad debts and discounts allowed are \_\_\_\_\_ in the Branch Account.
- Under the Debtors System, the debtors (at close) are shown on the \_\_\_\_\_ of the Branch Account after adjusting bad debts, discount allowed etc.

9. Under Debtors System, fixed assets is shown on the credit side only after \_\_\_\_\_ the amount of depreciation, if any.
10. Under the Debtors System, the Head Office will record all the transactions relating to the branch in the Branch Account through \_\_\_\_\_ and \_\_\_\_\_ relationship between the Branch and the Head Office.
11. Under the Debtors System, the Reserve for Doubtful Debts / Reserve for Discount on Debtors, should be \_\_\_\_\_ from closing Debtors and only the good closing Debtors will be recorded in the Branch Account.
12. Actual petty expenses incurred by the branch will \_\_\_\_\_ in the Branch Account under the Debtors System.

(Answers: 1- Branch Organization; 2 - Head Office, Branches; 3 - Dependent, Independent; 4 - Cost, Invoice; 5 - Small; 6 - Nominal Account; 7 - not taken/ shown; 8 - Credit side; 9 - deducting; 10 - Debtors, Creditors; 11 - deducted; 12 - not be recorded)



# Unit-6

## BRANCH ILLUSTRATIONS

### Unit Structure:

- 6.0 Objectives
- 6.1 Solved Problems
- 6.2 Exercises

### 6.0 OBJECTIVES

After studying the unit the students will be able to solve the practical problems on Branch Accounting.

### 6.1 SOLVED PROBLEMS

#### Illustration No. 1:

Moonlight Ltd. has a head office at Chandrapur and branch at Poona Branch is supplied goods from the head office at 20% profit on sales price. Accounts are kept at head office from where all expenses (except petty expenses) are paid. Such petty expenses are paid by the branches which are allowed to maintain petty cash balance of Rs. 4,600 on imprest system

Particulars	Rs.
Balance on 1-4-2017	
Petty Cash at Branch	4,600
Stock at Branch at Sales Price	1,00,000
Sundry Debtors at Branch	48,000
Sundry Creditors at Branch	22,400
Furniture at Branch	56,000
Rent Prepaid (upto 30-06-2018)	2,600
Transactions during the year ended 31-03-2018	
Goods sent to Branch less Returns	8,08,000
Cash Sales at Branch	11,60,000
Credit Sales at Branch	1.90.000
Allowances to Debtors	3,000
Cash from Debtors	1,60,000

Bad Debts written off	2,400
Cash Purchases by the Branch	81,000
Credit Purchases	1,99,600
Creditors at the end	46,000
Payments made by the Head Office:	
Rent for one year (paid on 01-07-2017)	5,600
Salaries	24,000
Insurance paid for the year ending 30-06-2018	1,920
Payments made by the Branch :	
Petty Expenses	960
Balance on 31-03-2018 :	
Stock at Sales Price	75,000

Write off 10% depreciation on furniture.

### Solution

#### In the Books of Moonlight Ltd.

Dr.		Branch A/c		Cr.	
Particulars	Rs.	Rs.	Particulars	Rs.	
To Balance b/d			By Balance b/d		
Petty Cash		4,600	Creditors	22,400	
Stock		1,00,000	By Cash (Remittance)	10,63,000	
Debtors		48,000	By Goods sent to Branch	1,61,600	
Furniture		56,000	By Balance c/d:		
Prepaid Rent		2,600	Branch Stock	75,000	
To Goods sent to Branch A/c		8,08,000	Branch Debtors	72,600	
To Bank A/c:			Branch Petty Cash	4,600	
Rent	5,600		Branch Furniture	50,400	
Salaries	24,000		Rent Prepaid	1,400	
Insurance	<u>1,920</u>	31,520	Insurance Prepaid	480	
By Bank A/c			Stock Reserve	20,000	
(Petty Expenses)		960			
By Balance c/d:					
Creditors		46,000			
Stock Reserve		15,000			
Profit & Loss A/c		3,58,800			
		<b>14,71,480</b>			<b>14,71,480</b>

**Working Notes :**

Dr.		1. Cash A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Cash Sales.	11,60,000	By Purchases	81,000		
To Debtors	1,60,000	By Creditors	1,76,000		
		By Cash remitted			
		(Balancing Figure)	10,63,000		
	<b>13,20,000</b>		<b>13,20,000</b>		

Dr.		2. Petty Cash A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Balance b/d	4,600	By Petty Expenses	960		
To Reimbursement of Expenses	960	By Balance c/d	4,600		
	<b>5,560</b>		<b>5,560</b>		

Dr.		3. Debtors A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Balance b/d	48,000	By Allowances	3,000		
To Sales	1,90,000	By Bad Debts	2,400		
		By Cash	1,60,000		
		By balance c/d	72,600		
	<b>2,38,000</b>		<b>2,38,000</b>		

Dr.		4. Creditors A/c		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Cash (Balancing Figure)	1,76,000	By Balance b/d	22,400		
To Balance c/d	46,000	By Purchases	1,99,600		
	<b>2,22,000</b>		<b>2,22,000</b>		

**Illustration No. 2 :**

Amit Traders of Pune have their branch at Mumbai. Prepare the Branch A/c in the books of the H.O from the following transactions with the branch for the year.

Particulars	Rs.
<b>Opening Balance :</b>	
Petty cash at Bank	1,250
Stock at Branch	77,000
Debtors at Branch	41,250
Goods supplied to Branch during the year	3,78,000
<b>Amount Remitted to the Branch :</b>	
For Petty cash expenses	7,500
For Salary	18,500
For Rent & Taxes	6,000
<b>Closing Balance :</b>	
Petty cash at Bank	1,880
Stock at Branch	57,880
Debtors at Branch	1,26,150
Discount allowed to customers	1,060
<b>Amount Remitted by the Branch:</b>	
Cash Sales	26,250
Realisation from debtors	4,10,350
Mr. Shah to whom goods were sold by the Branch directly remitted the Amt. to the H.O.	9,000

**Solution:****(In the Books of Head Office at Pune)****Dr.****Mumbai Branch A/c****Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d			By Bank A/c	
	Petty cash 1,250			Cash Sales 26,250	
	Stock 77,000			Realisation from	
	Debtors <u>41,250</u>	1,19,500		Debtors 4,10,350	
	To Goods 3,78,000			Remitted to <u>9,000</u>	4,45,600
	Sent to Branch			H.O.	
	To Bank A/c			By Balance c/d	
	Petty cash expenses 7,500			Petty cash 1,880	
	Salary 18,500			Stock 57,880	
	Rent & Taxes <u>6,000</u>	32,000		Debtors <u>1,26,150</u>	1,85,910
	To General P & L A/c	1,02,010			
		<b>6,31,510</b>			<b>6,31,510</b>

**Note:**

Discount Allowed to Customers Rs.1,060 is already reduced from closing Debtors and hence, separate Entry is not passed.

**Illustration No. 3 :**

Hari is having his Head Office at Mumbai and Branch Office at Nasik. Prepare the Branch Account in the books of the Head Office from the following transactions with the branch:

Particulars	Rs.	Particulars	Rs.
Opening Balance at branch :		Amounts remitted to the branch for :	
- Petty Cash	1,000	- Petty Cash Expenses	4,000
- Stock	39,500	- Salary	12,000
- Debtors	21,000	- Rent and Taxes	3,500
Goods Supplied to branch during the year	3,10,000	Closing balances at Branch :	
Amounts remitted by the branch :		- Petty Cash	950
- Cash Sales	1,13,200	- Debtors	53,000
- Realisation from debtors	2,30,300	- Stock	26,500

**Solution:**

**In the books of H. O.  
Nasik Branch Account**

Dr.			Cr.
Particulars	Rs.	Particulars	Rs.
To Balance b/d:		By Bank (Remittances) :	
Branch Petty Cash	1,000	Cash Sales	1,13,200
Branch Stock	39,500	Realisation from Debtors	2,30,300
Branch Debtors	21,000	By Balance c/d:	
To Goods sent to Branch	3,10,000	Branch Petty Cash	950
To Cash remitted for:		Branch Debtors	53,000
Petty Cash Expenses	4,000	Branch Stock	26,500
Salary	12,000		
Rent	3,500		
To General P & L A/c (Bal. Fig.)	32,950		
	<b>4,23,950</b>		<b>4,23,950</b>

**Illustration No. 4:**

Following information is given to you from the books of Shivam Law Agency for its branch at Virar for the financial year 2017-18. Prepare Virar Branch A/c in the books of Shivam Law Agency.

Particulars	Rs.	Particulars	Rs.
Balance as on 1-4-2017		Transactions during 2017-2018	
-Branch Debtors	1,200	- Goods sent H.O.	7,800
- Stock	600	- Cash sent by H.O. for petty cash	2,000
- Cash	100	- Goods lost at branch	750
Balance as on 31-3-2012		- Credit Sales	3,600
- Branch Debtors	?	- Insurance claim received by branch	600
- Cash	600	- Cash received from debtors.	2,400
- Stock	1,000	- Discount allowed	480
		- Bad debts	520
		- Goods returned by debtors	100
		- Branch Exp. paid by H. O. Salary	320
		- Advt.	780
		- Amount remitted by branch to H.O.	8,460

(Nov. 1997, adapted)

**Solution :**

**In the books of H.O.  
Virar Branch Account**

Dr.	Particulars	Rs.	Cr.	Particulars	Rs.
	To Balance b/d:			By Bank	8,460
	Debtors	1,200		By Balance c/d:	
	Stock	600		Closing stock	1,000
	Cash	100		Cash	600
	To Goods sent to Branch	7,800		Debtors (WN 1)	1,300
	To Cash (Petty Cash)	2,000		By General P & L A/c	1,440
	To Cash :			(Bal. Fig. : Loss)	
	Salary	320			
	Advertisement	780			
		1,100			
		<b>12,800</b>			<b>12,800</b>

**Working Notes:****1) In Memorandum Books of Branch**

<b>Dr.</b>		<b>Debtors Account</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>		
To Balance b/d	1,200	By Sales Returns	100		
To Sales	3,600	By Cash	2,400		
		By Bad Debts	520		
		By Discount	480		
		By Balance c/d (bal. fig.)	1,300		
	<b>4,800</b>		<b>4,800</b>		

- 2) It is assumed that remittance to H. O. Rs.8,460 includes the amount received as insurance claim.
- 3) No direct entry will be passed in Branch A/c for Goods lost Rs.750: it is indirectly adjusted in the closing stock of the Branch Rs.1,000.

**Illustration No. 5:**

Idea Traders, Mumbai opened a branch at Delhi on 1<sup>st</sup> January 2017. The following information is available in respect of the branch for the year 2017.

<b>Transactions during the year</b>	<b>Rs.</b>
Goods sent to branch	85,000
Cash sales at the branch	45,000
Credit sales at the branch	75,000
Salaries of the branch staff paid by H. O.	16,500
Office expenses of the branch paid by H. O.	12,000
Cash remittance to branch towards petty cash	6,000
Closing Balance on 31 <sup>st</sup> Dec, 2017	
Petty cash at branch	500
Debtors at branch	5,000
Stock at branch	27,000

Prepare Branch A/c to show the profit or loss from the Branch for the year 2017.

