Directorate of Distance Education

UNIVERSITY OF JAMMU
JAMMU

STUDY MATERIAL FOR

B.COM SEMESTER - II

SUBJECT : Advanced Financial Accounting	**UNIT : I to IV**
COURSE NO. BCG 201	**LESSON NO. 1 to 16**

COURSE CO-ORDINATOR
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ADVANCED FINANCIAL ACCOUNTING

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Course No. : BC-201 **Title Advanced Financial Accounting**

Duration of Exam. : 3 Hrs. **Total Marks : 100**

Theory Examination : 80

Internal Assessment : 20

OBJECTIVE : To impart the knowledge regarding problems concerning companies.

UNIT- I : ACCOUNTS OF CONSIGNEMNT AND JOINT VENTURE

Consignment : Features, accounting treatment in the books of the consignor and consignee.

Joint Ventures : Accounting procedrures : Joint Bank Account, Records maintained by Co-venture of (a) all transaction (b) only his own transactions.

UNIT - II : BRANCH ACCOUNTING

Meaning and objectives of preparing branch accounts; Various types of branches including dependent, independent and foreign branches; Preparation of branch accounts under debtor system; Stock and debtor systek; Final accounts system; Wholesale branch system and independent branch system (excluding foreign branches).

UNIT - III : DEPARTMENTAL ACCOUNTS

Meaning and objectives for preparing various departmental accounts; Difference between branch accounting and departmental accounting; Preparing departmental trading a/c and profit and Loss a/c

UNIT - IV : INSURANCE CLAIMS

Meaning of insurance claim, steps for ascertaining insurance claim. Computation of loss of stocks with abnormal items excluding consequential loss of profit and application of average clause.

SKILL DEVELOPMENT (SPECIMEN FOR CLASS ROOM TEACHING AND INTERNAL ASSESSMENT)

1. Critically evaluation of consignemnt and joint venture financial accounts.
2. Comparison of Financial Statement of branches and different departments.
3. Create deep understanding of all concepts specified in the syllabus.

BOOKS RECOMMENDED :

1.	Jain, S. P. & Narang, K. L.	:	Corporate Accounting Kalyani Publishers, New Delhi.
2.	Shukla, M.C., Grewal T. S & Gupta, S.C.	:	Advance Accounts, Vol-I & II, S. Chand Pub., New Delhi
3.	Maheshwari, S. N. Maheshwari S.	:	Advance Accounts, Vol-I & II, Vikas Pub. New Delhi
4.	Pillai, R. S. N., Bagavathi & Uma, S.	:	Fundamentals of Adv. Accounting, Vol-I & II, S. Chand Pub. New Delhi
5.	Gangwar, Sharad & Gangwar K.	:	Financial Accounting, Himalaya Publishing House, New Delhi
6.	Rajasekaran	:	Financial Accounting, Pearson

			Pub., New Delhi
7.	Singhal & Roy	:	A Text book of Financial Accounting, Vayu Education of India, New Delhi.
8.	Banerjee	:	Financial Accounting - Concepts, Analysis, Methods and Uses, PHI Learning Pub. New Delhi.
9.	Bhatia and Arora	:	Financial Accounting, Alpha Pub., New Delhi.
10.	Gupta	:	Financial Accounting for Management, Pearson Pub., New Delhi.
11.	Mehra & Pankaj	:	Accounting in Corporate Business, Alpha Pub., New Delhi.

NOTE FOR PAPER SETTER

Equal weightage shall be given to all the units of the syllabus. The external paper shall be of the two sections viz, A & B.

Section -A : This section will contain four short answer questions selecting one from each unit. Each question carries 5 marks. A candidate is required to attempt all the four questions. Total weightage to this section shall be 20 marks.

Section -B : This section will contain eight long answer questions of 15 marks each. Two questions with internal choice will be set from each unit. A candidate has to attempt any four questions selecting one from each unit. Total weightage to this section shall be 60 marks.

MORDEL QUESTION PAPER
ADVANCED FINANCIAL ACCOUNTING

Section-A

Attempt all the Questions. Each question carries five marks

1. Define joint venture & differentiate between joint venture & consignment.
2. What are the main types of branches from accounting point of view and give any three objectives of branch accounting.
3. What is the meaning of Departmental A/c & give the difference between branch & departmental system of accounting
4. Explain procedure of determining the amount of claim for the loss of stock.

Section-B

Attempt any four questions selecting one question from each unit. Each question carries 15 marks.

1. Entries and accounts in consignor's books.

   On 10th April, 2012, The Raza Sugar Factory Ltd. Rampur, consigned to Mr. Shahid Ali to Lahore 400 bags of sugar @ Rs. 250 per bag. They also paid cartage and freight etc., Rs. 2,500. On 12th April, 2012, the consignor drew on consignee as an advance against the consignment at 3 months for Rs. 60,000, which they discounted at their bank at 5%. The consignee sold off the goods on 1st July, 2012, rendered on account sales, showing that the goods realised Rs. 1,20,000, out of which he deduced his charges amounting to Rs. 800 and his commission @5%. Make entries and show ledger accounts in respect of the above transactions in the books of the consignor.

   OR

   A&B enter into joint venture. A agrees to bring capital in cash. A deposited Rs. 80,000 in the joint bank account. B buys goods worth Rs. 50,000 as part of his share of capital, further goods worth Rs. 1,18,000 were purchased from C, paying Rs. 60,000 and the balance by a promissory note signed by A & B.

   The goods were sent to Calcutta for sale, Expenses amounting to Rs. 5,000 were incurred for sending the goods. Parts of the goods were damaged and a sum of Rs. 25,000 was recovered from the Insurance Company. The balance of goods were sold for Rs. 2,20,000.

Write up the necessary account in the books of joint venture assuming that the promissory note was duly met A&B share profits equally.

2. C Ltd. of Kolkata has a branch at Delhi. The goods are invoiced to the branch at selling price which is cost plus 20% From the following particulars, make out branch A/c to show the profit or loss of the branch :

	Rs.			Rs.
Stock on Ist January, 209 (Invoice Price)	15,000		Cash received from debtors	400,000
Debtors on Ist January, 2009	11,400		Bad debts written off	250
			Discount allowed to customers	300
Goods Invoiced to branch during the year (Invoice price)	67,000		Expenses at branch	6,700
Sales at Branch	Rs.		Stocks on 31st December, 2009 (Invoice price)	13,400
Cash	31,000			
Credit	37,400	68,400		

OR

PQ Ltd., Kolkata, Started a branch in Mumbai on 1st April, 2009 to which goods were sent at 20% above cost. The branch makes both credit and cash sales, Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O.

