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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

1.0 OBJECTIVES

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.

1.1 INTRODUCTION

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”

1.2 TYPES OF SINGLE ENTRY

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 Pare 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.

1.3 INCOMPLETE FORM OF DOUBLE ENTRY

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 statutes of Government, Bank etc.

1.3.5 Difference between Single Entry System and Double Entry System:

| Double Entry System | Single Entry System |
|---|---|
| 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.

1.4 CONVERSION METHOD

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 |

1.6 PREPARATION OF FINAL ACCOUNTS UNDER CONVERSION OF SINGLE ENTRY

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.

1.7 EXERCISES

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

2.0 OBJECTIVES

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

2.1 PRACTICAL PROBLEMS

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 st 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 31st 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 |
| | 21,600 |

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 | | ----- |
| | <u>27,250</u> | | <u>27,250</u> |
| | ----- | | |
| 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 | | |
| | <u>6300</u> | | <u>6,300</u> |
| | ===== | | ===== |

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 |
| | | | | ----- |
| | ----- | | | 23,750 |
| | <u><u>23,750</u></u> | | | <u><u>23,750</u></u> |

(3) Calculation of Depreciation on Plant

| | |
|--|-------------------|
| 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 |
| | ----- |
| Depreciation for the year | <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 |
| Balance as at 31.12.2017 | | <u><u>3,275</u></u> |

(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>18,125</u> | | <u>18,125</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:

| Trading and Profit and Loss Account | | | |
|--|------------------------|-------------------------|------------------------|
| For the year ended 30 June 2017 | | | |
| Dr. | | | Cr. |
| 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) | <u>1,42,500</u> | | 1,80,500 |
| | ----- | By Closing Stock | <u>1,13,200</u> |
| To Gross Profit c/d | 1,16,400 | | |
| | <u>2,93,700</u> | | <u>2,93,700</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>1,42,700</u> | | <u>1,42,700</u> |

Balance Sheet
As on 30 June 2017

| Liabilities | RS. | Assets | RS. |
|----------------------------|------------------------|-----------------|------------------------|
| 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 |
| | 2,49,800 | Debtors | 1,25,000 |
| Less Drawings | <u>(30,000)</u> | | |
| | ----- | | |
| | 2,19,800- | | |
| Less : Loss for the | | | |
| Year | <u>(9,800)</u> | | |
| | ----- | | |
| Loan from Mr. Mishap | 2,10,000 | | |
| Bank Overdraft Balance (3) | 23,000 | | |
| Sundry Creditors | 1,07,200 | | |
| | 14,500 | | |
| | <u>3,54,700</u> | | <u>3,54,700</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 31st 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 | 71810 | 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

| Bank Account | | | |
|---|---------------|---------------------|---------------|
| (To find out opening Bank Balance) | | | |
| 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.

| CASH Account | | | |
|-------------------------------------|---------------|-------------------------------|---------------|
| Dr. | | | Cr. |
| Particulars | RS. | Particulars | RS. |
| 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

| Particulars | RS. |
|-----------------------------------|---------------|
| Cash and Credit Sales (as given) | 71,810 |
| Less Cash Sales (as ascertained) | 4,600 |
| | 67,210 |

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

| Total Debtors Account | | | |
|---------------------------------|---------------|-------------------------------------|---------------|
| Dr. | | | Cr. |
| Particulars | RS. | Particulars | RS. |
| 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 | 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

| Liabilities | | Rs | Assets | | Rs. |
|----------------------|--------------|----------------------|-------------------------|--------|----------------------|
| 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>49,110</u> | | | <u>49,110</u> |

Illustration 4

You are given:

- (a) The Balance Sheet of Jani at 31st 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

| Liabilities | | Rs | Assets | | Rs. |
|--------------------|-------|---------------|---------------------|--|---------------|
| 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 |
| | | 16,000 | | | 16,000 |
| | | ===== | | | ===== |

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

| Receipts | | Rs. | Payments | | Rs. |
|---------------------|-------|----------------------|--------------------------|--|----------------------|
| 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>20,500</u> | | | <u>20,500</u> |

| Additional Information : | Rs |
|--|-----------|
| 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

| Particulars | Rs. | Particulars | Rs. | Rs. |
|-----------------------------|----------------------|----------------------|------------|----------------------|
| 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 |
| | <u>27,550</u> | | | <u>27,550</u> |
| 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 | | | |
| | <u>11,350</u> | | | <u>11,350</u> |