Solution:

(In the Books of Head Office at Mumbai)

Dr.			Delhi Branch A/c.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.			
	To Goods Sent to Branch	85,000		By Cash A/c				
	To Cash A/c			Cash Sales	45,000			
	Salaries	16,500		Realisation from				
	Office expenses	<u>12,000</u>		debtors	<u>70,000</u>		1,15,000	
	To Cash A/c (for petty expenses)	6,000		By Balance c/d				
	To General P & L A/c	28,000		Petty cash	500			
				Stock	27,000			
				Debtors	<u>5,000</u>		32,500	
		<b>1,47,500</b>					<b>1,47,500</b>	

Dr.			Memorandum Debtors A/c.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.			
	To Credit Sales	75,000		By Cash Received	70,000			
				By Balance c/d.	5,000			
		<b>75,000</b>					<b>75,000</b>	

**Illustration No. 6:**

From the following details relating to the Delhi Branch for the year ending on 31<sup>st</sup> March 2018, prepare the Branch Account in the books of the Head Office.

Particulars	Rs.	Particulars	Rs.
Stock as on 1-4-2017	25,000	Cash received from Debtors	65,000
Debtors as on 1-4-2017	10,000	Cash paid by Debtors directly to H.O.	5,000
Furniture as on 1-4-2017	6,000	Stock as on 31-3-2018	15,000
Petty Cash as on 1-4-2017	1,000	Goods returned by Branch	2,000
Insurance Pre-paid as on 1-4-2017	300	Goods returned by Debtors	1,000

Salaries outstanding as on 1-4-2017	4,000	Cash sent to Branch for Expenses:	
Goods sent to branch during 2017-2018	2,00,000	-Rent (Rs.800 p.m.)	9,600
Cash Sales during the year	2,70,000	- Salary (Rs.4,000 p.m.)	48,000
Total Sales	3,50,000	- Petty Cash	2,000
Petty Cash Expenses	2,200	Insurance (upto June, 2018)	1,200
Discount allowed to Debtors	500		

Goods costing Rs. 2,500 were damaged in transit and a sum of Rs.2,000 was recovered from the insurance company in full settlement of the claim. Depreciate the Furniture @ 10% p.a.

**Solution:**

**IN THE BOOKS OF H.O.  
Delhi Branch Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d:		By Balance b/d (O/S Salary)	4,000
Stock	25,000	By Bank (Remittances):	
Debtors	10,000	-by Branch Cash (WN 3)	3,37,000
Furniture	6,000	- by Branch Debtors directly to H.O.	5,000
Petty Cash	1,000		
Prepaid Insurance	300		
To Goods Sent to Branch	2,00,000	By Goods Sent to Branch (returns by branch)	2,000
To Bank (Remittance by H.O.)			
Rent	9,600	By Balance c/d:	
Salary	48,000	Stock	15,000
Petty Cash	2,000	Debtors (WN 1)	18,500

Insurance	<u>1,200</u>	60,800	Petty Cash (WN 2)	800	
To Balance c/d (O/S salary)		4,000	Furniture (6,000-600)	5,400	
To Net Profit tfd. to General P & L A/c (Bal. Fig.)		80,900	Prepaid Insurance (WN 4)	<u>300</u>	40,000
		<b>3,88,000</b>			<b>3,88,000</b>

**Working Notes :**

The missing figures are ascertained by preparing memorandum ledger accounts as shown below :

(1) Ascertaining debtors closing balance :

Dr. Delhi Branch Debtors Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	10,000	By Cash A/c (collection by H.O.)	5,000
To Credit Sales (Total 3,50,000-Cash 2,70,000)	80,000	By Branch Cash A/c (collection by Branch)	65,000
		By Returns Inwards	1,000
		By Discount Allowed	500
		By Balance c/d (Balancing figure)	18,500
	<b>90,000</b>		<b>90,000</b>

(2) Ascertaining petty cash closing balance :

Dr. Delhi Branch Petty Cash Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,000	By Petty Expenses A/c	2,200
To Branch Cash A/c	2,000	By Balance c/d (Balancing figure)	800
	<b>3,000</b>		<b>3,000</b>

**(3) Ascertaining remittance to H. O.:**

<b>Dr. Delhi Branch Cash Account</b>		<b>Cr.</b>	
<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Cash Sales	2,70,000	By Salaries to the previous year	4,000
To Collection from Debtors	65,000	By Salaries for the current year	44,000
To Remittance from H. O.	60,800	By Rent	9,600
To Insurance Claim	2,000	By Petty Cash	2,000
		By Insurance	1,200
		By Cash H.O.	3,37,000
	<b>3,97,800</b>		<b>3,97,800</b>

**Illustration No. 7:**

M/s R. T. Ltd has a head office at Poona and branch at Nasik. The head office sends goods to branch at price to show profit of 2.5% on cost. The following transactions relate to the year 2017. All the information's given below is at invoice price.

Stock on 1<sup>st</sup> January, 2017 Rs.20,000 and on 31<sup>st</sup> December, 2017 Rs.25,000. Goods were sent to branch Rs.1,00,000 of which goods worth Rs. 5,000 were returned. Branch sold goods for Rs. 82,000 on credit but customers returned goods worth Rs. 2,000. On 1<sup>st</sup> January, 2017; Rs. 2,000. On 1<sup>st</sup> January, 2017; Rs. 28,000 was due from customers. During the year, Rs.88,200 was received from customers after allowing discount @ 2% special discount of Rs. 5,000 was allowed to one customer. Cash sales amounted to Rs. 10,000. Branch remitted entire sum received by it. Rs.6,000 was sent from Poona to Nasik to pay rent Rs.2,400; salary Rs.2,400 ; sundry expenses Rs.1,200.

You are required to prepare Branch Account & Goods sent to Branch Account.

**Solution****In the books of M/s. R.T.Ltd.****Nasik Branch A/c**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Balance b/d			By Balance b/d		
Stock	20,000		Stock Reserve		4,000
Debtors	<u>28,000</u>	48,000	By Goods sent to Branch		5,000
To Goods sent to Branch		1,00,000	By Cash		
To Cash		6,000	from Debtors	88,200	
To P & L A/c (Bal. Fig.)		5,200	from Cash Sale	<u>10,000</u>	98,200
To Balance c/d			By Goods sent to branch		19,000
Stock Reserve		5,000	(Profit Element)		
			By Balance c/d		
			Stock	25,000	
			Debtors	<u>13,000</u>	38,000
		<b>1,64,200</b>			<b>1,64,200</b>

**Goods sent to Branch A/c**

Particulars	Rs.	Particulars	Rs.
To Nasik Branch	5,000	By Nasik Branch A/c	1,00,000
To Nasik Branch (Profit Element on 95,000@20%)	19,000		
To Trading A/c (Balance Figure)	76,000		
	<b>1,00,000</b>		<b>1,00,000</b>

**Illustration No.8:**

Mandar Chemicals has a branch at Patna. Goods are invoiced to the Branch at cost plus 30%. From following details prepare Branch Account.

Particulars	Rs.	Particulars	Rs.
Stock on 1-1-2017	26,000	Goods returned to H.O.	6,500
Debtors on 1-1-2017	50,000	Goods returned by Branch Debtors to Branch	3,000
Cash-in-Hand on 1-1-2017	250	Total Sales of the Branch	2,23,000
Goods sent to Patna Branch	1,30,000	Cash Sales	1,70,000
Cheques sent to Branch		Expenses paid by Branch	23,000
a) Salary	3,000	Collection from Debtors	84,000
b) Rent	2,000	Closing Stock on 31-12-2017	1,04,000
Furniture Purchased by H.O. for the Branch	10,000	Cash Balance on 31-12-2017	130

Depreciation on Furniture at 10% p.a.

**Solution :**

**In the books of Mandar Chemicals**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d:		By Stock Reserve A/c b/d (26,000 x 30/130)	6,000
Stock	26,000	By Goods sent to Branch A/c	30,000
Cash	250	(Load: 1,30,000 x 30/130)	
Debtors	50,000	By Goods sent to Branch A/c (returns)	6,500
To Goods sent to Branch A/c	1,30,000	By Cash (WN 1)	2,31,120
To Goods sent to Branch A/c (Load 6,500 x 30/130)	1,500	By Balance c/d:	
To Bank A/c;		Closing Stock	1,04,000
Salary	3,000	Cash	130
Rent	2,000	Debtors (WN 2)	16,000
Furniture	<u>10,000</u>	Furniture (10,000 – Depr. 1,000)	9,000
	15,000		
To Stock Reserve c/d (Load: Cl, Stock 104,000 x 30/130)	24,000		
To General P & L A/c (bal. fig.)	1,56,000		
	<b>4,02,750</b>		<b>4,02,750</b>

**Working Notes:****(1) Patna Branch Cash/Bank Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	250	By Expenses	23,000
To Cash Sales	1,70,000	By Cash sent to H.O. (bal. fig.)	2,31,120
To Debtors	84,000	By Balance c/d	130
	2,54,250		2,54,250

**(2) Patna Branch Total Debtors Account**

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Sales Returns	3,000
To Credit Sales	53,000	By Cash	84,000
(2,23,000-1,70,000)		By Balance c/d (bal. fig.)	16,000
	1,03,000		1,03,000

**(3) Profit or Loading:**

Cost + Profit = Invoice Price

100 + 30 = 130

So, Profit or loading is 30/130 of Invoice Price.

**Illustration No.9:**

Raj Oils Ltd. opened a branch at Shrinagar on 1<sup>st</sup> January, 2017. Goods are invoiced to the branch at cost plus 33 1/3 % which is the selling price. From the following particulars relating to 2016 and 2017, ascertain the profit made of Shrinagar Branch in the two years and show how the relevant items will appear in Company's Balance Sheet on 31<sup>st</sup> December, 2016 and 2017.