Following further details are given for year ended on 31st March, 2010 :

	Rs.		Rs.
Cost of goods sent to Branch	50,000	Cash in hand at Branch on 31st March, 2010	2,000
Goods received by Branch till 31st March, 2010 at Invoice price	54,000	Cash remitted by H.O. to Branch during the year	3,000
Credit Sales for the year	48,000	Closing Stock at Branch at invoice price	6,000
Debtors as on 31st March, 2010	20,800	Expenses incurred at Branch	12,000
Bad Debts and Discount written off	200		
Cash remitted to H.O.	43,000		

Show the necessaey Ledger A/cs in the books of Head Office (Under Stock and Debtors System) and determine the profit and Loss of the Branch for the year ended on 31st march, 2010

3. Following purchases were made by a business house having three departments :

Department A 1000 units

Department B 2000 units at atotal of Rs. 1,00,000

Department C 2400 units

Stocks on 1st January were :

Department A 120 units

Department B 80 units, and

Department C 152 units.

The sales were :

DepartmentA 1,020 units @ Rs. 20.00 each.

DepartmentB 1,920 units @ Rs. 22.50 each.

DepartmentC 2,496 units @ Rs. 25.00 each.

The rate of gross profit is the same in each cash.

Prepare Departmental Trading Accounts.

OR

What is the meaning of departmental accounts and explain the basis of allocation of expenses over various departments of a departmental organisation.

4. On 30th September, 2009, the stock of Fred Pery was lost in a fire accident,. From the following available records prepare a statement shoeing amount of claim to be lodge on the insurers :

	Rs.
Stock at cost on 1-4-2008	37500
Stock at cost on 31-3-2009	52,000
Purchases less returns for the year ended 31-3-2009	2,53,750

Sales less returns for the year ended 31-3-2009	3,15,000
Purchases less returns upto 30-9-2009	1,45,000
Sales less returns upto 30-3-2009	1,84,050

In valuing stock on 31-3-2009, due to obsolescence 50% of the value of the stock which originally cost Rs. 6,000 had been written off. In May 2009, three - fourths of this stock had been sold at 90% of the original cost and it is now expected that the balance of the obsolete stock would also realize the same price. Subject to the above, gross profit had remained uniform throughout.

Stock to the value of Rs. 7,200 was salvaged.

OR

A fire occurred in the premises of Ranjan on 25th November, 2009 when a large part of the stock was destroyed. The value of salvaged stock was Rs. 1,50,000. Ranjan gives you the following information for the period 1st April, 2009 to 25th November, 2009 :

(i) Purchases : Rs. 8,05,000.

(ii) Sales : Rs. 9,00,000.

(iii) Goods costing Rs. 5,000 were taken away by Ranjan for his personal use.

(iv)Cost price of the stock on 1st April, 2009 : Rs. 4,00,000. Over the last few years, Ranjan has been selling goods at a consistent rate of gross margin of 33 1/3 % on sales.

The insurance policy is for Rs. 5,00,000. It includes an average clause.

Ranjan asks you to prepare a statement of claim to be made on the insurance company.

Unit - I **Chapter 1- 4**

Course No. 201 **Semester- II**

Accounting for Consignments & Accounting for Joint Venture

1.1. Introduction Consignment

Now-a- day it is quite common that manufacturers or wholesales dealers dispatch goods to their agent at home and abroad to increases their sales. The knowledge of the agent of the local conditions where he resides proves useful in increasing the sales. Moreover, it is very expensive for the manufacturer to sell the goods directly either in the home market or in the foreign market. Therefore, different agents are appointed for different places.

1.2 Meaning of consignment

A shipment of goods by a manufacturer or wholesale dealer to an agent to be sold by him on commission basis, on the risk and account of the former, is known as consignment. The person who sends the goods to the agent to be sold by him on commission basis is called the consignor. The person to whom the goods are sent for sales on commission basis is called the consignee. To the consignor, the consignment of goods is known as outward consignment and to the consignee, it is known as inward consignment. The goods cosigned to the agent (called goods sent on consignment) cannot be treated as sales at the time of the consignment; they are treated as sales only when these are sold by the consignee. Therefore, such goods require special treatment in accounts.

1.3. Objective Consignment

The following are the objectives of Consignment

1. To provide new markets for Sales or Increase the volume of Sales.
2. To avail the different prices of same product in different areas because of indirect role of geographical areas.
3. To increase the growth and expansion of the business with the help of skalls and knowledge availabel with the consignee.
4. To Capture the share in domestic market and international market.
5. To increase the sales volume by giving different types of commission ot consignee.

1.4 Features of Consignment

In consignment, goods are send to the consignee by consignor for sales and in return for that consignee gets a commission.

Features of Consignment are as follows :-

1. It is a consignment of goods from consignor to consignee for sales on commission basis.
2. The two parties involved int eh consignment are consignor and consignee.
3. The consignee or agent will receive a commission from trader for his work.
4. The agent will collect the money from the customers to whom the goods had been sold.
5. All the expenses on consignemnt will be borne by the consignor.
6. Consigner will receive the unsold goods along with non-recuring expenses from consignee.

1.5 Parties to Consignment

There are two parties to the consignment agreement viz., Consignor and Consignee. The person who sends the goods for sale on consignment basis by bearing risk and other expenses is known as consignor and the person to whom the goods are send for sole on commission basis known as consinee or agent.

1.6 Distinction between Consignment and sales

Following are the main points of difference between consignment and sale.

(i) In case of sale, the legal ownership of the goods sold is transferred to the purchaser of goods; whereas in case of consignment of goods, the legal ownership of the goods is not transferred to the consignee but the ownership of the goods remains vested in the consignor till the goods consigned are sold by the consignee

(ii) In case of sale of goods, the relationship between the seller and purchases of the goods is that of a creditor and a debtor whereas in case of consignment, the relationship between the consignees is that of a principal and an agent because the consignee is to sell goods on behalf of the consignor.

(iii) In consignment, expenses increased by the consignee in connection with the goods consigned to him are usually borne by the consignee whereas in case of sale, expenses incurred after sale of goods are borne by the purchaser.

(iv) In case of consignment, risk attached to the goods sent lies with the consignor till the goods consigned are sold by the consignee. But in case of sale, risk attached to the goods sold is transferred to the purchaser of goods.

(v) In case of consignment return of goods is possible if the goods are not sold by the consignee. But in case of sale, return of goods is not possible if the goods are not sold are not returnable.

(vi) In case of consignment, account sale is required to be submitted periodically by the consignee to the consignor. But in case of sale no account sale is required to be submitted by the purchaser to seller.

(vii) In case of consignment, unsold goods with the consignee will be treated as stock of the consignor. But the seller has nothing to do with unsold goods of the buyer.

(viii) In consignment, transaction are governed and regulated by law of agency whereas in case of sales transaction are regulated by the sale of goods act.

(ix) In case of sale if goods are lost after delivery to the buyer, it is the buyer who will bear the loss but in case of consignment if goods are lost, it is the consignor who will bear the lose.