Balance Sheet
As at 31-12-2017

| Liabilities | Rs. | Rs. | Assets | Rs. |
|-----------------------|--------------|----------------------|------------------|----------------------|
| 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 | | |
| | | <u>22,300</u> | | <u>22,300</u> |

Working Notes:

| Dr. | | (1) Bills Payable Account | | Cr. | |
|--------------------------------|---------------|----------------------------------|---------------|------------|--|
| Particulars | Rs. | Particulars | Rs. | | |
| 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> | | |

| (2) Dr | | (2) Sundry Creditors Account | | Cr. | |
|-------------------------------------|---------------|---|---------------|------------|--|
| Particulars | Rs | Particulars | Rs. | | |
| 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 | 2,500 | | | | |
| | <u>15,350</u> | | <u>15,350</u> | | |

| (3) Dr. | | Bills Receivable Account | | Cr. | |
|-------------------------------------|---------------|---|---------------|------------|--|
| Particulars | Rs. | Particulars | Rs. | | |
| 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 | 2,500 | | | | |
| | <u>15,350</u> | | <u>15,350</u> | | |

| (4) Dr. | | Sundry Debtors Account | | Cr. | |
|------------------------------------|---------------|-------------------------------|---------------|------------|--|
| Particulars | Rs. | Particulars | Rs. | | |
| 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> | | |

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.

| Liabilities | Rs. | Assets | Rs. | Rs. |
|---------------|-----------------|------------------|------------|-----------------|
| 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> |

| Receipts | Rs | Payments | Rs. |
|---------------------------------|-----------------|--------------------------|-----------------|
| 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> |

| | Rs. |
|--|----------|
| 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. | | For the year ended 31-12-2017 | | Cr. | |
|-------------------------------|----------|-------------------------------|--------------------------|-----------------|-----------------|
| Particulars | Rs. | Rs | Particulars | Rs | Rs. |
| To Opening Stock | | 45,000 | By Sales : | | |
| To Purchases | | | Cash | 24,500 | |
| -Cash | 25,000 | | -Credit | <u>2,10,500</u> | 2,35,000 |
| -Credit | 1,90,000 | 2,15,000 | 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 | | 392 | | | |
| [(2.5% x (16,500 – 825))] | | | | | |
| To Depreciation : | | | | | |
| -Building (2.55% x 55,000) | 1,375 | | | | |
| -Plant (5% x 30,000) | 1,500 | 2,875 | | | |
| 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> | | | <u>2,32,658</u> |

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

| Bills Payable Account | | | |
|--|---------------|---------------------|---------------|
| Dr. | | | Cr. |
| Particulars | Rs. | Particulars | Rs. |
| 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:

| Sundry Creditors Account | | | |
|--|-----------------|---------------------|-----------------|
| Dr. | | | Cr. |
| Particulars | Rs. | Particulars | Rs. |
| 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 :

| Bills Receivable Account | | | |
|---------------------------------|---------------|--|---------------|
| Dr. | | | Cr. |
| Particulars | Rs. | Particulars | Rs. |
| 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:

| Sundry Debtors Account | | | |
|-------------------------------|-----------------|---|-----------------|
| Dr. | | | Cr. |
| Particulars | Rs. | Particulars | Rs. |
| 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 31st March, 2018 and Balance sheet as on that date :

| Assets and Liabilities | 31 st March 2017 | 31 st 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 1st April 2017**

| Liabilities | Rs. | Assets | Rs. |
|----------------------|--------------|-------------------|--------------|
| 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 |
| | 69400 | | 69400 |

Sundry Debtors A/c

| Particulars | Rs. | Particulars | Rs. |
|--------------------|---------------|---------------------|---------------|
| 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 |
| | 162760 | | 162760 |

Bills Receivable A/c

| Particulars | Rs. | Particulars | Rs. |
|--------------------|--------------|--------------------|--------------|
| To Balance B/d | 12400 | By bank | 28390 |
| To sundry debtors | 34540 | | |
| | | By balance C/d | 18550 |
| | 46940 | | 46940 |