Particulars	2016 Rs.	2017 Rs.
Goods sent to Shrinagar branch ... .. during the year at selling price	45,000	70,000
Sales at branch :		
Cash ... ..	15,000	30,400
Credit ... ..	19,600	41,000
Cash received from debtors ... ..	15,400	32,300
Discount allowed to customers ... ..	200	500
Cash sent to branch for expenses (including Petty Cash) ... ..	6,000	10,000
Goods returned by the Branch ... .. (Invoice price)	1,500	-
Stock at 31 <sup>st</sup> December at invoice price ... ..	8,400	6,900
Petty Cash at branch on 31 <sup>st</sup> December ... ..	90	40

(Mar, 96, adapted)

**Solution:****In the books of H.O.**

Dr. Shrinagar Branch Account			Cr.		
Particulars	2016 Rs.	2017 Rs.	Particulars	2016 Rs.	2017 Rs.
To Balance b/d			By Stock Reserve A/c		2,100
Stock (IP) -	-	8,400	(Load on Opening Stock)		
Debtors -	-	4,000	By Cash/Bank		
Petty Cash -	-	90	(Remittance Received)		
To Goods sent to Branch A/c (IP)	45,000	70,000	-Cash Sales	15,000	30,400
To Cash	6,000	10,000	-Collection from Debtors	15,400	32,300
To Goods Sent to branch A/c (Load on Returns)	375	-	By Goods Sent to Branch A/c (Load on Goods Sent)	11,250	17,500

To Stock Reserve A/c (Load on Closing Stock)	2,100	1,725	By Goods sent to Branch A/c (Returns at IP)	1,500	-
To Net Profit transferred to General P & L A/c	2,165	7,225	By Balance c/d:		
			Stock (IP)	8,400	6,900
			Debtors (WN 1)	4,000	12,200
			Petty Cash	90	40
	<b>55,640</b>	<b>1,01,440</b>		<b>55,640</b>	<b>1,01,440</b>

**Working Notes :****(1) Dr. Shrinagar Branch Debtors Account Cr.**

Particulars	2016 Rs.	2017 Rs.	Particulars	2016 Rs.	2017 Rs.
To Balance b/d	-	4,000	By Cash received from customers	15,400	32,300
To Credit Sales	19,600	41,000	By Discount	200	500
			By Balance c/d (Balancing figure)	4,000	12,200
	<b>19,600</b>	<b>45,000</b>		<b>19,600</b>	<b>45,000</b>

**(2) Dr. Shrinagar Branch Petty Cash Account Cr.**

Particulars	2016 Rs.	2017 Rs.	Particulars	2016 Rs.	2017 Rs.
To Balance b/d	-	90	By Petty Cash Expenses	5,910	10,050
To H.O. Cash	6,000	10,000	(Balancing figure)		
			By Balance c/d	90	40
	<b>6,000</b>	<b>10,090</b>		<b>6,000</b>	<b>10,090</b>

(3) H. O. invoices goods at 33.33% over cost.  
Profit is  $\frac{1}{4}$  or 25% of Invoice Price.

**Illustration No.10:**

Sarda Brothers, Bombay has a branch at Nagpur. All goods required for sale at Nagpur Branch are supplied from Bombay at cost plus 25% and all cash received at the Branch is banked daily in the Head Office Account opened in a Bank at Nagpur.

From the following particulars, give the Branch Account and Branch Debtors Account.

Particulars	Rs.
Stock (1.1.2017)	79,000
Debtors (1.1.2017)	1,13,000
Petty Cash (1.1.2017)	900
Returns from Customers	4,000
Goods invoiced to Branch	2,50,000
Returned Goods to Head Office	10,000
Bad Debts	1,000
Cash Sales	14,000
Branch Expenses paid by Head Office	
Rent	14,000
Salary	15,000
Sundries	7,000
Allowances given	4,500
Petty Cash Expenses at Branch	2,400
Total Sales	3,49,000
Remittances to branch for Petty Cash	2,800
Stock (31.12.2017)	84,000
Debtors (31.12.2017)	1,95,100

### Solution

In the books of Sarda Brothers Bombay

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Branch Stock	79,000	By Goods sent to branch	10,000
To Branch Debtors	1,13,000	By Cash A/c	
To Branch Petty Cash	900	i) Cash Sales	14,000
To Goods sent to Branch A/c	2,50,000	ii) Collection	2,43,400
		from Debtors	
To Cash A/c		By Branch Stock	84,000
Rent	14,000	By Branch Debtors	1,95,100
Salary	15,000	By Branch Petty Cash	1,300
Sundry Expenses	7,000	By Stock Reserve	15,800
	36,000	(Loading)	
To Petty Cash A/c	2,800	By Goods sent to branch	50,000
		(Loading)	
To Stock Reserve (Loading)	16,800		
To Goods Sent to Branch			
(Loading)	2,000		
To General Profit & Loss A/c			
(Balance Figure)	1,13,100		
	<b>6,13,600</b>		<b>6,13,600</b>

Dr.		Branch Debtors A/c	Cr.	
Particulars	Rs.	Particulars	Rs.	
To Balance b/d	1,13,000	By Cash A/c (Balance Figure)	2,43,400	
To Credit Sales	3,35,000	By Return Inward	4,000	
		By Bad Debts	1,000	
		By Allowances to Customers	4,500	
		By Balance c/d	1,95,100	
	<b>4,48,000</b>		<b>4,48,000</b>	

**Loading :**

Cost + Loading = Invoice Price

100 + 25 = 125

$$\therefore \text{Loading} = \frac{25}{125} = \frac{1}{5}$$

**Illustration No. 11:**

J. S. Trading Company, Nagpur, invoices goods to its Kanpur Branch at cost which sells on credit as well as for cash. From the following particulars, prepare Branch Stock Account, Branch Debtors Account, Branch Expenses Account. Cash is immediately remitted by Branch to Head Office. Expenses are paid directly by Head Office.

Particulars	Rs.
Stock at Branch on 1-1-2017	7,560
Goods from Head Office	35,500
Goods returned by customers	300
Total Sales	46,760
Cash Sales	16,750
Goods returned to Head Office	350
Stock at Branch on 31 <sup>st</sup> December 2017	6,950
Debtors on 1 <sup>st</sup> January 2017	13,000
Cash paid by customers	24,600
Discount and commission to customers	1,360
Bad Debts	300
Rent Rates and Taxes	900
Salaries and Wages etc.	3,650

Solution :

Dr. Branch Stock Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d (Stock on 1-1-2017)	7,560	By Cash (Cash sales)	16,750
To Goods sent to branch A/c	35,500	By Branch Debtors (Credit Sales)	30,010
To Branch Debtors A/c (Sales Return)	300	By Goods sent to branch A/c (Return from Branch )	350
To Gross Profit transferred to Profit & Loss A/c	10,700	By Balance c/d (stock on 31-12-2012)	6,950
	<b>54,060</b>		<b>54,060</b>

Dr. Branch Debtors Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d (Debtors 1-1-2017)	13,000	By Cash	24,600
To Branch Stock A/c	30,010	By Branch Stock A/c (Sales Return)	300
(Credit Sales 46,760 – 16,750)		By Discount and Commission	1,360
		By Bad Debts	300
		By Balance c/d (Bal. Fig.)	16,450
	<b>43,010</b>		<b>43,010</b>

Dr. Branch Expenses Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Bad Debts	300	By Branch Profit & Loss A/c	6,210
To Discount and Commission A/c	1,360		
To Cash A/c.			
Rent, Rates and Taxes	900		
Salaries and Wages	3,650		
	<b>6,210</b>		<b>6,210</b>

Dr. Branch Profit and Loss Account		Cr.	
Particulars	Rs.	Particulars	Rs.
To Branch Expenses A/c	6,210	By Gross Profit transferred from Branch Stock A/c	10,700
To Net Profit transferred to General Profit & Loss A/c	4,490		
	<b>10,700</b>		<b>10,700</b>

Dr.		Goods Sent to branch Account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Branch Stock A/c	350	By Branch Stock A/c	35,500		
To Trading A/c	35,150				
	<b>35,500</b>				<b>35,500</b>

**Illustration No. 12:**

Following particulars are related to Solapur Branch for the year ended 31<sup>st</sup> March, 2018. Goods are invoiced to Branch @ cost plus 50%. Branch remits all cash received to the head office and all expenses are met by the Head office. From the following particulars, prepare the necessary accounts under the stock and Debtors method.

Transactions during the year.	Rs.
Stock (at invoice price) on 1 <sup>st</sup> April, 2017	93,000
Branch Debtors on 1 <sup>st</sup> April, 2017	68,000
Goods invoiced to branch at cost	3,40,000
Sales at Branch :	
Cash Sales	2,50,100
Credit Sales	3,10,000
Cash received from Debtors	3,04,000
Goods returned by Debtors	12,000
Goods returned by Branch to HO	1,500
Shortage of Stock	4,500
Discount allowed to Debtors	2,000
Expenses at Branch	54,000

Solution :

## In the Books of Pune Head Office

Dr. Solapur Branch Stock A/c.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	93,000	By Sales	
To Goods Sent to Branch	5,10,000	Cash	2,50,100
To Branch Debtors A/c	12,000	Credit (Deb.)	<u>3,10,000</u>
		By Goods Sent to Br. A/c. (Returns)	1,500
		By Branch Adj. A/c (Shortage)	4,500
		By Balance c/d	48,900
	<b>6,15,000</b>		<b>6,15,000</b>

Dr. Solapur Branch A/c.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	68,000	By Branch Cash	3,04,000
To Branch Stock A/c (Credit Sales)	3,10,000	By Branch Stock A/c (Sales Returns)	12,000
		By Discount	2,000
		By Balance c/d	60,000
	<b>3,78,000</b>		<b>3,78,000</b>

## Goods Sent to Solapur Branch A/c.

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Branch Stock A/c. (Returns)	1,500	By Branch Stock A/c	5,10,000
	1,70,000	By Goods Sent to Branch	500
To Branch Adjs. A/c	3,39,000		
	<b>5,10,500</b>		<b>5,10,500</b>

## Solapur Branch Cash A/c.

Particulars	Rs.	Particulars	Rs.
To Sales	2,50,100	By Head Office Cash A/c.	5,54,100
To Debtors	3,04,000		
	<b>5,54,100</b>		<b>5,54,100</b>

**Solapur Branch Adjustment A/c.**

Particulars	Rs.	Particulars	Rs.
To Branch Stock Res. A/c. (closing Stock) 2.(e+f)	16,300	By Branch Stock Res. A/c. Opening Stock) 2. (d)	31,000
To Goods Sent to Br. A/c.	500	By Goods Sent to Br. A/c.	1,70,000
To Branch Stock A/c. (Shortage)	4,500	2(a)	
To Gross Profit c/d	1,79,700		
	<b>2,01,000</b>		<b>2,01,000</b>

**Solapur Branch Profit & Loss A/c.**

Particulars	Rs.	Particulars	Rs.
To Discount	2,000	By Gross Profit	1,79,700
To Branch Exp. A/c	54,000		
To Net Profit	1,23,700		
	<b>1,79,700</b>		<b>1,79,700</b>

**Note :** (1) Loading (20% on CP =  $\frac{1}{3}$ <sup>rd</sup> of IP)

	Inv Price Rs.	( $\frac{1}{3}$ <sup>rd</sup> ) Rs.	
(a) Goods sent to Branch	5,10,000	1,70,000	
Goods returned	(12,000)	(4,000)	
	<u>4,98,000</u>	<u>1,66,000</u>	
(b) Goods return to Branch	1,500	500	Cost
(c) Shortage	4,500	1,500	3,000
(d) Stock-Opening	93,000	31,000	
(e) -Closing	48,900	16,300	

(2) Assumption : Shortage is of Normal (nothing abnormal)

## 6.2 EXERCISES

1. M/s Gupta Brothers are having their Head Office at Delhi and Branch at Calcutta. The following are the transactions of the Head Office with Branch for the year :

Particulars	Rs.	Particulars	Rs.
Stock at Branch as on 1 <sup>st</sup> Jan.	30,800	Amount sent to Branch :	
Debtors at the Branch as 1 <sup>st</sup> January	16,500	- Salary	7,440
Petty Cash as on 1 <sup>st</sup> Jan.	500	- Rent	2,400
Goods supplied to the Branch	1,51,200	- Petty Cash	3,000
Remittance from Branch :		Stock at Branch as on 31 <sup>st</sup> Dec.	23,150
- Cash Sales	10,500	Sundry Debtors at the Branch as on 31 <sup>st</sup> Dec.	50,460
- Realisation of Debts	1,57,740	Petty Cash an on 31 <sup>st</sup> Dec.	750

Show the Branch Account in the books of the Head Office.