2.1 Procedure to be followed in Case of Consignment

The consignor sends goods to the consignee and incurs certain expenses in sending the goods to the consignee. Generally, consignor receives advance against the goods from the consignee. Such goods can be sent by the consignor either at the cost or at invoice price for which the consignor will prepare a proforma invoice. Such invoice is exactly like invoice in appearance without being actually the invoice the invoice but does not make the consignee responsible to pay the amount mentioned therein. It is the nature of memorandum and is not a debit note so it is unlike a regular invoice. The consignee will incur some expenses for taking the delivery of goods and bringing these to the shop. He will try to sell the goods either for cash or credit. He will get commission for the sales which he has made on behalf of the consignor besides getting reimbursement of actual expenses incurred by him on behalf of the consignor. When goods are sold by the consignee on credit, there is a possibility that amount may not be realizable by the consignee from the consignment debtors. The consignee in order to increase the commission may sell the goods on credit without any responsibility for collection of debts. In order to check this tendency the consignor gives the consignee a commission (called Del Credere Commission). It is a Commission which is paid by the consignor to the consignee for taking additional risks of recovery of data on account of sales made on credit by the consignee on behalf of the consignor. It is generally calculated on gross sales unless it is given to be calculated on credit sales. If a consignor allows del credere commission to the consignee, then bad debts will be borne by the consignee. Moreover, it will also make the consignee careful on choosing customers for credit sales.

Sometimes an extra commission (Calculated on sales) is given by the consignor to the consignee for working hard to push a new line of product in the market. Such commission is called Over-riding Commission.

After a particular fixed period or as when the goods consigned are sold by the consignee, the consignee is required to send a statement know as a Account Sales which will show the quantity and quality of goods sold, the gross proceeds realized and the amount due to the consignor after deducting consignee's expenses on consignment of goods commission payable to the consignee and advance (if any) paid by the consignee from the gross sales proceeds. Account sales is sent to the consignor with a view to enabling him to note entries regarding sales of the goods consigned, expenses incurred and commission earned by the consignee. Following can be a specimen of an Account Sales:

Account sales of 100 table fans sold by Suresh & Co. of Delhi for the account and risk of Lakshmi Private Limited, Mumbai.

2014		Rs.	Rs.
June 30	Gross proceeds from sales :		
	100 tables fans @ Rs 1,000		1,00,000
	Less : Charges :		
	Freight and carriage	900	
	Insurance	650	
	Warehouse charges	800	
	Commission @ 5% on Rs 1,00,000	5000	7350
			92,650
	Less Advance		51,000
	Balance sent by Bank Draft		41,650

E.& O.E. — Suresh & Co.

Delhi — Consignee

2.2 Distinction Between Account Sales and Proforma Invoice

Point of Distinction	Account Sales	Proforma Invoice
1. Preparation and Despatch	It is prepared by the consignees and sent to the consignor.	It is prepared and dispatched by consignor to all the consignees.
2. Contents	It contains details of goods sold by the consignee, expenses, commission and advance deducted showing net balance payable to the consignor.	It contains the particulars of goods dispatched to the consignee.
3. Nature	It is a Statement of Account of Sales.	It is an advice note.
4. Time	It is prepared periodically or at the completion of sales.	It is prepared at the time of dispatch of goods.

Point of Distinction	Account Sales	Proforma Invoice
5. Accountability of consignee	It makes the consignee accountable to the consignor.	There is no responsibility on the Part of the consignee.
6. Basis for entries in books	It serves as the basis for recording entries in the books by the consignor.	It does not serve as the basis of accounting entries. It is merely for advice and information of consignor.

2.3 Difference between Invoice and Account Sales

Account sales differ from invoice. Invoice is sent by a seller to buyer. It contains description of goods sold on credit and the price charged. The buyer is required to pay the amount of invoice. Following are the points of difference account sales and invoice :

(i) Account Sales is prepared by the consignee whereas invoice is sent by the seller.

(ii) All expenses and commission are deducted in account Sale whereas in invoice expenses are added but discount and commission are deducted.

(iii) All expenses incurred by the consignee are borne by the consignor but after sale, expenses are paid by the buyer.

(iv) The relationship between two parties in case of an invoice is that of a debtor and creditor but in case of account sales the relationship remains as principal and agent.

(v) In case of proforma invoice price, consignee is not to make payment on receiving the goods (but he will liable only after sale) but in case of invoice the buyer is liable to make the payment on receiving the goods.

(vi) In case of proforma invoice ownership is not transferred while sending the goods but ownership is automatically transferred in case of invoice.

2.4 CONSIGNMENT ACCOUNTS

These accounts record transactions relating to the goods sent on consignment by the consignor to the consignee. Accounting treatment in the books of consignor and consignee is discussed on by one

Accounting Treatment in the Books of the consignor

l. When goods arc sent to the consignee

Consignment to__________Account Dr.

To Goods Sent on Consignment Account

(Being the cost of goods consigned to the consignee)

It may be noted that consignee's Account is not to be debited with the goods consigned as no sale takes place when the goods are sent on consignment.

If goods are consigned to many consignees at different places, a separate consignment Account is opened for each consignment with a view to ascertain profit or loss on each consignment. Each consignment should be distinguished from the other by adding the name of the place to which it is sent, e.g., Consignment to surat Account. If there are more than one consignees at the same place, the name of the consignee may be added to the Consignment Account, e.g., Consignment to Wadekar Account.

2. For Consignor's Expenses

Consignment to___________Account Dr.

To Cash Account

(Being expenses incurred on the consignment of goods to the consignee)

3. For Advance given by the consignee. Usually the consignee is required to remit a certain sum of money as an advance by way of security against the goods received by him' The advance should not be credited to the consignment Account but it should be credited to the consignee's Account because the money has been received as an advance and not in lieu of the sale of the goods consigned. So, the journal entry is :

Bills Receivable or Bank Account

To Consignee's Account Dr.

(Being a bill or bank draft received from the consignee as an advance against the goods consigned).

If the bill is discounted by consignor, following entry will be passed:

Cash/Bank A/c Dr.

Discount A/c Dr.

To Bills Receivable A./c

Note. Discount on bill receivable will not be a charge to consignment account as it is treated as financial activity or matter.

4. For Consignee's Expenses. The consignee is credited for the expenses incurred by him in connection with the goods received by him as he has incurred these expenses on behalf of the consignor. So the journal entry is

Consignment to__________Account Dr.

To Consignee's Account

(Being expenses incurred by the consignee in:

connection with the goods consigned to him)

5. For Sales by the Consignee

Consignee's Account Dr.

To Consignment to_______Account

(Being the gross sale proceeds as per Account Sales)

6. For Consignee's Commission

Consignment to_________Account Dr.

To Consignee's Account

(Being commission on sale of goods sent on consignment payable to the consignee)

7. For the Remittance from the Consignee in Settlement of Account

Bank Account or Bills Receivable Account

To Consignee's Account

(Being amount due from the consignee received)

8. For Profit or Loss on Consignment. The balance of the Consignment Account in the books of the consignor will show either profit or loss on consignment. The journal entry is :

(i) If there is a profit on consignment :

Consignment to_______Account Dr.

To Profit and Loss Account

(Being profit on consignment transferred)

(ii) If there is a loss on consignment :

Profit and Loss Account Dr.