Sundry Creditors A/c

| Particulars | Rs. | Particulars | Rs. |
|----------------------|---------------|---------------------|---------------|
| 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 | | |
| | 130620 | | 130620 |

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 | | |
| | 49700 | | 49700 |

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 |
| | 170540 | | 170540 |

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 |
| | 160460 | | 160460 |
| 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 | | |
| | | | |
| | 59810 | | 59810 |

Balance Sheet
As on 31st March 2017

| Liabilities | Rs. | Assets | Rs. |
|----------------------|--------------|-------------------|--------------|
| 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 | | |
| | 81290 | | 81290 |

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 |
| Expenses outstanding at the year end: - | Rs |
| Salaries | 1,000 |
| Transport | 500 |

Prepare Trading & Profit & Loss A/c for the year ended 31st 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 Ending 30th June 2012 | 6,000 | Sundry Expenses | 1,400 |
| Taxes paid for 6 months upto 31.3.12 | 6,000 | Drawing | 5,520 |

On 31st 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 31st 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

3.0 OBJECTIVES

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.

3.1 INTRODUCTION

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.

3.2 SALIENT FEATURES OF CONSIGNMENT SALE

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.

3.3 MEANING OF TERMS INVOLVED IN CONSIGNMENT

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 ST 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 TH JULY 2013 RE: Consignment of 110 cycles received on 1 st 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 th June 2013 | | | 25,000 |
| | Balance due remmited 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 |
| | | | |

3.7 EXERCISE

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

- 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

4.0 OBJECTIVES

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

4.1 SOLVED PROBLEMS

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 | | |
| | 65,384 | | 65,384 |

**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 |
| | 45,000 | | 45,000 |

Note :

- Valuation of Stock :

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

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 | | |
| | 14,000 | | 14,000 |

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 |
| | 14,000 | | 14,000 |

Goods sent on Consignment Account

| Dr. | | Cr. | |
|---------------------------|---------------|--------------------|---------------|
| Particulars | Rs. | Particulars | Rs. |
| To Trading A/c (transfer) | 10,000 | By Consignment A/c | 10,000 |
| | 10,000 | | 10,000 |

**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 | | |
| | 14,000 | | 14,000 |

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 | | |
| | 35,000 | | 35,000 |

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 |
| | 35,000 | | 35,000 |

Goods sent on Consignment Account

| Dr. | | Cr. | |
|---------------------------|---------------|--------------------|---------------|
| Particulars | Rs. | Particulars | Rs. |
| To Trading A/c (transfer) | 25,000 | By Consignment A/c | 25,000 |
| | 25,000 | | 25,000 |

LEDGER OF MUSTAK

Sen & 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 | | |
| | 35,000 | | 35,000 |

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 | | | | |
| | 6,000 | | | | 6,000 |

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 |
| | 6,000 | | 6,000 |

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 |
| | 3,000 | | 3,000 |

[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 | | |
| | 6,000 | | 6,000 |

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 :

| | |
|--|-----------------|
| Valuation of Closing Stock : (30 sets unsold) | Rs. |
| 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 |
| | 1,33,600 |

| 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 | | | | |
| | 8,53,600 | | 8,53,600 | | |

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 15th March – 100 bicycles were sold @ Rs.145 on which 5% Commission and Rs.375 for expenses were deducted.

10th 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 30th 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 | | | |
| | | 50,725 | | | 50,725 |

| 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 |
| | | 35,500 | | | 35,500 |

| 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 |
| | | 40,000 | | | 40,000 |

LEDGER OF MUKHERJEE & 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 | | | |
| | | 35,500 | | | 35,500 |

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. | | 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 (Cost 30 x 4,000) = | 1,20,000 |
| Freight 24,000 | | Expenses 30/150 x 68,000 | 13,600 |
| Wages 4,000 | 28,000 | | |
| To Kamalkar's A/c (Custom duties) | 40,000 | | 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 | | |
| | 8,53,600 | | 8,53,600 |

| Dr. | | 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:

| In the books of Namdeo of Nagar | | | |
|--|------------------|-------------------------------------|------------------|
| Dr. | | Cr. | |
| Consignment to Pune A/c. | | | |
| Particulars | Rs. | Particulars | Rs. |
| 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 | | |
| | 18,19,000 | | 18,19,000 |