(Ans.: N.P. Rs. 30,760)

2. From the following information, prepare Delhi Branch Account in the books of head office for the year ending 31<sup>st</sup> March, 2018 :

Particulars	Rs.	Particulars	Rs.
Opening Stock (at cost)	1,78,000	Discount allowed to Customers	500
Opening Debtors	14,000	Bad Debts written off	1,000
Opening Petty Cash	250	Credit Sales	7,29,400
Furniture (in the beginning)	6,000	Cash Sales	32,000
Opening Creditors	6,000	Petty Expenses paid by Branch	8,000
Goods sent to Branch (at Cost)	5,22,000	Cheques sent to Branch of expenses :	
Goods returned by Branch to H.O. (at cost)	7,800	Salaries	30,000
Goods returned by Customers to Branch	5,700	Rent and Insurance	12,000
Cash received by Branch from its customers	6,11,000	Petty Cash	7,870

Goods are sold to customers at cost plus 50%. Depreciate the furniture @ 10% p.a.

(Ans.: N.P. Rs. 1,99,800 Cl. bal. 1,25,200, Cl. Petty-Cash 120)

### STOCK & DEBTORS

3. Mumbai Soap Mills Ltd has two branches at Kolhapur and at Pune. Goods are invoiced to branches at cost plus 50%. From the following particulars, prepare necessary accounts under "Stock and Debtor System" to find out profit earned by the branches.

Particulars	Rs.	Pune Rs.
Stock on 1.4.2017 (at Invoice Price)	9,300	15,600
Debtors on 1.4.2017	6,800	8,700
Goods invoiced to Branches at cost	34,000	36,000
Cash Sales	25,010	35,000
Credit Sales	31,000	30,100
Cash from Debtors	30,400	29,800
Goods returned by Debtors	1,200	1,500
Goods returned by branch to H.O.	1,500	-
Goods transferred from Pune to Kolhapur	2,100	2,100
Surplus in stock	-	300
Shortage in stock	450	-
Discount allowed to customers	200	350
Expenses at branches	5,400	6,700

[Ans. Branch Stock Account Debit Balance L Kolhapur Rs. 5,640; Pune Rs. 4,200., Br. Debtors on 31.3.2013 : Kolhapur Rs. 6,000; Pune Rs. 7,150. Gross profit : Kolhapur Rs. 18,270; Pune Rs. 21,200. Net Profit : Kolhapur Rs. 12,370; Pune Rs. 14,350]

4. Ruchika Ltd. sends goods to its branch at cost plus 25%. The following particulars are available in respect of the branch for the year ended 31<sup>st</sup> March, 2018.

Particulars	Rs.
Opening stock at Branch at cost to the Branch	80,000
Goods sent to Branch at Invoice Price	12,00,000
Loss in transit at invoice price	18,000
Pilferage at invoice price	6,000

Sales	12,10,000
Expenses	60,000
Closing Stock at Branch at cost to the Branch	40,000
Recovery from insurance company against loss in transit	10,000

Prepare :

- i) Branch Stock Account.
- ii) Goods Sent to Branch Account.
- iii) Branch Adjustment Account.
- iv) Branch Profit & Loss Account in the books of H.O.

**[Ans. Gross Profit Rs. 2,43,800. Net Profit Rs. 1,77,000]**

5. Ferwani Traders with head office in Kolhapur had a branch at Satara.

Following information is provided :

- (1) Mark-up on cost by Head Office on goods sent to branch 33 1/3%
- (2) Goods sent to branch at invoice price Rs.8,70,000
- (3) Goods Returned by branch debtors Rs. 24,000
- (4) Goods Returned by branch Rs. 32,000
- (5) Stock on hand at branch (1-4-2016) (at cost) Rs. 9,000
- (6) Stock on hand at branch (Invoice price) Rs. 45,000  
(31-3-2017)
- (7) Cost of free sample given by branch Rs. 3,000
- (8) Expenses at Branch Rs. 34,000
- (9) Goods of invoice value Rs.15,000 were in transit from HO to branch on 31-3-2017.
- (10) Branch Manager was allowed to buy goods for own use at a special discount of 10%; branch manager availed of the concession and bought goods costing Rs.12,000 during the year.

Prepare Branch Stock Account, Branch Debtors Account and Branch Profit and Loss Account.

**(Mumbai TY April 2001, adapted)**

**[Ans.: Profit Rs. 1,57,900]**



# Unit-7

## FIRE INSURANCE CLAIM I

### UNIT STRUCTURE

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Requisite of Insurance
- 7.3 Procedure of Claim for Loss of Stock
- 7.4 Steps for Calculating the Claim
- 7.5 Exercise

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### 7.0 OBJECTIVES

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After studying the unit the students will be able:

- To introduce the topic
- To know about the term fire insurance claim
- To understand the meaning of Average Clause
- To make ready for calculating the claim amount
- To illustrate the practical problems

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### 7.1 INTRODUCTION

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Insurance contract is a contract of indemnity. Under this contract, an insurance company indemnifies the insured for loss of property due to the reasons like fire, flood, earthquake, etc. A business organisation usually get its property insured against the risk of fire and other natural calamities. On the occurrence of fire or accident, the business organisation has to estimate the loss and lodge a claim with insurance company.

Losses due to fire are of two types:

- Loss of assets and
- Loss of profit

Loss of assets affects so badly on business activities which ultimately affects profits of the business. Therefore the business concerns take a fire insurance policy in respect of,

- Loss of stock only,
- Loss of profit only, OR
- A comprehensive or Package Policy which covers loss of all the items *i.e.* stock, other assets, profit, expenses etc.

## 7.2 REQUISITE OF INSURANCE

A fire at the place of business place destroys assets like building, furniture and machinery. It also destroys records. It also disturbs the normal functioning of the business. Therefore, the prudent businessman usually chooses to take insurance policy in order to cover the risk of loss due the occurrence of the fire. If unfortunately, the fire broke out, the businessman gets compensation equal to the amount of loss sustained. In order to receive compensation, the businessman has to lodge the claim with the insurance company for loss of stock. In order to lodge the claim, businessman has to find out the stock on the date of fire. In absence of the proper record of the stock, it becomes challenging to compute the amount of claim.

## 7.3 PROCEDURE OF CLAIM FOR LOSS OF STOCK

### I. If proper stock records are maintained or if records are not destroyed by fire:-

In such a case calculation of claim will be as follows:

#### A. Calculate the amount of stock lost by fire:

Particulars	Amounts
Stock on the date of fire	xx
(-) Salvage	xx
Stock lost by fire	xx

#### B. Calculation of the amount of claim:

##### a) If there is no average clause then

Stock lost by fire = Amount of claim

##### b) If there is average clause then

Amount of claim = Policy Amount/ Stock on the Date of Fire × Stock lost by fire

### II. If proper stock records are not maintained or if records are destroyed by fire:-

#### A. Calculation of the Percentage of Gross Profit:

Determine the Gross Profit to Sales ratio. In absence of any information, it is required to take the figure of pervious year for determining the percentage of gross profit. If the information about sale and gross profit is available, it is essential to take average of these figures.

Prepare a Trading Account in the usual manner. Following are some of the items associated with preparation of Trading Account:

**(i) Stock:**

Stock contains stock of raw materials, work in progress, finished goods, etc. In absence of any clear information, stock is considered as stock of finished goods only. Such stock should be valued at cost. If any other basis is given, convert it to cost.

(ii) Purchases less returns.

(iii) Wages.

(iv) Manufacturing expenses.

(v) Sales less returns.

(vi) Gross profit.

The rate of Gross profit is the key for determining the stock on the date of fire. Therefore, there should be regularity in the gross profit ratio.

**B. Memorandum Trading Account**

It is required to prepare Memorandum Trading Account up to the date of fire by gathering figures in respect of opening stock, purchases, direct expenses and sales from the record. In case the record is destroyed by fire, the information can be discovered from the documentary evidence.

The estimated value of stock on the date of fire is the balancing figure on the credit side of the Memorandum Trading Account. While preparing Memorandum Trading Account, following points should be taken into consideration:

**(i) Period:**

This Account is prepared for the period from last date of accounts to the date of fire which is given in the problem.

**(ii) Opening Stock:**

The opening stock should be valued at cost.

In case of undervaluation of stock:

Cost of stock =  $(100 \setminus 100 - \text{Rate of Undervaluation}) \times \text{Value of stock}$

In case of overvaluation of stock:

Cost of stock =  $(100 \setminus 100 + \text{Rate of Overvaluation}) \times \text{Value of stock}$

**(iii) Purchases:**

Purchases should be taken into account for the period from last date of accounts to the date of fire. Goods received but not accounted should be added to purchases. If the amount of

purchases is not given, it can be calculated by preparing Creditors Account.

Particulars	Amounts
Purchases	xx
Less: Goods included in purchases but not actually received	xx
Add: Unrecorded Purchases	xx
Less: Purchase Returns	xx
<b>Purchases to be debited to Trading A/c</b>	<b>xx</b>

If purchases are not given, it should be decided by preparing creditors A/c as follows.

#### Creditors A/c

Particulars	Amounts	Particulars	Amounts
To Bank A/c	XX	By Balance b/d	XX
To Discount A/c	XX	By Purchases	XX
To Bills Payable A/c	XX	(Bal. Fig.)	
To Balance c/d	XX		
	<b>XX</b>		<b>XX</b>

#### (iv) Sales:

Sales should be taken into account for the period from last date of accounts to the date of fire. Goods included in the above sales but not delivered should be deducted from sales. Misappropriated cash sales and goods delivered but not recorded should be added to sales.

Particulars	Amounts
Sales	xx
Less: Goods sold but not delivered	xx
Less: Sale of assets	xx
Add: Unrecorded sales	xx
Less: Sales returns	xx
<b>Sales to be credited to Trading A/c</b>	<b>xx</b>

If sales are not given, it should be ascertained by preparing Debtors A/c as follows:

#### Debtors A/c

Particulars	Amounts	Particulars	Amounts
To Balance b/d	XX	By Bank A/c	XX
To Sales A/c	XX	By Discount A/c	XX
(Bal.fig.)		By Sales Returns A/c	XX
		By Bills Receivable A/c	XX
	<b>XX</b>		<b>XX</b>

**(v) Wages:**

Wages for the period from the last accounts to the date of fire should be debited to Memorandum Trading Account.

Amount of wages should be calculated as follows:

Particulars	Amounts
Wages paid	xx
Less: Wages incurred for installation of machinery	xx
Less: Outstanding wages of the last year paid during the year	xx
Add: Outstanding wages for the current year	xx
<b>Wages to be debited to Trading A/c</b>	<b>xx</b>

**(vi) Manufacturing Expenses:**

Manufacturing expenses or factory expenses for the period from last date of accounts to the date of fire should also be considered.

**(vii) Gross Profit and Gross Profit Ratio:**

Gross profit ratio should be at a certain percentage on cost or on sales. Consistent gross profit ratio over the past years is essential to find out stock on the date of fire. Gross profit ratio should be adjusted under the following circumstances:

- (a) Different gross profit ratios in past years should be averaged out.
- (b) Change in material prices.
- (c) Change in expenses ratio.
- (d) Change in sales price.
- (e) Different gross profit ratios for different goods.