To Consignment to_______Account

(Being loss on consignment transferred to Profit and Loss Account)

9. For Close of Goods sent on Consignment Account. This account is closed by transferring it to the credit of Purchases Account in case of a trading concern or Trading Account in case of a manufacturing concern. So the journal entry is :

Goods sent on Consignment Account Dr.

To Trading Account or Purchases Account

From the above discussion it becomes clear that the Consignment Account is, in fact, a special Trading and Profit and Loss Account while the Consignee's Account is a personal account.

Accounting Treatment in the Books of the Consignee

1. **On Receipt of Goods by the consignee.** The consignee need not make any entry on receipt of goods from the consignor because the receipt of goods does not amount to a purchase of goods. Any how, the consignee is liable to account for the goods in has received from the consignor, so he keeps record of the receipt of the goods in Inwards consignment Book which is only a memorandum book and not a financial book.

2. **For Expenses incurred by the Consignee**

   Consignor's Account Dr.

   To Cash Account

(Being expenses incurred on goods received on consignment basis)

Consignor's Account is debited because expenses are incurred by the consignee on behalf of the consignor.

3. **Advance (if any) given by the Consignee to the Consignor**

   Consignor's Account Dr.

   To Bills Payable Account or Bank Account

(Being advance given to the consignor against goods received from him)

4. **For Sales by the Consignee**

   Cash Account Dr.

   Or Consignment Debtor's Account (If sold on credit) Dr.

   To Consignor's Account

(Being goods sold on account of the consignor)

Consignor's Account has been credited because the amount of sales belongs to him.

5. **For Commission on Sales**

   Consignor's Account Dr.

To Commission **Earned** Account

(Being commission earned on sale of goods received on consignment)

6. For Bad Debts

(i) If the **consignee** does not get del-credere commission :

Consignor's Account Dr.

To **Consignment** Debtor's Account

(Being bad debts on account of sales of goods received on consignment debited to Consignor's Account)

(ii) When the consignee gets del-credere commission :

Bad Debts Account Dr.

To **Consignment** Debtor's Account

(Being bad debts on account of sale of goods received on consignment treated as personal loss of the consignee because of getting del credere commission).

Bad Debts Account will ultimately be closed by transferring it to profit and Loss Account. Some accountants prefer transfer of bad debts to Commission Earned Account and then net balance of commission **earned** is transferred to profit and Loss Account.

7. For Remittance sent to the Consignor in Final Settlement of his Account

Consignor's Account Dr.

To Bills Payable or Bank Account

(Being payment of the balance due to the consignor)

2.5 Valuation of Unsold Consignment

It is quite possible that all goods sent on consignment might not have been sold by the consignee up to the date when the final accounts of the consignor are prepared. It is, therefore, natural that stock on consignment should be properly valued and credited to the Consignment Account to ascertain correct profit or loss on consignment. Unsold stock is valued at cost or net realizable value, whichever is less (principle emphasized in AS-2). While calculating the cost of stock, cost plus a proportionate share of non-recurring expenses is considered. It may be noted that non-recurring expenses are the expenses which are incurred to bring the goods to the godowns of the consignee such as packing and forwarding charges, freight, Octroi duty, insurance in-transit, cartage of goods from railway station to the godowns of the consignee etc. But recurring expenses such as godown rent, storage, advertisement, etc. incurred after the goods reach the godown of the consignee are not taken into consideration for the valuation of stock on consignment. The stock on consignment will be shown as an asset in the Balance Sheet of the consignor. Following Journal entry is passed to record the stock on consignment :

Consignment Stock Account Dr.

To Consignment to-Account

(Being the value of stock on hand with the consignee)

It may be noted carefully that no entry is passed for unsold goods in the books of the consignee as no entry is passed in the books of the consignee, when goods are received from the consignor. Moreover, the consignor is the owner of the goods and not the consignee, so no entry is required for the unsold goods in the books of the consignee.

2.6 Invoicing Goods Higher than Cost

Sometimes, the consignor is not interested to reveal actual cost of the goods consigned to the consignee so that the latter may not be in a position to know the actual profit made on the consignment. To achieve this objective the consignor sends to the consignee the proforma invoice charging goods not at cost but at higher price. Such invoice is prepared when goods are sent by the consignor to the consignee or head office to the branch. The effect of such a policy is that consignment account stands debited with a higher price of goods sent on consignment thereby reducing the profit on the consignment. Similarly, unsold stock on consignment is valued at higher-price thereby increasing the profit on the consignment. Evidently, therefore, some adjustments should be made at the end of each balancing period if the correct profit or loss on consignment is to be ascertained. Following adjusting entries are made in the books of the consignor to nullify the effect of higher price.

(1) Goods sent on Consignment Account Dr.

To Consignment Account'

(Being the excess of invoice price of goods sent on consignment written back).

This entry is made with the amount of the difference between the higher prices at which the consignment had been invoiced and actual cost of such consignment, The purpose of this entry is to write back the goods on cost to cancel the excess debit to consignment and excess credit to goods sent on consignment account given at the time of sending the goods to the consignee.

(2) Consignment Account Dr.

To Consignment Stock Suspense or Reserve Account

(Being the excess of invoice value over cost price of unsold stock adjusted to write back the unsold stock at cost price)

Consignment stock will be shown in Balance Sheet of the consignor as below:

Balance Sheet

Liabilities	Assets
	Consignment Stock Account
	Less : Consignment Stock Suspense A/c

There is no need of any adjustment in the books of the consignee because he is not in any way affected by the higher price of the goods. No entry is passed for the goods received from the consignor and unsold stock in the books of the consignee, so question bf cancellation of the excess amount does not arise.

2.7 Accounting for Loss of Goods

The loss of goods sent on consignment is that of the consignor and not of the Consignee, so the consignor alone is to make the entries for the loss of goods. The entries to adjust the loss of goods in the books of the consignor will depend upon the type of loss.