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 31st 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. Vijay Sales's Account | | 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 | | |
| | 2,25,000 | | 2,25,000 |

| Dr. Consignment Debtors Account | | 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 |
| | 1,05,000 | | 1,05,000 |

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

| Dr. Del Credere Commission Account | | 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 |
| | 3,000 | | 3,000 |

| Dr. Profit & Loss Account | | 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 | | |
| | 9,000 | | 9,000 |

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 | <u>40,000</u> |

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 |
| | 9,000 | | 9,000 |

| 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 | | |
| | 12,500 | | 12,500 |

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 | | |
| | 9,000 | | 9,000 |

Working Notes :

- Closing Stock

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

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 :

| LEDGER OF H LTD. | | | |
|----------------------------------|----------------------------|----------------------------------|---------------|
| Dr. | Consignment Account | | Cr. |
| Particulars | Rs. | Particulars | Rs. |
| To Goods sent on Consignment A/c | 20,000 | By Vasu A/c (Cash Sales) | 12,300 |
| To Cash/Bank A/c | 1,000 | By Vasu A/c (Cr. sales) | 4,100 |
| (H. Ltd.'s Expenses) | | By Stock on Consignment A/c | 4,200 |
| To Vasu A/c (Expenses) | 650 | By Goods sent on Consignment A/c | 5,000 |
| To Vasu A/c (Comm.) | 656 | (Load) | |
| [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 | | |
| | 25,600 | | 25,600 |

| Dr. | Vasu's Account | | Cr. |
|---------------------------------|-----------------------|------------------------------------|---------------|
| Particulars | Rs. | Particulars | Rs. |
| 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 |
| | 16,400 | | 16,400 |

| 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 | | |
| | 20,000 | | 20,000 |

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 | | |
| | 16,400 | | 16,400 |

| 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 |
| | 4,100 | | 4,100 |

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

| 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 |
| | 1,025 | | 1,025 |

| 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 |
| | 861 | | 861 |

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 1st 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 1st 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 10th 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

5.0 OBJECTIVES

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.

5.1 INTRODUCTION

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.

5.2 TYPES OF BRANCHES

- 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

5.3 DEBTORS SYSTEM

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 rd on sales | (1/3 on sales) |
| 33 1/3 rd 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)**

| Particulars | Rs. | Particulars | Rs. |
|--|------------|---|------------|
| 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 |
| | Xx | | Xx |

Goods Sent to Branch A/c

| Particulars | Rs. | Particulars | Rs. |
|---|------------|---|------------|
| 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 |
| | Xx | | Xx |

Branch Stock Adjustment A/c (Loading Element)

| Particulars | Rs. | Particulars | Rs. |
|--|------------|--|------------|
| 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 | | |
| | Xx | | Xx |

Branch Profit and Loss A/c

| Particulars | Rs. | Particulars | Rs. |
|--|------------|--|------------|
| 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

| Particulars | Rs. | Particulars | Rs. |
|--|------------|---|------------|
| 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.

5.5 EXERCISE

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 | | | |
| | | 14,71,480 | | | 14,71,480 |

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 | | |
| | 13,20,000 | | 13,20,000 | | |

| 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 | | |
| | 5,560 | | 5,560 | | |

| 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 | | |
| | 2,38,000 | | 2,38,000 | | |

| 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 | | |
| | 2,22,000 | | 2,22,000 | | |

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. |
|---|----------|
| Opening Balance : | |
| 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 |
| Amount Remitted to the Branch : | |
| For Petty cash expenses | 7,500 |
| For Salary | 18,500 |
| For Rent & Taxes | 6,000 |
| Closing Balance : | |
| Petty cash at Bank | 1,880 |
| Stock at Branch | 57,880 |
| Debtors at Branch | 1,26,150 |
| Discount allowed to customers | 1,060 |
| Amount Remitted by the Branch: | |
| 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 | | | |
| | | 6,31,510 | | | 6,31,510 |

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 | | |
| | 4,23,950 | | 4,23,950 |