The ratio of Gross Profit for the purpose of claim should be at normal rate.

(i) If information about the Gross Profit Ratio of the immediately preceding year is given, then the Gross Profit Ratio of the previous year should be taken as a normal rate of Gross Profit.

(ii) If the rate of Gross Profit of previous years has been falling from year to year consistently then it is not proper to consider the average rate of gross profit of previous years as normal rate of gross profit. In such a situation, make an estimate of the rate of gross profit that is likely to prevail in the current year and consider that rate as the normal rate of gross profit, e.g., gross profit rates for three years have been 25%, 20% and 15%. In this case, average will be 20%, Instead of taking average reasonable gross profit rate likely to prevail will be 10%. The above procedure should be followed, in case of continuous rise in the rate of gross profit.

**(viii) Abnormal Goods:**

Goods which are slow moving or which are damaged are called as abnormal goods. Valuation of such goods may be at cost or at a lower value as given. It becomes necessary to adjust purchases, sales and stock on account of abnormal goods.

Abnormal items are treated as follows:

1. If abnormal items are included in closing stock:
  - (a) Deduct value of abnormal items from closing stock.
  - (b) Deduct cost of abnormal items from purchases.
  - (c) Deduct sale of abnormal items from sales.
2. If abnormal items are included in opening stock:
  - (a) Deduct value of abnormal items from opening stock.
  - (b) Deduct sale of abnormal items from sales.
  - (c) Deduct value of abnormal items, if any, from closing stock.
3. If abnormal items are written off to some extent from closing stock:
  - (a) Deduct the value of remaining items from closing stock.
  - (b) Deduct cost of abnormal items from purchases.
  - (c) Deduct sale of abnormal items from sales.

**(ix) Stock:**

Balancing figure in Memorandum Trading Account after adjustment of gross profit is the stock of normal goods. Then, it should be adjusted for:-

- (i) Goods with consignee or third party and
  - (ii) Salvage, i. e. realisable value of scrap or partly damaged goods.
- The adjusted stock is the amount of loss suffered.

**Memorandum Trading A/c**  
**For Period \_\_\_\_**

Particulars	Amounts	Particulars	Amounts
To Opening Stock	XX	By Sales Less: Returns	XX
To Purchases Less: Returns	XX	By Goods Distributed as Free Samples	XX
To Wages	XX	By Stock Sent on Consignment	XX
To Carriage	XX	By Bills Receivable	XX
To Gross Profit C/d	XX	By Stock Sent on Approval	XX
	XX	By Closing Stock (Stock on the date of fire) (Bal.fig.)	XX
	<b>XX</b>		<b>XX</b>

### C. Loss of Stock

Deduct the amount of salvage from the value of stock on the date of fire to get the value of loss of stock.

Loss of Stock = Stock on the Date of Fire – Salvage.

### D. Average Clause

The insurance policy is taken for compensating probable loss in the future and not to earn profit. Therefore, a fire insurance policy generally includes an average clause in order to discourage under insurance of stock. As per this clause, the insurance company pays compensation to the insured proportionately if the value of stock or asset on the date of fire is more than the amount of insurance policy.

Formula applied in case of an Average Clause:

Claim = (Value of policy / Value of stock on the date of fire) × Value of stock destroyed by fire

**For example:-** suppose stock of Rs.2,00,000 may be insured say for Rs.1,50,000. So if fire occurs and the actual loss is Rs.1,30,000 the insured can recover the amount of loss if there is no 'average clause' in the policy.

To discourage such tendency of under-insurance and prevent the misuse of insurance there is an 'Average Clause' included in the policy. The effect of this clause is that the insured does not get the full amount of loss, even though the policy amount is more than the loss. The insured gets only proportionate amount of loss. The base of this principle is that in case of under-insurance the owner of the property himself acts as an insurer to the extent the property has not been insured with the insurance company. In the above example insured is self-responsible for the amount of the stock

Rs.50,000 (Rs.2,00,000 – Rs.1,50,000) as he has under-insured the stock. The formula for calculating the amount of claim if there is Average Clause:

**Amount of claim =  $\frac{\text{Sum Insured (amount of claim)}}{\text{Total stock on the date of fire}} \times \text{Actual loss}$**

$$= 1,50,000 / 2,00,000 \times 1,30,000$$

$$= \text{Rs.97,500}$$

## 7.4 STEPS FOR CALCULATING THE CLAIM

1. Prepare the Trading A/c for the previous accounting years & calculate the gross profit.
2. Calculate the Gross Profit Ratios for the previous accounting years & choose a Gross Profit Ratio for the Memorandum Trading Account.
3. In order to ascertain the closing stock (i.e.) stock on hand as on the date of fire, prepare a Memorandum Trading A/c. This A/c is from the commencement of the accounting year to the date of fire.
4. Record everything that is applicable in the Memorandum Trading A/c.
5. Calculate the gross profit as a percentage of sales on the basis of Gross Profit Ratio in step 2.
6. The Memorandum Trading A/c should be balanced. The balancing figure would represent closing stock.
7. Statement of claim
 

Closing Stock	xx
(-) Salvage	(xx)
Amount of Loss or claim	xx
8. Average Clause:  
If closing stock is greater than the amount of policy.  

$$\text{Claim} = (\text{Value of policy} / \text{Value of stock on the date of fire}) \times \text{Value of stock destroyed by fire}$$

### Adjustments:

1. The Stock should always be valued at cost. If there is any undervaluation or overvaluation then the stock should be brought back to cost.
2. Purchases & Sales should include only purchases & sales of goods. Purchases & sales of assets should be excluded from the purchases & sales.
3. Unrecorded purchases and sales if any should be recorded.
4. Purchases should include those goods which have been actually received before the date of fire. Whether the invoice is received or not is not material, similarly, sales should include only those goods which have been dispatched before the date of fire.

5. Salvage should be valued either at cost or market value whichever is less.

6. The insurance company would compensate the insured to the full extent of firefighting expenses.

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## 7.5 EXERCISES

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### A) Theory Questions

1. What is the treatment of Abnormal Goods?
2. Write short note on Memorandum Trading Account.
3. What is the procedure of computing claim for loss of stock?
4. Write short note on Average Clause.
5. Write short note on need of insurance.

### B) Test your understanding by selecting the most appropriate alternative:

1. Salvage refers to -----
  - a) Stock destroyed by fire.
  - b) Stock moving fast.
  - c) Stock saved from fire.
  - d) Stock moving slow.
2. Purchase of furniture should be -----
  - a) Added to purchase.
  - b) Deducted from purchase.
  - c) Ignored.
  - d) None of the above.
3. Unrecorded sales should be -----
  - a) Added to sales.
  - b) Deducted from sales.
  - c) Ignored.
  - d) None of the above.
4. Percentage of Gross Profit should be-----
  - a) Increasing
  - b) Decreasing
  - c) Fluctuating
  - d) Constant
5. Percentage of Gross Profit should be at -----
  - a) cost
  - b) market value
  - c) marginal price
  - d) realisable value
6. Debtors Account is prepared to find out -----
  - a) cash sales
  - b) credit sales
  - c) cash purchases
  - d) credit purchases
7. Credit purchases should be ascertained from -----A/c.
  - a) Total Creditors
  - b) Total Debtors
  - c) Cash
  - d) Bank

8. Abnormal items included in the closing stock should be -----.
- added to sales
  - deducted from sales
  - deducted from purchases
  - deducted from closing stock
9. As per Average Clause, insurance company pay compensation -----.
- more than the loss
  - less than the loss
  - equal to loss
  - proportionately
10. Goods sent on approval is -----.
- debited to Memorandum Trading A/c
  - credited to Memorandum Trading A/c
  - added to sales
  - deducted from sales
11. Carriage on purchase should be -----.
- debited to Memorandum Trading A/c
  - credited to Memorandum Trading A/c
  - added to sales
  - deducted from sales
12. In fire insurance, compensation is -----.
- equal to policy amount
  - less than policy amount
  - actual loss incurred
  - stock on the date of fire
13. Goods sent on consignment are -----.
- debited to Memorandum Trading A/c
  - credited to Memorandum Trading A/c
  - added to sales
  - deducted from sales
14. Fire insurance -----.
- covers risk of loss
  - decreases loss
  - prevents loss
  - None of the above
15. Sales are Rs.50,000, gross profit is 25% on sales, the gross profit will be -----.
- Rs.12,500
  - Rs.10,000
  - Rs.25,000
  - None of the above
16. If opening creditors are Rs.30,000, closing creditors are Rs.45,000 and the payment to creditors Rs.87,500, then credit purchases will be -----.
- Rs.1,02,500
  - Rs.1,00,000
  - Rs.97,500
  - Rs.1,07,500

**Answer: 1-c, 2-b, 3-a, 4-d, 5-a, 6 - b, 7 - a, 8 - d, 9 - d, 10 - b,  
11 - a, 12 - c, 13 - b, 14 - a, 15 - a, 16-a.**

**C) State whether the following statements are True or False:**

- 1) In case of overvaluation of stock, it should be brought down to cost.
- 2) Insurance avoids loss due to fire.
- 3) Valuation of stock should be carried out at market value only.
- 4) Goods sent on consignment should be credited to Memorandum Trading A/c for deciding the stock on the date of fire.
- 5) It is not compulsory to insure the stock.
- 6) Sale of asset should be debited to Trading A/c.
- 7) Average Clause do not affect calculation of claim.
- 8) Credit purchases are ascertained from Total Debtors A/c.
- 9) Abnormal goods are fast moving goods.
- 10) Memorandum Trading A/c is prepared to find out credit sales.
- 11) Average Clause is not applicable when goods are fully insured.
- 12) Goods saved from fire as called as abnormal goods.
- 13) Normal good are slow moving goods.
- 14) If sales are Rs.2,00,000 and gross profit is Rs.40,000 ,then gross profit ratio is 20% .

**Answer:****False : 2, 3, 6, 7, 8, 9, 10,12,13****True : 1, 4, 5,11,14****D) Fill in the blanks:**

- 1) Credit purchases can be ascertained from ----- A/c.
- 2) Sale of asset should be deducted from ----- .
- 3) Slow moving goods are also known as ----- goods.
- 4) In fire insurance, insured get compensation equal to ----- incurred.
- 5) Purchases should be ----- to Trading A/c.
- 6) ----- Account is prepared to find out credit sales.
- 7) Wages incurred on installation of machinery should be deducted from -----.
- 8) Goods saved from the fire is called as -----.
- 9) ----- businessman takes out an insurance policy.
- 10) Stock distributed as free sample should be credited to ---- A/c.

- 11) Memorandum Trading A/c is prepared to find out ----- on the date of fire.
- 12) ----- = Salvage + Loss of Stock.