Following are the two types of losses of goods:

(a) Normal Loss. It is that loss which is due to the nature of the goods consigned. Such loss may arise due to loading and unloading of the goods, cutting the bulk material Into smaller parts, evaporation, drying, sublimation of goods etc. For example, some of the quantity of coal consigned is bound to be converted into dust because of loading and Unloading. In other words, such loss is unavoidable because some of the goods are bound to be lost even after taking all precautions. Being normal such a loss is a part of the cost of the consignment, so no entry is passed in the books of the consignor. Any how, such type of loss is considered while calculating the cost of stock left unsold with the consignee The value of unsold stock on consignment is increased because the value of Stock is the proportion of the cost of the goods consigned and non-recurring expenses that the quantity of stock bears to the total. Quantity of goods consigned as diminished by the normal loss of goods. Suppose 100 tons of coal are consigned @ Rs. 150 per ton, non recurring expenses being Rs.4,000. Further, if loss due to loading and unloading is 5 tons and if the quantity sold by the consignee is 85 tons, then the value of unsold stock of 10 tonnes will be as follows:

	Rs.
Cost of 100 tonnes of coal @ Rs. 150 per tone	15,000
Add: Non-recurring expenses	4,000
Total cost of 100 tons	19,000

The cost of 100 tons becomes the cost of 95 tonnes because of a normal loss of 5 tonnes

The cost of 95 tons of coal = Rs. 19,000

The cost of 95 tons of coal = Rs. $\frac{19,000}{95} \times 10$

Therefore, value of 10 tons of stock =

= Rs. 2,000

(a) **Abnormal Loss**. Such loss is an avoidable loss because it does not arise due to The nature of the goods.Such loss may_ arise due to bad luck (i.e., destruction of goods by fire), mischief (i.e, theft of goods) and inefficiency (abnormal breakage due to careless handling). The value of such a loss is calculated in the same way as the value of unsold stock on consignment and is credited to consignment account and debited to abnormal loss account or accidental loss account to ascertain the correct profit or loss of the consignment' If the stock is insured, the amount of claim admitted by insurance company should be debited to insurance company and credited to Abnormal . Loss Account or Accidental Loss Account. Any Amount or realized on account of. damaged goods should also be credited to Abnormal Loss Account. Commission payable on sale of damaged goods should be debited to Abnormal Loss Account. Balance of Abnormal Loss Account (if any) should be transferred ultimately to profit and Loss Account.

2.8 Distinction Between Normal Loss and Abnormal Loss

Following are the main distinctions between normal loss and abnormal loss :

Basis of Distinction	Normal Loss	Abnormal Loss
1. Type of Loss	It is an unavoidable loss.	It is an avoidable loss.
2. Cause of Loss	It is caused due to inherent nature of goods, e.g., evaporation, normal leakage or spoilage	It is caused by abnormal reasons such as fire, theft, abnormal spoilage, etc,
3. Treatment in Cost	It is treated as a part of the cost	It is not treated as a part of the cost.
4. Calculation of Value	Value of such loss is not calculated separately.	Value of such loss is calculated separately like the value of unsold stock.
5. Treatment in Accounts	No treatment in account except its value is adjusted by increasing the cost per unit.	Value of such loss is credited to Consignment Account in order to calculate the normal profit or loss on consignment.
6. Journal entry	No journal entry is passed in accounts for such loss.	A separate journal entry is passed in accounts by debiting Abnormal Loss Account and crediting Consignment Account.
7. Realization from Damaged Goods	Generally there is no realization from damaged goods in case of this loss.	Amount realized from damaged goods is credited to Abnormal Loss Account. The balance in Abnormal Loss Account is transferred to profit & Loss Account.

2.9 Valuation of Goods in Transit

Sometimes goods sent by the consignor do not reach the consignee. Such goods are called goods in transit. These are in nature of closing stock on consignment and need to be valued accordingly. Such goods are to be valued at cost of goods to the consignor plus all proportionate expenses of Consignor.

Following journal entry will be passed in the books of consignor for goods in transit.

Debit Goods in Transit A/c

Credit Consignment A/c

It must be noted carefully that consignee's expenses included in cost and there will be no entry for goods in transit in the books of the consignee.

2.10 Practical Problems & Solutions

PROBLEM -1

(When all goods sent to the consignee are sold by him). M/s jaipuria and co. of Delhi consigned on 15th march 2014, 45 cases of glassware (cost price Rs. 41,235) to Singh & Co. of Amritsar for sale on commission @ 5% on gross sale proceeds. The consignor paid freight and carriage amounting to Rs. 539.

The goods arrived at Amritsar on 20th March, 2014 and Singh & Co. Paid Clearing charges Rs. 235 Sundry charges Rs. 59, carriage Rs.102 and godown charges Rs. 90.

The goods were sold by Singh & co as under.

15 cases @ Rs. 1,003 per case, 22 cases @ Rs. 1,050 per case and the remainder for Rs. 10,000.

On June 21, 2014 Singh Co. Draft for Rs. 10,000 to M/s Jaipuria & Co. on account. One 1st July, 2014 Singh & Co forwarded an Account Sales together with a bill of Exchange for the balance.

Give journal Entries and prepare Necessary account to record the above transactions in the books of both the parties. Calculations are to be made to the nearest rupee.

SOLUTION

In the Books of M/s Jaipuria & Co. (Consignor)

JOURNAL ENTRIES

2014		Rs.	Rs.
Mar, 15	Consignment to Amritsar Account Dr. To Goods sent on Consignment Account (Being goods sent on consignment to Singh & Co. of Amritsar)	41,235	41,235
Mar, 15	Consignment to Amritsar Account Dr. To Cash Account (Being expenses incurred on goods sent on consignment)	539	539
Mar, 20	Consignment to Amritsar Account Dr. To Singh & Co. (Being expenses incurred by the consignee)	486	486
June, 21	Bank Account Dr. To Singh & Co (Being a draft for Rs. 10,000 received from Singh & Co.)	10,000	10,000
July 1	Singh & Co. Dr. To Consignment to Amritsar Account (Being gross proceeds of the consignment as per the Account Sales)	48,145	48,145

July 1	Consignment to Amritsar Account Dr. To Singh & Co. (Being 5% commission on gross proceeds Rs 48,145 payable to the consignee)	2,407	2,407
July 1	Bills Receivable Account Dr. To Singh & Co. (Being the amount due received)	35,252	35,252
July 1	Consignment to Amritsar Account Dr. To Profit and Loss Account (Being Profit on consignment transferred)	3,478	3,478
July 1	Goods sent on Consignment Account Dr. To Trading Account (Being goods sent on consignment transferred to Trading Account)	41,235	41,235

CONSIGNMENT TO AMRITSAR ACCOUNT

2014		Rs	2014		Rs
Mar. 15	To Goods sent on Consignment Account	41,235	July 1	By Singh & Co. (sales)	48,145
Mar. 15	To Cash Account (Expenses)	539			
Mar. 20	To Singh & Co. (Expenses)	486			
July 1	To Singh & Co. (Commission)	2,407			
July 1	To Profit & Loss A/c (Profit transferred	3,478			
		48,145			48,145

SINGH & CO.

2014		Rs.	2014		Rs.
July 1	To Consignment to Amritsar Account	48,145	March 20	By Consignment Amritsar Account	486
			June 21	By Bank Account	10,000
			July 1	By Consignment to Amritsar Account	2,407
			July 1	By Bills Receivable Account	35,252
		48,145			48,145

GOODS SENT ON CONSIGNMENT ACCOUNT

2014		Rs.	2014		Rs.
July 1	To Trading Account	41.235	March 15	By Consignment Amritsar Account	41.235
		41.235			41.235

In the Books of Singh & Co. (Consignee)

JOURNAL ENTRIES

2014		Rs.	Rs.
Mar, 20	M/s Jaipuria & Co. Dr.	486	
	To Cash Account		486
	(Being expenses paid on M/s. Jaipuria's consignment		

June 21	M/s Jaipuria & Co. Dr. To Bank Account (Being goods sent by a draft of Rs. 10,000)	10,000	10,000
July 1	Bank Account Dr. To M/s Jaipuria & Co. (Being goods sold on behalf of M/s Jaipuria & Co	48,145	48,145
July 1	M/s Jaipuria & Co. Dr. To Commission Earned Account (Being 5% commission on sale proceeds on account of consignment	2,407	2,407
July 1	M/s Jaipuria & Co. Dr. To Bills Payable Account (Being remittance of amount due to M/s jaipuria & Co	35,252	35,252

M/s JAIPURIA & CO.