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.

| Dr. | | Cr. | |
|-------------------------|---------------|----------------------|---------------|
| Particulars | Rs. | 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 | | |
| | 12,800 | | 12,800 |

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

| Dr. | | Debtors Account | | Cr. | |
|--------------------|--------------|----------------------------|--------------|------------|--|
| Particulars | Rs. | Particulars | Rs. | | |
| 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 | | |
| | 4,800 | | 4,800 | | |

- 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 1st January 2017. The following information is available in respect of the branch for the year 2017.

| Transactions during the year | Rs. |
|---|------------|
| 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 st 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 | |
| | | 1,47,500 | | | | | 1,47,500 | |

| 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 | | | |
| | | 75,000 | | | | | 75,000 | |

Illustration No. 6:

From the following details relating to the Delhi Branch for the year ending on 31st 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.

| Dr. | | Delhi Branch Account | | 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 | | |
| Petty Cash | | 1,000 | directly to H.O. | | 5,000 |
| 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 |
| | | 3,88,000 | | | 3,88,000 |

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 |
| | 90,000 | | 90,000 |

(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 |
| | 3,000 | | 3,000 |

(3) Ascertaining remittance to H. O.:

| Dr. Delhi Branch Cash Account | | Cr. | |
|--------------------------------------|-----------------|----------------------------------|-----------------|
| Particulars | Rs. | Particulars | Rs. |
| 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 |
| | 3,97,800 | | 3,97,800 |

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 1st January, 2017 Rs.20,000 and on 31st 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 1st January, 2017; Rs. 2,000. On 1st 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 |
| | | 1,64,200 | | | 1,64,200 |

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 | | |
| | 1,00,000 | | 1,00,000 |

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 | |
| Stock | 26,000 | (26,000 x 30/130) | 6,000 |
| Cash | 250 | By Goods sent to Branch A/c | 30,000 |
| Debtors | 50,000 | (Load: 1,30,000 x 30/130) | |
| To Goods sent to Branch A/c | 1,30,000 | By Goods sent to Branch A/c (returns) | 6,500 |
| To Goods sent to Branch A/c | 1,500 | By Cash (WN 1) | 2,31,120 |
| (Load 6,500 x 30/130) | | 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 | 24,000 | | |
| (Load: Cl, Stock 104,000 x 30/130) | | | |
| To General P & L A/c (bal. fig.) | 1,56,000 | | |
| | 4,02,750 | | 4,02,750 |

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 1st 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 31st 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 st December at invoice price | 8,400 | 6,900 |
| Petty Cash at branch on 31 st 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 | | 2,100 |
| Stock (IP) - | | 8,400 | A/c | | |
| | | | (Load on Opening | | |
| | | | Stock) | | |
| Debtors - | | 4,000 | By Cash/Bank | | |
| Petty Cash - | | 90 | (Remittance | | |
| | | | Received) | | |
| To Goods sent | 45,000 | 70,000 | -Cash Sales | 15,000 | 30,400 |
| to Branch A/c | | | | | |
| (IP) | | | | | |
| To Cash | 6,000 | 10,000 | -Collection from | 15,400 | 32,300 |
| | | | Debtors | | |
| To Goods Sent | 375 | - | By Goods Sent to | 11,250 | 17,500 |
| to branch A/c | | | Branch A/c | | |
| (Load on | | | (Load on Goods | | |
| Returns) | | | Sent) | | |

| | | | | | |
|---|---------------|-----------------|--|---------------|-----------------|
| 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 |
| | 55,640 | 1,01,440 | | 55,640 | 1,01,440 |

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 |
| | 19,600 | 45,000 | | 19,600 | 45,000 |

(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 |
| | 6,000 | 10,090 | | 6,000 | 10,090 |

(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 | <u>2,43,400</u> |
| | | from Debtors | 2,57,400 |
| 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 | | |
| | 6,13,600 | | 6,13,600 |

| 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 | |
| | 4,48,000 | | | 4,48,000 | |

Loading :

$$\begin{aligned} \text{Cost} + \text{Loading} &= \text{Invoice Price} \\ 100 + 25 &= 125 \end{aligned}$$