**Answer:**

**1) Total Creditors, 2) Sales, 3) Abnormal, 4) loss, 5) debited, 6) Total Debtors, 7) Wages, 8) salvage, 9) Prudent, 10) Trading, 11) stock, 12) Stock on the date of fire**

**E) Match the following:**

I)

Column A			Column B	
A)	Mark up	1)	Fast moving goods	
B)	Average Clause	2)	Stock on the date of fire - Salvage	
C)	Abnormal Goods	3)	Slow moving goods	
D)	Loss of Stock	4)	Discourage the insurance	
		5)	Based on cost	

**Answer: I) A - 5, B - 4, C - 3, D - 2**

II)

Column A			Column B	
A)	Shop soiled goods	1)	Total Debtors A/c	
B)	Insurance	2)	Total Creditors A/c	
C)	Credit sales	3)	Contract of Indemnity	
D)	Credit purchases	4)	Abnormal Goods	
		5)	Normal Goods	

**Answer: II) A - 4, B - 3, C - 1, D - 2**



# Unit-8

## FIRE INSURANCE CLAIM II ILLUSTRATION & EXERCISE

### Unit Structure:

- 8.0 Objectives
- 8.1 Solved Problems
- 8.2 Exercises

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### 8.0 OBJECTIVES

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After studying the unit, students will be able to solve the practical problems on computation of Fire Insurance Claim.

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### 8.1 SOLVED PROBLEMS

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#### Illustration No. 1

Ascertain purchases when cost of goods sold is Rs. 1,00,000.

Opening stock : Rs. 10,000.

Closing stock : Rs. 25,000 .

#### **Solution:**

Cost of goods sold = Opening Stock + Purchases – Closing Stock

1,00,000 = 10,000 + Purchases – 25,000

1,00,000 – 10,000 + 25,000 = Purchases

**Purchases = Rs.1,15,000**

#### Illustration No. 2

Find out sales when cost of goods sold is Rs. 1,60,000 and Gross Profit ratio 20%.

#### **Solution:**

Gross Profit = 1,60,000 × 20/80

**= Rs.40,000**

Sales = Cost of Goods Sold + Gross Profit

= 1,60,000 + 40,000

**= Rs.2,00,000**

**Illustration No. 3**

**(Calculation of Claim in case of under insurance, using average clause)**

Find out the actual claim in the following case:

Particulars	Amounts Rs.
Value of stock on the date of fire	8,000
Value of the Insurance Policy	6,000
Value of stock saved from fire	1,000

There is an average clause in the policy.

**Solution:**

**1. Calculation of Actual Amount of Loss**

Particulars	Amounts Rs.
Value of stock on the date of fire	8,000
Value of stock saved from fire	1,000
<b>Actual Amount of Loss</b>	<b>7,000</b>

**2. Calculation of Amount of Claim**

Claim = (Value of policy / Value of stock on the date of fire) × Value of stock destroyed by fire

$$= (6,000 / 8,000) \times 7,000$$

$$= \text{Rs. } 5,250$$

**Illustration No. 4**

Razavi Traders have taken a fire policy of Rs.4,80,000 covering its stock in trade. A fire occurs on 31-3-2018 and stock was destroyed with the exception of the value of Rs.1,24,080.

Following particulars are available from the books of accounts of the firm:

Stock on 31-12-2017 Rs. 1,80,000

Purchases to the date of fire Rs. 7,80,000

Sales to the date of fire Rs. 5,40,000

Carriage Inwards to the date of fire Rs. 24,000

Commission paid on purchases 2%

Rate of Gross Profit on cost 50%

The policy was subject to average clause. You are required to calculate:-

- (i) Total loss of stock.
- (ii) Amount of claim to be lodged with the Insurance Company.
- (iii) Loss suffered due to under insurance

**Solution:**

**Step 1**

**In the books of Razavi Traders  
Memorandum Trading Account  
For the period from 1-1-2018 to 31-3-2018**

**Dr.**

**Cr.**

Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	1,80,000	By Sales	5,40,000
To Purchases	7,80,000	By Closing Stock (Bal.Fig.)	6,39,600
To Commission (2/100 × 7,80,000)	15,600		
To Carriage Inwards	24,000		
To Gross Profit C/d [5,40,000×1/3]	1,80,000		
	<b>11,79,600</b>		<b>11,79,600</b>

Note: 50% or 1/2 on cost = 1/3 on sales.

**Step 2**

**Calculation of Actual Loss**

Particulars	Rs.
Stock on the date of fire	6,39,600
Less: Salvage	1,24,080
<b>Actual Loss</b>	<b>5,15,520</b>

**Step 3**

**Calculation of Amount of Claim**

Claim = (Value of policy / Value of stock on the date of fire) × Actual

Loss

$$= 4,80,000 / 6,39,600 \times 5,15,520$$

$$= \text{Rs. } 3,86,882$$

**Step 4****Calculation of loss due to under insurance**

Particulars	Rs.
Actual Loss	5,15,520
Less: Amount of claim	3,86,882
<b>Loss due to under insurance</b>	<b>1,28,638</b>

**Illustration No. 5**

A fire broke out in the warehouse of Ankita Traders Ltd. on 30<sup>th</sup> September 2017. The company desires to file a claim with the insurance company for loss of stock. From the following information prepare a statement showing the amount of claim. The last accounts of company were prepared on 31.12.2016.

Stock on 31.12. 2016 Rs. 1,20,000

Sundry debtors on 31.12. 2016 Rs .3,20,000

Sundry debtors on 30.9. 2017 Rs . 2,40,000

Cash received from debtors Rs .11,52,000

Purchases from 1.1. 2017 to 30.9. 2017 Rs .10,00,000

Rate of Gross Profit on sales 25%

**Solution:****Step 1****In the books of Ankita Traders Ltd.**

Dr.		Cr.	
Particulars		Particulars	
Amounts Rs.		Amounts Rs.	
To Balance b/d	3,20,000	By Cash received	11,52,000
To Credit Sales (Bal. fig.)	10,72,000	By Balance c/d	2,40,000
	<b>13,92,000</b>		<b>13,92,000</b>

**Step 2**

**In the books of Ankita Traders Ltd.  
Memorandum Trading Account  
For the period from 1-1-2017 to 30/09/2017**

**Dr.****Cr.**

Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	1,20,000	By Sales	10,72,000
To Purchases	10,00,000	By Closing Stock (Bal.Fig.)	3,16,000
To Gross Profit C/d (10,72,000 × 25%)	2,68,000		
	<b>13,88,000</b>		<b>13,88,000</b>

**Step 3****Statement of Claim**

Particulars	Rs.
Stock on the date of fire	3,16,000
Less: Salvage	Nil
<b>Amount of claim</b>	<b>3,16,000</b>

**Illustration No. 6**

A fire occurred in the premises of Mr. Dinkarrao on 7<sup>th</sup> November 2017. From the following particulars, prepare a statement of claim to be lodged with insurance company:-

Particulars	Rs.
Stock on 01/04/2016	80,000
Stock on 31/03/2017	98,000
Purchases during 2016 - 17	6,75,000
Sales during 2016 - 17	8,10,000
Purchases from 01/04/2017 to 07/11/2017	5,05,400
Sales from 01/04/2017 to 07/11/2017	6,25,000

In valuing the stock for Balance Sheet on 31<sup>st</sup> March 2017 Rs.8,000 had been written off. Certain stock having cost Rs.14,000. Half of these goods were sold in May 2017 for Rs.2,000. The balance is estimated to be worth 60% of original cost. Subject to this exception, gross profit had remained at uniform rate. The policy amount was Rs.1,20,000. The stock salvaged was worth Rs.7,500.

**Solution :**

**Step 1**

**In the books of Mr. Dinkarrao  
Trading Account  
For the year ended 31/03/2017**

**Dr.**

**Cr.**

Particulars	Abnormal Rs.	Normal Rs.	Particulars	Abnormal Rs.	Normal Rs.
To Opening stock	-	80,000	By Sales	-	8,10,000
To Purchases	14,000	6,61,000	By Closing Stock	6,000	92,000
To Gross Profit C/d	-	1,61,000	By Profit and Loss A/c	8,000	-
	<b>14,000</b>	<b>9,02,000</b>		<b>14,000</b>	<b>9,02,000</b>

**Step 2**

**Gross Profit Ratio = Gross Profit / Net Sales X 100**

$$= 1,61,000 / 8,10,000 \times 100$$

$$= 19.88\% \text{ i.e. } \mathbf{20.00\%}$$

**Step 3**

**In the books of Mr. Dinkarrao  
Memorandum Trading Account  
For the period ended from 01/04/2017 to 07/11/2017**

**Dr.**

**Cr.**

Particulars	Abnormal Rs.	Normal Rs.	Particulars	Abnormal Rs.	Normal Rs.
To Opening stock	6,000	92,000	By Sales	2,000	6,23,000
To Purchases		5,05,400	By Closing Stock	4,200	99,000
To Gross Profit C/d (6,23,000 × 20%)		1,24,600			-
		<b>7,22,000</b>			<b>7,22,000</b>

**Step 4****Loss of Stock**

Particulars	Rs.
Stock on the date of fire (99,000+ 4,200)	1,03,200
Less: Salvage	7,500
<b>Loss of Stock</b>	<b>95,700</b>

**Step 5****Claim**

Claim = Amount of Policy / Stock on the date of fire × Actual Loss

$$= 1,20,000 / 1,03,200 \times 95,700$$

$$= \text{Rs. } 1,11,279$$

**Note:-Average clause is not applicable as the amount of policy is more than the stock on the date of fire. Claim by average clause is more than actual loss.**

Therefore, **Claim =Rs. 95,700.**

**Illustration No. 7**

Fire occurred in the factory of X Co. Ltd on 30<sup>th</sup> June 2018 which had taken an insurance policy of Rs.50,000 subject to average clause.

From the following particulars, calculate the claim to be recovered from the Insurance Company:-

Particulars	Rs
Stock on 31/12/2017	50,000
Purchases from 1/1/2018 to the date of fire	2,00,000
Sales from 1/1/2018 to the date of fire	2,40,000

It was ascertained that the company had made an average gross profit of 25% on sales for past five years. The value of the goods salvaged was Rs.14,000.

**Solution:**

**Step 1**

**In the books of X Co. Ltd**  
**Memorandum Trading Account**  
**For the period from 01/01/2018 to 30/06/2018**

**Dr**

**Cr**

Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	50,000	By Sales	2,40,000
To Purchases	2,00,000	By Closing Stock (Bal. Fig.)	70,000
To Gross Profit C/d (2,40,000 × 25%)	60,000		
	<b>3,10,000</b>		<b>3,10,000</b>

**Step 2**

**Statement of Claim**

Particulars	Rs.
Stock on the date of fire	70,000
Less: Salvage	14,000
<b>Amount of claim</b>	<b>56,000</b>

**Illustration No. 8**

A fire occurred in the factory of Good Luck Co. Ltd on 15<sup>th</sup> April 2018. The value of the goods saved from fire was Rs.1,40,000. Following information is available:-

Year	Sales Rs.	Gross Profit Rs.
2015-16	30,00,000	9,80,100
2016-17	27,50,000	9,35,000
2017-18	30,00,000	10,00,000

The stock on 31<sup>st</sup> March 2018 was valued at Rs.4,85,000. Purchases, sales and wages from 1<sup>st</sup> April 2018 to 14<sup>th</sup> April 2018 were ascertained at Rs.3,75,000, Rs.7,95,000 and Rs.1,50,000 respectively.