2014		Rs.	2014		Rs.
Mar. 20	To cash Account	486	July 1	By Bank A/c (Sales)	48,145
June 21	To Bank Account	10,000			
July 1	To Commission Earned A/c	2,407			
July 1	To Bills Payable A/c	35,252			
		48,145			48,145

PROBLEM : 2 Aman of Amritsar consigned goods costing Rs.2,00,000 to Babu of Bathinda on the following, terms:

(a) Babu to get a commission of 5% on cash sales and 4% on credit sale.

(b) Any goods taken by Babu for himself or goods lost through his negligence shall be valued at cost plus $12^{1/2}$% and no commission will be allowed thereon.

The expenses incurred by Aman were :

Freight cartage Rs. 6,720 and insurance Rs. 3,440. Aman received from Babu Rs. 50'000 as advance against the consignment. An account sales together with a bank draft for the balance due was received by Aman showing the following position:

Goods costing Rs. 1,28,000 were sold for cash at Rs.1,40,000 and goods costing Rs. 60,000 on credit at Rs. 1,08,000. Goods costing Rs. 8,000 were taken by Babu and goods costing Rs. 4,000 were lost through Babu's negligence. The expenses incurred by Babu were :

Advertisement Rs. 1,720; other selling expenses were Rs. 1,080. , Show the ledger accounts in the books of Aman recording the above transactions.

SOLUTION

In the Book of Aman

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods sent on Consignment A/c	2,00,000	By Balu's A/c : Rs.	
To Cash : Rs.		Cash 1,40,000	
Freight Cartage 6,720		Credit 1,08,000	
Insurance 3,440			2,48,000
	10,160	By Balu's A/c :	
To Balu's A,/c :		Goods taken 8,000	
Advertisement 1,720		Lost through Negligence 4,000	
Selling Expenses 1,080		12,000	
Commission		+$12^{1/2}$ of Rs. 12,000 1,500	
(5% on Rs. 14,000			
+ 4% on Rs. 10,800) 11,320			13,500
	14,120		
To Profit & Loss A/c (Profit)	37,220		
	2,61,500		2,61,500

BALU'S ACCOUNT

	Rs.		Rs.
To Consignment A/c (Sales)	2,48,000	By Bank A/c (Advance)	50,000
To Consignment A/c (Goods taken & loss through negligence)	13,500	By Consignment A./c (Exp. & Com.)	14,120
		By Balance c/d	1,97,380
	2,61,500		2,61,500

PROBLEM 3 : (When it is required. to calculate the value of unsold goods). On 1st January, 2014 Rohit sends 150 sewing machines costing Rs.30,000 to Anurag to be sold on behalf of the former at 5% commission on sales. Rohit paid Rs. 1,500 as freight and carriage for sending the machines. Anurag sent the account sales on 31st March,20l4 stating that :

(i) 120 sewing machines were sold for Rs. 27,000.

(ii) Expenses incurred on inward consignment were : Octroi Rs. 250; Carriage Rs.250; Godown Rent Rs. 2,100 and Advertisement and other selling Expenses Rs.1,500

(a) Calculate the Value of Consignment Stock on 31st March, 2014.

(b) What will be value of consignment stock on 31-3-2014 if the net realizable value of one machine is Rs.210 ?

SOLUTION

(a) Number of sewing machines consigned		
Less : Number of sewing machine sold		150
Number of machines unsold (i.e., consignment stock)		120
		30
Cost price of 150 sewing machines:	Rs. 30,000	Rs.
Cost price of 30 machine (i.e Rs. $\frac{30,000}{150}$ X30)		6,000

Add : Proportionate share of non-recurring expenses :

	Rs.
Freight and carriage incurred by Rohit on 150 machine	1,500
Octroi in 150 machine paid by Anurag	250
Carriage on 150 machine paid by Anurag	50

$\underline{1,800}$

Therefore, expenses on 30 machines (Rs. $\frac{1,800}{150}$ x 30) 360

Value of consignment stock on 31-3-2014 6,360

(b) If net realizable value of one machine is Rs. 210, then Rs. 6,300 (i.e., Rs. 210 x 30) will be treated value of stock and not Rs. 6,360 as calculated above. This is based on the principle that unsold goods will be valued at cost or net realizable value, which is less.

PROBLEM 4 : (when value of unsold stock is to be calculated.) K sold goods on behalf of Vijay Sales Corporation on consignment basis. On January l, 2013, he had with him a stock of Rs. 20,000 on consignment.

K had instruction to sell the goods at cost plus 25% and was entitled to a commission of 4% on sales, in addition to l% Del Credere commission on total sales for guaranteeing collection of an the sale proceeds.

During the year ended 31st December,2013, cash sales were Rr.1,20,000, credit sales Rs. 1,05,000 and K's expenses relating to the consignment Rs.3,000, being salaries and insurance. Bad debts were Rs. 3,000 and goods sent on consignment Rs. 2,00,000.

From the above, prepare consignment Account in the books of vijay sales corporation and important ledger accounts in the books of K.

SOLUTION

CONSIGNMENT ACCOUNT

2013			2013		Rs.
Jan. 1	To Consignment Stock A/c	20,000	Dec. 31	By K Rs.	
?	To Goods sent on Consignment A,/c	2,00,000	Dec. 31	Cash Sales 1,20,000	2,25,000
Dec. 31	To K (Expenses)	3,000		Credit Sales 1,05,000	
Dec. 31	To K (Commission:.5% on Rs. 2,25,000 Sales)	11,250		By Consignment stock A/c(1) ,	40,000
Dec. 31	To Profit on Consignment transferred to Profit and Loss A/c	30,750			
		2,65,000			2,65,000

Working Note :

(1) Value of Consignment stock — Rs.