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

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 st December 2017 | 6,950 |
| Debtors on 1 st 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 |
| | 54,060 | | 54,060 |

| 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 |
| | 43,010 | | 43,010 |

| 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 | | |
| | 6,210 | | 6,210 |

| 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 | | |
| | 10,700 | | 10,700 |

| 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 | | | | |
| | 35,500 | | | | 35,500 |

Illustration No. 12:

Following particulars are related to Solapur Branch for the year ended 31st 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 st April , 2017 | 93,000 |
| Branch Debtors on 1 st 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 |
| | 6,15,000 | | 6,15,000 |

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 |
| | 3,78,000 | | 3,78,000 |

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 |
| To Branch Adjs. A/c | 1,70,000 | By Goods Sent to Branch | 500 |
| | 3,39,000 | | |
| | 5,10,500 | | 5,10,500 |

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 | | |
| | 5,54,100 | | 5,54,100 |

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 | | |
| | 2,01,000 | | 2,01,000 |

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 | | |
| | 1,79,700 | | 1,79,700 |

Note : (1) Loading (20% on CP = $\frac{1}{3}^{\text{rd}}$ of IP)

| | Inv Price Rs. | ($\frac{1}{3}^{\text{rd}}$) 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 st Jan. | 30,800 | Amount sent to Branch : | |
| Debtors at the Branch as 1 st January | 16,500 | - Salary | 7,440 |
| Petty Cash as on 1 st 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 st Dec. | 23,150 |
| - Cash Sales | 10,500 | Sundry Debtors at the Branch as on 31 st Dec. | 50,460 |
| - Realisation of Debts | 1,57,740 | Petty Cash an on 31 st 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 31st 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 31st 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

7.0 OBJECTIVES

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

7.1 INTRODUCTION

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 = $\text{Policy Amount} / \text{Stock on the Date of Fire} \times \text{Stock lost by fire}$

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 |
| Purchases to be debited to Trading A/c | xx |

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 | | |
| | XX | | XX |

(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 |
| Sales to be credited to Trading A/c | xx |

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 |
| | XX | | XX |

(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 |
| Wages to be debited to Trading A/c | xx |

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

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 = $\frac{\text{Sum Insured (amount of claim)}}{\text{Total stock on the date of fire}}$ X 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.

7.5 EXERCISES

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

8.0 OBJECTIVES

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

8.1 SOLVED PROBLEMS

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

$$1,00,000 = 10,000 + \text{Purchases} - 25,000$$

$$1,00,000 - 10,000 + 25,000 = \text{Purchases}$$

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:

$$\text{Gross Profit} = 1,60,000 \times 20/80$$

$$= \text{Rs.40,000}$$

$$\text{Sales} = \text{Cost of Goods Sold} + \text{Gross Profit}$$

$$= 1,60,000 + 40,000$$

$$= \text{Rs.2,00,000}$$

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 |
| Actual Amount of Loss | 7,000 |

2. Calculation of Amount of Claim

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

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

$$=Rs. 5,250$$

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 | | |
| | 11,79,600 | | 11,79,600 |

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 |
| Actual Loss | 5,15,520 |

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 |
| Loss due to under insurance | 1,28,638 |

Illustration No. 5

A fire broke out in the warehouse of Ankita Traders Ltd. on 30th 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. | |
|--------------------------------|------------------|------------------|------------------|
| Total Debtors A/c | | | |
| Particulars | Amounts Rs. | Particulars | 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 |
| | 13,92,000 | | 13,92,000 |

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 | | |
| | 13,88,000 | | 13,88,000 |

Step 3**Statement of Claim**

| Particulars | Rs. |
|---------------------------|-----------------|
| Stock on the date of fire | 3,16,000 |
| Less: Salvage | Nil |
| Amount of claim | 3,16,000 |

Illustration No. 6

A fire occurred in the premises of Mr. Dinkarrao on 7th 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 31st 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 | - |
| | 14,000 | 9,02,000 | | 14,000 | 9,02,000 |

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 | | | - |
| | | 7,22,000 | | | 7,22,000 |

Step 4**Loss of Stock**

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

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 30th 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 | | |
| | 3,10,000 | | 3,10,000 |