Calculate the claim to be recovered from the Insurance Company

**Solution:**

**Step 1**

**In the books of Good Luck Co. Ltd**  
**Memorandum Trading Account**  
**For the period from 01/04/2018 to 14/04/2018**

Dr		Cr	
Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	4,85,000	By Sales	7,95,000
To Purchases	3,75,000	By Closing Stock (Bal. Fig.)	4,80,000
To Wages	1,50,000		
To Gross Profit C/d (7,95,000×33.33%)	2,65,000		
	<b>12,75,000</b>		<b>12,75,000</b>

**Step 2**

**Statement of Claim**

Particulars	Rs.
Stock on the date of fire	4,80,000
Less: Salvage	1,40,000
<b>Amount of claim</b>	<b>3,40,000</b>

**Working Note:-**

**Gross Profit Ratio = Gross Profit / Net Sales X 100**

Year	Calculation	Ratio
2015-16	9,80,100/30,00,000 X 100	32.67
2016-17	9,35,000/27,50,000 X 100	34.00
2017-18	10,00,000/30,00,000 X 100	33.33

Average rate of gross profit for last three years is 33.33%

**Illustration No. 9**

Balaji Co. Ltd. have taken a fire insurance policy of Rs.1,60,000 covering its stock in trade. A fire occurred in the factory on 31<sup>st</sup> March 2018 and stock was destroyed with the exception of Rs.40,980 worth.

From the following particulars, calculate the claim to be recovered from the Insurance Company:-

Particulars	Rs.
Stock on 1/1/2018	60,000
Purchases from 1/1/2018 to the date of fire	2,60,000
Sales from 1/1/2018 to the date of fire	1,80,000
Carriage paid on purchases	1,600

Commission paid to the purchase manager on purchase: - 2%

Average Gross Profit on cost:-50%

The policy was subject to average clause.

### Solution:

#### Step 1

**In the books of Balaji Co. Ltd.**  
**Memorandum Trading Account**  
**For the period from 01/01/2018 to 31/03/2018**

Dr		Cr	
Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	60,000	By Sales	1,80,000
To Purchases	2,60,000	By Closing Stock (Bal.Fig.)	2,06,800
To Carriage paid on purchases	1,600		
To Commission to the purchase manager (2,60,000 × 2%)	5,200		
To Gross Profit C/d (1,80,000 × 33.33%)	60,000		
	<b>3,86,800</b>		<b>3,86,800</b>

#### Step 2

#### Statement of Claim

Particulars	Rs.
Stock on the date of fire	2,06,800
Less: Salvage	40,980
<b>Actual Loss</b>	<b>1,65,820</b>

$$\begin{aligned}
 \text{Claim} &= \text{Amount of Policy} / \text{Stock on the date of fire} \times \text{Actual Loss} \\
 &= 1,60,000 / 2,06,800 \times 1,65,820 \\
 &= \text{Rs.1,28,294}
 \end{aligned}$$

**Illustration No. 10**

Fire occurred on 14<sup>th</sup> October 2017 destroyed the stock of Salunkhe and Associates. From the following available particulars, calculate the claim to be recovered from the Insurance Company:-

Particulars	Rs.
Stock on 1/4/2016	88,600
Stock on 1/4/2017	75,100
Purchases for the year up to 31/3/2016	2,07,700
Purchases from 1/4/2017 to the date of fire	74,700
Sales for the year up to 31/3/2016	3,05,000
Sales from 1/4/2017 to the date of fire	1,18,000

Rs.1,200 had been written off a particular line of goods which had originally cost Rs.3,600 and which were sold in June 2017 for Rs.3,500. Except as regards this transactions, the ratio of gross profit had remained unchanged throughout. The value of the goods salvaged was Rs.10,232.

**Solution:****Step 1**

**In the books of M/s Salunkhe and Associates**  
**Memorandum Trading Account**  
**For the year ended 31<sup>st</sup> March 2016**

Dr		Cr	
Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	88,600	By Sales	3,05,000
To Purchases	2,04,100	By Closing Stock	72,700
2,07,700		75,100	
Less: Abnormal		Less: Abnormal	
3,600		2,400	
To Gross Profit C/d	85,000		
	<b>3,77,700</b>		<b>3,77,700</b>

**Step 2**

$$\begin{aligned}
 \text{Gross Profit Ratio} &= \text{Gross Profit} / \text{Net Sales} \times 100 \\
 &= 85,000 / 3,05,000 \times 100 \\
 &= 27.87\%
 \end{aligned}$$

**Step 3**

**In the books of M/s Salunkhe and Associates**  
**Memorandum Trading Account**  
**For the period from 01/04/2017 to 14/10/2017**

**Dr****Cr**

Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	72,700	By Sales 1,18,000 Less: Abnormal 3,500	1,14,500
To Purchases	74,700	By Closing Stock	64,810
To Gross Profit C/d (1,14,500 × 27.87%)	31,910		
	<b>1,79,310</b>		<b>1,79,310</b>

**Step 4****Statement of Claim**

Particulars	Rs.
Stock on the date of fire	64,810
Less: Salvage	10,232
<b>Amount of claim</b>	<b>54,578</b>

**Illustration No. 11**

On 13<sup>th</sup> December 2017, a fire in the godown of Minal Stores damaged stock to a large extent. From the following available particulars, prepare statement of claim to be submitted to Insurance Company:-

Particulars	Rs.
Balance on 31/03/2017	
Stock	6,80,000
Creditors	90,000
Debtors	1,25,000
Transactions from 01/04/2017 to 13/12/2017	
Payment to creditors	3,72,000
Return outwards	12,000
Return inwards	18,000
Receipt from debtors	6,20,000
Credit purchases	3,42,000
Credit sales	6,18,000

Sales are made at a profit of 33.33% on selling price. The policy is for Rs.5,40,000 with average clause. Salvage value of stock damaged is Rs.20,000.

Calculate the claim to be recovered from the Insurance Company

**Solution:**

**Step 1**

**In the books of Minal Stores**  
**Memorandum Trading Account**  
**For the period ended from 01/04/2017 to 13/12/2017**

**Dr**

**Cr**

Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	6,80,000	By Sales 6,18,000 Less: Returns 18,000	6,00,000
To Purchases 3,42,000 Less: Returns 12,000	3,30,000	By Closing Stock (Bal. Fig.)	6,10,000
To Gross Profit C/d (6,00,000 × 33.33%)	2,00,000		
	<b>12,10,000</b>		<b>12,10,000</b>

**Step 2**

**Loss of Stock**

Particulars	Rs
Stock on the date of fire	6,10,000
Less: Salvage	20,000
<b>Loss of Stock</b>	<b>5,90,000</b>

**Step 3**

**Amount of claim**

$$\begin{aligned}\text{Claim} &= \text{Amount of Policy} / \text{Stock on the date of fire} \times \text{Actual Loss} \\ &= 5,40,000 / 6,10,000 \times 5,90,000 \\ &= \text{Rs. } 5,22,295\end{aligned}$$

**Illustration No. 12**

The business premises of M/s Patel Timber Mart Ltd destroyed by fire on 15/07/2017. However, the books of accounts and stock amounting to Rs.18,000 were salvaged and the following information was available from the books:-

Year	Gross Profit Rs.	Sales Rs.
2012-13	2,04,250	8,17,000
2013-14	2,02,350	6,74,500
2014-15	1,90,000	7,60,000
2015-16	1,77,650	7,10,600
2016-17	1,52,000	7,60,000

**Additional information:-**

1. Stock on 31/03/2017 Rs.92,250.
2. Purchases from 01/04/2017 to 14/07/2017 Rs.89,250.
3. Sales from 01/04/2017 to 14/07/2017 Rs.1,60,000.
4. Wages from 01/04/2017 to 14/07/2017 Rs.28,500.
5. The policy is for Rs.80,000 subject to average clause.

You are required to prepare a statement of claim against the Insurance Company with any comments, if necessary.

**Solution:****Step 1**

**Gross Profit Ratio = Gross Profit / Net Sales X 100**

Year	Calculation	Ratio
2012-13	2,04,250 / 8,17,000 X 100	25.00%
2013-14	2,02,350 / 6,74,500 X 100	30.00%
2014-15	1,90,000 / 7,60,000 X 100	25.00%
2015-16	1,77,650 / 7,10,600 X 100	25.00%
2016-17	1,52,000 / 7,60,000 X 100	20.00%

Average rate of gross profit =  $25+30+25+25+20 / 5$   
 $= 125 / 5$   
 $= 25.00\%$

**Step 2**

**In the books of M/s Patel Timber Mart Ltd**  
**Memorandum Trading Account**  
**For the period ended from 01/04/2017 to 13/07/2017**

**Dr****Cr**

Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	92,250	By Sales	1,60,000
To Purchases	89,250	By Closing Stock (Bal. Fig.)	90,000
To Wages	28,500		
To Gross Profit C/d (1,60,000 × 25.00%)	40,000		
	<b>2,50,000</b>		<b>2,50,000</b>

**Step 3****Loss of Stock**

Particulars	Rs.
Stock on the date of fire	90,000
Less: Salvage	18,000
<b>Loss of Stock</b>	<b>72,000</b>

**Step 4****Claim**

Claim = Amount of Policy / Stock on the date of fire × Actual Loss  
= 80,000 / 90,000 × 72,000  
**=Rs.64,000**

**Illustration No. 13**

Ajinkya Ltd suffered loss of stock due to fire on 31<sup>st</sup> May 2018. From the following information, prepare a statement showing the amount of claim to be lodged:-

Particulars	Rs.
Stock on 01/01/2017	38,400
Purchases during 2017	1,60,000
Sales during 2017	2,02,600
Stock on 31/12/2017	31,800
Purchases from 01/01/2018 to 31/05/2018	54,000
Sales from 01/01/2018 to 31/05/2018	61,400

An item of stock purchased in 2016 at a cost of Rs.10,000 was valued at Rs.6,000 on 31<sup>st</sup> December 2016. Half of the stock was sold in 2017 for Rs.2,600. Remaining stock was valued at Rs.2,400 on 31<sup>st</sup> December 2017. 1/4<sup>th</sup> of the original stock was sold in March,

2018 for Rs.1,400. The remaining stock was considered to be worth 60% of the original cost. Salvage was Rs.12,000. The amount of the policy was Rs.30,000. There was an average clause in the policy.