Opening Consignment Stock	20,000
Add : Goods sent on consignment during the year	2,00,000
Total goods on consignment	2,20,000
Less : Cost of goods sold (Rs. $2,25,000 \times \frac{100}{125}$)	1,80,000
Value of Closing Consignment Stock	40,000

IN THE BOOKS OF K

VIJAY SALES CORPORATION ACCOUNT

	Rs.		Rs.
To Cash A/c	3,000	By Cash A/c	1,20,000
To Commission Earned A/c	11,250	By Consignment Debtors A/c	1,05,000
To Bank A/c	2,10,750		
	2,25,000		2,25,000

COMMISSION EARNED ACCOUNT

	Rs.		Rs.
To Consignment Debtors A,/c	3,000	By Vijay Sales Corporation A/c	11,250
To General Profit & Loss A,/c	8,250		
	11,250		11,250

CONSIGNMENT DEBTORS ACCOUNT

	Rs.		Rs.
To Vijay Sales Corporation A/c	1,05,000	By Commission Earned A/c	3,000
		By Cash A/c (Bal. Fig.)	1,02,000
	1,05,000		1,05,000

PROBLEM 5 : (When unsold goods are with the consignee both at the beginning and at the end of the period.). Cochin Consignment Account in the books of Ranaji of Mumbai showed a debit balance of Rs. 15,000 representing the cost of 10 bicycles on lst January 2014. On March 1, Ranaji sent a further consignment to Cochin of 40 bicycles costing Rs. 1,600 each. The freight and other charges amounted to Rs. 210. On 1st June, the Cochin Agent sent an Account Sales showing that 8 bicycles from the old stock realised Rs. 1,400 each and 25 bicycles from the second consignment realised Rs. 2,000 each and 15 bicycles remained in stock unsold. Two bicycles from the old, stock being unsaleable at Cochin were returned to Mumbai, for which the Cochin Agent sent a separate debit note for Rs. 30 being expenses incurred by him.

The Cochin agent is entitled to a selling commission of 5 per cent which covers all out-of-pocket expenses in respect of the consignment. Show the necessary accounts in the books of the consignor, supposing that he closes his accounts on 30th June and uses FIFO method for selling the goods.

SOLUTION

CONSIGNMENT TO COCHIN ACCOUNT

2014		Rs.	2014		Rs.
Jan 1	To Consignment Stock A/c	15,000	June. 1	By Cochin Agent (Sales)	
Mar. 1	(Opening Balance)			8 bicycles	
Mar. 1	To Goods Sent on			@Rs.1,400 = Rs.11,200	
June. 1	Consignment A/c	64,000		25 bicycles	
June. 30	To Bank A/C (Expenses)	210	June. 30	@Rs.2,000=	61,200
June. 30	To Cochin Agent (5%			Rs.<u>50,000</u>	
	commission on sales)	3,060		By Consignment Stock A/c	
	To Cochin Agent			Cost of 15 bicycles @	
	(Expenses on 2 bicycles		June 30	Rs. 1,600 = Rs. 24,000	
	returned)	30		Non-recurring	
	To Profit on Consignment			Expenses :	
	transferred to			on 40 bicycles	
	Profit and Loss A,/c	5,979		=Rs.<u>210</u>	
				∴ On 15 bicycle Rs. $\frac{210}{40}$ x15 = Rs.<u>79</u>	24,079
				By Goods Sent on	
				Consignment A,/c	
				(Returns : 2 bicycles	3,000
		<u>88,279</u>		@ Rs. 1,500)	<u>88,279</u>

COCHIN AGENT ACCOUNT

2014		Rs.	2014		Rs.
June 1	To Consignment to Cochin A/c (Sales)	61,200	June 1	By Consignment to Cochin A/c (Commission)	30,60
			June 30	By Consignment to Cochin A,/c (Expenses)	30
			June 30	By Balance c/d	58,110
		61,200			61,200
June 1	To balance b/d	58,110			

GOODS SENT ON CONSIGNMENT ACCOUNT

2014		Rs.	2014		Rs.
June 30	To Consignment to Cochin A/c	3,000	Mar. 1	By Consignment to Cochin A/c	64,000
June 30	Trading A/c (Transfer)	61,000			
		64,000			64,000

CONSIGNMENT STOCK ACCOUNT

2014		Rs.	2014		Rs.
Jan. 1	To Balance b/d	15,000	Jan. 1	By Consignment to Cochin A/c (Transfer)	15,000
June. 30	To Consignment to Cochin A/c	24,079	June. 30	By Balance c/d	24,079
July. 1	To Balance b/d	24,079			

PROBLEM 6 : Himanshu sent out goods costing Rs. 80,000 to Navin as to show 20% profit on invoice price. 40% goods were lost in transit. 60% of the goods received were sold half at invoice price and the balance at 25% above the invoice price. Rate of Commission is 10% on sales at invoice Price plus 50% of gross sales less all commission exceeds sales at invoice price. Calculate the amount of commission.

SOLUTION

CALCULATTON OF COMMISSION

	Rs.
A. invoice Price of Goods Sent (Rs, 80,000 + 25%),	1,00,000
B. Less : invoice Price of Goods Lost (Rs, 1,00,000,x 40%)	40,000
C. Invoice Price of Balance Goods (A - B)	60,000
invoice Price of Goods Sold (60% of Rs. 60,000)	36,000
50% Sales at invoice price (50% of Rs, 36,000) .	18,000
50% Sales at25% above invoice price (50% of Rs. 36,000) x 125%	22,500
Total Sales Proceeds	40,500
10% Commission on Sales at invoice price (10% of 36,000)	3,600

Let Total Commission be = X

X- Rs. 3,600 = 50%(Rs.40,500- Rs. X – Rs. 36,000) = Rs.20,250-0.5 X- Rs.18,000

X= Rs. 5850/01= Rs.3,900

PROBLEM 7 : (When goods are sent to the consignee at Invoice Price). Swastik Ltd. Forwarded on 1st January,2014, 100 bicycles to Narinder & Co. of Delhi to be sold on behalf of Swastik Ltd. The cost of one bicycle was Rs.250, but the invoice price was Rs.300. Swastic Ldt. Incurred Rs. 1,000 on freight and insurance and received Rs.10,000 as advance from Narinder & Co. Narinder & Co. Paid Rs.500 as octroi and carriage, Rs. 400 as rent and Rs. 300 as insurance and by 30th June, 2014 had disposed of 80 bicycles for Rs. 25,000. Narinder & Co. is entitle to commission on sale at 5 per cent on proforma invoice price and 25% of any surplus price realized. Narinder and Co. remitted the amount due from them by a bank draft.

You are required to give the Journal Entries to record the above transaction in the books of the consignor and the consignee and also write up the Ledger Accounts in the books of both the parties.