Step 2

Statement of Claim

| Particulars | Rs. |
|---------------------------|---------------|
| Stock on the date of fire | 70,000 |
| Less: Salvage | 14,000 |
| Amount of claim | 56,000 |

Illustration No. 8

A fire occurred in the factory of Good Luck Co. Ltd on 15th 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 31st March 2018 was valued at Rs.4,85,000. Purchases, sales and wages from 1st April 2018 to 14th 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 | | |
| | 12,75,000 | | 12,75,000 |

Step 2

Statement of Claim

| Particulars | Rs. |
|---------------------------|-----------------|
| Stock on the date of fire | 4,80,000 |
| Less: Salvage | 1,40,000 |
| Amount of claim | 3,40,000 |

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 31st 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 | | |
| | 3,86,800 | | 3,86,800 |

Step 2

Statement of Claim

| Particulars | Rs. |
|---------------------------|-----------------|
| Stock on the date of fire | 2,06,800 |
| Less: Salvage | 40,980 |
| Actual Loss | 1,65,820 |

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

Illustration No. 10

Fire occurred on 14th 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 31st 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 | | |
| | 3,77,700 | | 3,77,700 |

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 | | |
| | 1,79,310 | | 1,79,310 |

Step 4**Statement of Claim**

| Particulars | Rs. |
|---------------------------|---------------|
| Stock on the date of fire | 64,810 |
| Less: Salvage | 10,232 |
| Amount of claim | 54,578 |

Illustration No. 11

On 13th 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 | | |
| | 12,10,000 | | 12,10,000 |

Step 2

Loss of Stock

| Particulars | Rs |
|---------------------------|-----------------|
| Stock on the date of fire | 6,10,000 |
| Less: Salvage | 20,000 |
| Loss of Stock | 5,90,000 |

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 | | |
| | 2,50,000 | | 2,50,000 |

Step 3**Loss of Stock**

| Particulars | Rs. |
|---------------------------|---------------|
| Stock on the date of fire | 90,000 |
| Less: Salvage | 18,000 |
| Loss of Stock | 72,000 |

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 31st 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 31st December 2016. Half of the stock was sold in 2017 for Rs.2,600. Remaining stock was valued at Rs.2,400 on 31st December 2017. 1/4th 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**

| Dr | | Cr | |
|---------------------|-----------------|------------------|-----------------|
| 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 | | |
| | 2,29,400 | | 2,29,400 |

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**

| Dr | | Cr | |
|--|----------------|------------------|----------------|
| 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 | | |
| | 94,500 | | 94,500 |

Step 4**Loss of Stock**

| Particulars | Rs |
|--|---------------|
| Stock on the date of fire (34,500 + 1,500) | 36,000 |
| Less: Salvage | 12,000 |
| Loss of Stock | 24,000 |

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 15th 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 31st March 2016 was valued at 90% of cost price and on 31st 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**

| Dr | | Cr | |
|--|------------------|--|------------------|
| 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 | | |
| | 10,20,000 | | 10,20,000 |

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**

| Dr | | Cr | |
|--|-----------------|---------------------------------|-----------------|
| 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 | | |
| | 9,71,600 | | 9,71,600 |

Step 4**Loss of Stock**

| Particulars | Rs |
|---------------------------|-----------------|
| Stock on the date of fire | 2,13,600 |
| Less: Salvage | 35,600 |
| Loss of Stock | 1,78,000 |

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 7th 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 | | - |
| | 1,10,000 | | 1,10,000 |

Step 4

Statement of Claim

| Particulars | Rs |
|---------------------------|---------------|
| Stock on the date of fire | 35,000 |
| Less: Salvage | Nil |
| Amount of claim | 35,000 |

8.2 EXERCISES

Illustration 1:

A fire occurred in the business premises of M/S Black on 15th 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 1-1-2017 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 21st 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 31st 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 1st September 2014 and some stock was found badly damaged. The accounts of the firm are closed on 31st December each year. On 31st December 2013, stock was valued at cost Rs.26,544 against Rs.19,228 as at 31st 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 31st 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 9th March, 2018, destroying the entire Stock. The books and records were salvaged from salvaged from which the following particulars were ascertained :

| | Rs. |
|---|------------|
| 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]