**Solution:**

**Step 1**

**In the books of Ajinkya Ltd  
Trading Account  
For the year ended 31/12/2017**

<b>Dr</b>		<b>Cr</b>	
Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	32,400	By Sales	2,02,600
38,400		Less: Abnormal	2,600
Less: Abnormal			
6,000			
To Purchases	1,60,000	By Closing Stock	29,400
		31,800	
		Less: Abnormal	2,400
To Gross Profit C/d	37,000		
	<b>2,29,400</b>		<b>2,29,400</b>

**Step 2**

$$\begin{aligned}\text{Gross Profit Ratio} &= \text{Gross Profit} / \text{Net Sales} \times 100 \\ &= 37,000 / 2,00,000 \times 100 \\ &= 18.50\%\end{aligned}$$

**Step 3**

**In the books of Ajinkya Ltd  
Memorandum Trading Account  
For the period ended from 01/04/2017 to 31/05/2017**

<b>Dr</b>		<b>Cr</b>	
Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	29,400	By Sales	61,400
		Less: Abnormal	1,400
To Purchases	54,000	By Closing Stock	34,500
		(Bal. Fig.)	
To Gross Profit C/d (60,000 × 18.50%)	11,100		
	<b>94,500</b>		<b>94,500</b>

**Step 4****Loss of Stock**

Particulars	Rs
Stock on the date of fire (34,500 + 1,500)	36,000
Less: Salvage	12,000
<b>Loss of Stock</b>	<b>24,000</b>

**Step 5****Claim**

$$\begin{aligned}
 \text{Claim} &= \text{Amount of Policy} / \text{Stock on the date of fire} \times \text{Actual Loss} \\
 &= 30,000 / 36,000 \times 20,000 \\
 &= \text{Rs.20,000}
 \end{aligned}$$

**Working Note:-**

Particulars	Abnormal Rs.	Valued Rs.
	10,000	6,000
½ Sold	5,000	3,000
	5,000	3,000
¼ Sold	2,500	1,500
Balance	2,500	1,500

**Illustration No. 14**

A fire occurred in the premises of Mr. Rajendra on 15<sup>th</sup> October 2017. From the following particulars, prepare a statement of claim to be lodged with insurance company:-

Particulars	Rs.
Stock on 31/03/2016	1,98,000
Stock on 31/03/2017	2,42,000
Purchases during 2016 -17	6,40,000
Sales during 2016 -17	8,00,000
Purchases from 01/04/2017 to 15/10/2017	8,00,000
Sales from 01/04/2017 to 15/10/2017	7,58,000

The stock on 31<sup>st</sup> March 2016 was valued at 90% of cost price and on 31<sup>st</sup> March 2017 was valued at 10% above cost. The stock salvaged was of the value of Rs.35,600. The claim was subject to average clause.

**Solution:****Step 1**

**In the books of Mr. Rajendra  
Trading Account  
For the year ended 31/03/2017**

<b>Dr</b>		<b>Cr</b>	
Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock 1,98,000 Add:-Undervalued 22,000	2,20,000	By Sales	8,00,000
To Purchases	6,40,000	By Closing Stock 2,42,000 Less: Overvalued 22,000	2,20,000
To Gross Profit C/d	1,60,000		
	<b>10,20,000</b>		<b>10,20,000</b>

**Step 2**

$$\begin{aligned}\text{Gross Profit Ratio} &= \text{Gross Profit} / \text{Net Sales} \times 100 \\ &= 1,60,000 / 8,00,000 \times 100 \\ &= 20.00\%\end{aligned}$$

**Step 3**

**In the books of Mr. Rajendra  
Memorandum Trading Account  
For the period ended from 01/04/2017 to 15/10/2017**

<b>Dr</b>		<b>Cr</b>	
Particulars	Amounts Rs	Particulars	Amounts Rs
To Opening stock	2,20,000	By Sales	7,58,000
To Purchases	6,00,000	By Closing Stock (Bal. Fig.)	2,13,600
To Gross Profit C/d (7,58,000 × 20.00%)	1,51,600		
	<b>9,71,600</b>		<b>9,71,600</b>

**Step 4****Loss of Stock**

Particulars	Rs
Stock on the date of fire	2,13,600
Less: Salvage	35,600
<b>Loss of Stock</b>	<b>1,78,000</b>

**Step 5****Claim**

$$\begin{aligned}\text{Claim} &= \text{Amount of Policy / Stock on the date of fire} \times \text{Actual Loss} \\ &= 2,00,000 / 2,13,600 \times 1,78,000 \\ &= \text{Rs. 1,66,667}\end{aligned}$$

**Illustration No. 15**

On 7<sup>th</sup> May 2018, the premises and stock of a firm destroyed by fire, however, books of accounts being saved. In order to make a claim on their fire policy, they ask your advice and you are able to obtain the following information. The stock on hand has always been valued at 5% below cost.

Particulars	2015 Rs.	2016 Rs.	2017 Rs.	2018 Rs.
Opening Stock	22,800	30,400	36,100	39,900
Wages	28,400	31,200	34,200	12,000
Purchases	91,000	1,10,000	1,20,000	41,000
Sales	1,40,000	1,70,000	1,86,000	75,000
Closing Stock	30,400	36,100	39,900	-

**Prepare a statement of submission to the insurance company in support of your claim for loss of stock.**

**Solution:**

**Step 1**

**In the books of the firm  
Trading Account  
For the year ended 31/03/2017**

**Dr**

**Cr**

Particulars	2015 Rs.	2016 Rs.	2017 Rs.	Particulars	2015 Rs.	2016 Rs.	2017 Rs.
To Opening Stock	24,000	32,000	38,000	By Sales	1,40,000	1,70,000	1,86,000
To Purchases	91,000	1,10,000	1,20,000	By Closing Stock	32,000	38,000	42,000
To Wages	28,400	31,200	34,200				
To Gross Profit C/d	28,600	34,800	35,800				
	1,72,000	2,08,000	2,28,000		1,72,000	2,08,000	2,28,000

**Step 2**

**Gross Profit Ratio = Gross Profit / Net Sales × 100**

Year	Calculation	Ratio
2015	28,600 / 1,40,000 × 100	20.43%
2016	34,800 / 1,70,000 × 100	20.47%
2017	35,800 / 1,86,000 × 100	19.25%

Average rate of gross profit =  $20.43 + 20.47 + 19.25 / 3$   
 $= 60.15 / 3$   
 $= 20.05\%$  i.e. **20.00%**

**Step 3**

**In the books of the firm**  
**Memorandum Trading Account**  
**For the period ended from 01/04/2018 to 31/05/2018**

Particulars	Amounts Rs.	Particulars	Amounts Rs.
To Opening stock	42,000	By Sales	75,000
To Purchases	41,000	By Closing Stock (Bal. Fig.)	35,000
To Wages	12,000		
To Gross Profit C/d (75,000 × 20%)	15,000		-
	<b>1,10,000</b>		<b>1,10,000</b>

**Step 4**

**Statement of Claim**

Particulars	Rs
Stock on the date of fire	35,000
Less: Salvage	Nil
<b>Amount of claim</b>	<b>35,000</b>

## 8.2 EXERCISES

### Illustration 1:

A fire occurred in the business premises of M/S Black on 15<sup>th</sup> October, 2017. From the following particulars ascertain the loss of stock and prepare a claim for insurance.

Particulars	Rs.
Stock on 1-1-2016	30,600
Purchases from 1-1-2016 to 31-12-2016	1,22,000
Sales from 1-1-2016 to 31-12-2016	1,80,000
Stock on 31-12-2016	27,000
Purchases from 1-1-2017 to 14-10-2017	1,47,000
Sales from 1-1-2017 to 14-10-2017	1,50,000

The stocks were always valued at 90% of cost. The stock saved was worth Rs.18,000. The amount of the policy was Rs.63,000. There was an average clause in the policy.

**(Amount of claim = Rs. 47,250)**

**(Ans.: G/P Rs.25,000, Stock on the date of Fire Rs.17,600, Amount of Claim Rs.14,000)**

### Illustration 2:

On 21<sup>st</sup> June, 2017 the premises of X Ltd. were destroyed by fire but sufficient records were saved from which the following particulars were ascertained.

	Rs.
Stock at cost on 1-1-2016	73,500
Stock at cost on 31-12-2016	79,600
Purchases during the year 2016	3,98,000
Sales during the year 2016	4,87,000
Purchases from 1-1-2017 to 21-6-2017	1,62,000
Sales from 1-1-2017 to 21-6-2017	2,31,200

In valuing the stock for the Balance Sheet at 31<sup>st</sup> December 2016 Rs.2,300 had been written off from certain stock which was a poor selling line, having cost Rs.6,900. A portion of these goods was sold in April 2017 at a loss of Rs.250 on the original cost of Rs.3,450. The remainder of this stock now estimated to be worth the original cost. Subject to above exception, gross profit had remained at a uniform rate throughout.

The stock salvaged was Rs.5,800.  
Show the amount of claim.

**[Ans : Insurance Claim – Rs.52,250]**

**Illustration 3:**

The premises of M/s. Thin and Company were destroyed by fire on 1<sup>st</sup> September 2014 and some stock was found badly damaged. The accounts of the firm are closed on 31<sup>st</sup> December each year. On 31<sup>st</sup> December 2013, stock was valued at cost Rs.26,544 against Rs.19,228 as at 31<sup>st</sup> December 2012. Purchases and sales were as follow:

Particulars	Rs.
Purchases for the year 2013	90,516
Sales for the year 2013	1, 04,000
Purchases from 01/01/2014 to 01/09/2014	69,654
Sales from 01/01/2014 to 01/09/2014	98,340

In addition to the above following additional information is collected:

- Sometime in May 2014 goods costing Rs.10,000 were distributed as part of advertisement campaign in support whereof no entry appears to have been passed in the books.
- During 2014, cash sales of Rs.1,190 were misappropriated and these were not recorded in the books.

Ascertain the estimated value of Stock on the date of the assuming that the rate of gross profit has been constant.

[Ans: Amount of Claim Rs.6,574]

**Illustration 4:**

The premises of M/s Weekend were destroyed by fire on 30-06-2018. Following figures were collected from available sources. Prepare statement of claim, showing the amount of claim. The firm closes its books on 31<sup>st</sup> December every year.

Details	2015 Rs.	2016 Rs.	2017 Rs.	30/06/18 Rs.
Opening Stock	20,000	22,000	11,800	34,020
Sales	2,22,000	2,02,500	1,93,500	28,000
Purchases	1,60,000	1,45,000	1,70,000	35,000
Freight Outward	6,000	7,000	3,000	2,500
Freight Inward	5,000	3,000	5,000	1,000
Return Inward	22,000	4,000	6,000	2,000
Closing Stock	22,000	11,800	34,020	?

**Further Information:**

- 1) In 2015, while valuing closing stock, a slow moving item costing Rs.5,000 was valued at Rs.4,000 and this was sold in 2016, for Rs.4,500.
- 2) In 2016, while valuing closing stock, an item costing Rs.6,000 was wrongly valued at Rs.7,000 and was sold in 2017 for Rs.5,500.
- 3) In 2017 while valuing closing stock, goods costing Rs.12,000 were valued at Rs.10,000. 50% of these goods were sold before 30-06-2018 for Rs.6,000.
- 4) The goods salvaged were Rs.10,000.

**[Ans : Insurance Claim – Rs.40,020]**

**Illustration 5:**

A fire occurred in the godown of X Ltd. on 9<sup>th</sup> March, 2018, destroying the entire Stock. The books and records were salvaged from salvaged from which the following particulars were ascertained :

	<b>Rs.</b>
Sales for the year, 2017	10,01,000
Sales for the period 1-1-2018 to 8-3-2018	3,00,000
Purchases for the year, 2017	8,00,000
Purchases for the period 1-1-2018 to 8-3-2018	1,25,000
Stock on 1-1-2017	3,31,100
Stock on 31-12-2017	3,85,000

The company has been following the practice of valuing the Stock of goods at actual cost plus 10%. Included in the Stock on 1-1-2017 were some shop-soiled goods which originally cost Rs.2,000, but were valued at Rs.1,100. These goods were sold during the year 2017 for Rs.1000. Subject to these, the rate of Gross Profit on the basis of valuation of Stock was uniform.

You are required to ascertain the value of the Stock destroyed.

**[Ans : Rs.2,50,000]**