SOLUTION

In the Books Swastic Ltd. (Consignor)

JOURNAL ENTRIES

2014			Rs.	Rs.
Jan. 1	Consignment to Delhi Account Dr.		30,000	30,000
	To Goods sent on Consignment Account			
	(Being 100 bicycles sent to Narinder & Co. of Delhi on consignment basis and invoiced @ Rs. 300)			
Jan. 1	Consignment to Delhi Account Dr.		1,000	1,000
	To Bank Account			

			Rs.	Rs.
	(Being freight and insurance paid on account of goods sent on consignment)			
Jan. 1	Bank Account Dr.		1,000	
	To Narinder & Co.			10,000
	(Being advance payment received)			
June 30	Consignment to Delhi Account Dr.		1,200	
	To Narinder & Co.			1,200
	(Being expenses incurred by Narinder & Co.)			
June 30	Narinder & Co. Dr.		25,000	
	To Consignment to Delhi Account			25,000
	(Being sale of 80 bicycles for Rs 25,000 by the consignee			
June 30	Consignment to Delhi Account Dr.		1,450	
	To Narinder & Co.			1,450
	[Being commission payable to narinder & Co. @ 5% on invoice price Rs. 24,000 (i.e.. 80 x 300) Plus 25% on surplus Rs 1,000 (Rs. 25,000 – 24,000)]			
June 30	Bank Account Dr		12,350	
	To Narinder & Co.			12,350
	(Being amount due from Narinder & Co. received)			
June 30	Consignment Stock Account Dr		6,300	
	To Consignment to Delhi Account			6,300
	(Being the value of 20 bicycles left unsold @ Rs 300 plus proportionate non-recurring expenses Rs. 300 i.e Rs. $\frac{1,500}{100}$ x 20			

June 30	Goods sent on Consignment Account Dr		5,000	
	To Consignment to Delhi Account			5,000
	(Being the excess of invoice. price @ Rs 50 per bicycle on 100 bicycles written back)			
June 30	Consignment to Delhi Account Dr		1,000	
	To Consignment Stock Suspense Account			1,000
	(Being the excess of invoice value over cost price @ Rs. 50 on 20 unsold bicycles written back)			
June 30	Consignment to Delhi Account Dr		1,650	
	To Profit and loss Account			1,650
	(Being profit on consignment transferred)			
June 30	Goods sent on Consignment Account Dr.		25,000	
	To Trading Account			25,000
	(Being transfer of balance of Goods sent on Consignment Account to Trading Account)			

CONSIGNMENT TO DELHI ACCOUNT

2014		Rs.	2014		Rs.
Jan. 1	To Goods sent on consignment A/c	30,000	June 30	By Narinder & Co. (Sales)	25,000
Jan. 1	To Bank Expenses	1,000	June 30	By Consignment Stock A/c	6,300
June 30	To Narinder & Co. (Expenses)	1,200	June 30	By Goods sent on Consignment A	5,000
June 30	To Narinder & Co. (Commission)	1,450			

June 30	To Consignment Stock Suspense A/c	1,000			
June 30	To Profit on Consignment transferred to Profit and Loss A/c	1,650			
		36,300			36,300

NARINDER & CO.

2014		Rs.	2014		Rs.
Jan. 30	To Consignment to Delhi A/c	25,000	Jan 1	By Bank Account	10,000
Jan. 1			June 30	By Consignment to Delhi A/c	1,200
June 30			June 30	By Consignment to Delhi A/c	1,450
June 30			June 30	By Bank Account	12,350
		25,000			25,000

GOODS SENT ON CONSIGNMENT ACCOUNT

2014		Rs.	2014		Rs.
June 30	To Consignment to Delhi A/c	5,000	Jan 1	By Consignment to Delhi A/c	30,000
June 30	To Trading Account	25,000			
		30,000			30,000

CONSIGNMENT STOCK ACCOUNT

2014		Rs.	2014		Rs.
June 30	To Consignment to Delhi A/c	6,300	Jan 30		
July 1	To Balance b/d	6,300		By Balance b/d	6,300

CONSIGNMENT STOCK SUSPENSE ACCOUNT

2014		Rs.	2014		Rs.
June 30	To Balance b/d	1,000	June 30	By Consignment to Delhi	1,000
			July 1	By Balance b/d	1,000

In the Books of Narinder & Co.

JOURNAL ENTRIES

2014			Rs.	Rs.
Jan. 1	Swastik Ltd. Dr.		10,000	
	To Bank Account			10,000
	(Being advance given on receipt of 100 bicycles to be sold on consignment basis)			
Jan. 1	Swastik Ltd. Dr.		1,200	
	To Bank Account			1,200
	(Being expenses paid on goods on consignment)			
?	Bank Account Dr.		25,000	
	To Swastik Ltd.			25,000
	(Being goods sold on the account of Swastik Ltd.)			

Jan. 30	Swastik Ltd. Dr.		1,450	
	To Commission **Earned** Account			1,450
	(Being Commission due on sale proceeds)			
Jan. 30	Swastik Ltd. Dr.		12,350	
	To Bank Account			12,350
	(Being amount due on consignment remitted to Swastik Ltd.)			

SWASTIK LTD

2014		Rs.	2014		Rs.
Jan. 1	To Bank Account	10,000	?	By Bank Account	25,000
Jan. 1	To Bank Account	1,200			
June 30	To Commission Earned A/c	1,450			
June 30	To Bank Account	12,350			
		25,000			25,000

PROBLEM 8 : (When commission is calculated at invoice price and some percentage of surplus price realized.). A of Ajmer consigned goods to B of Baroda for sale at invoice price or over. B was entitled to a commission of 3% on invoice price and 20% of any surplus price realized.

Goods costing Rs. 24,000 were consigned to Baroda. These were invoiced at a price so as to show a profit of 25% on invoice price. A paid thereon Rs. 1,500 for freight and Rs. 500 for insurance. On arrival of the goods, B paid Rs. 800 as landing charges and Rs. 2,000 for selling and godown expenses.

An account sale was received from B showing that he had effected sales of Rs.30,000 in respect of 4/5th of the quantity of goods consigned to him. B sent a Bank Draft for the amount so far due from him.

Prepare Consignment Account and B's Account in the books of A.

SOLUTION

In the Books of A

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods sent on Consignment A/c (1) (Rs. 24,000 + 1/3 of Rs. 24,000)	32,000	By B's A,/c (Sale proceeds)	3,000
To Bank: Rs.			
Freight 1,500	2,000	By Consignment Stock A,/c (3)	6,960
Insurance 500		By Goods sent on Consignment A,/c	8,000
To B's A/c			
Landing Charges 800	4,4481		
Selling and Godown Expenses 2,000	1,600		
	4,912		
Commission (2) 1,648	44,960		
To Consignment Stock Suspense A/c			
To P&L A/c			44,960

B'S ACCOUNT

	Rs.		Rs.
To Consignment A,/c	30,000	By Consignment A,/c	4,448
		(Expenses & Com.)	25,552
	30,000		30,000

Working Notes:

(1) Calculation of invoice Price

$$\text{invoice Price} = \text{Rs. } 24{,}000 \times \frac{100}{75} = \textbf{Rs.32,000}$$

(2) Calculation of Commission

Invoice Price of 4 goods Rs. 32,000 X $\frac{4}{5}$ = Rs. 25,600

Excess of invoice Price = Rs.30,000 –Rs.25,600 = Rs. 4,400

Commission	Rs.
3% on Rs. 25,600 =	768
20% on Rs 4,400 =	880
	1,648
	Rs.

(3) Calculation of Closing Stock

Total invoice Price	32,000
Add: Freight	1,500
Add: Insurance	500
Add: Landing Charges	800
	34,000
Value of 1/5 Unsold Stock (Rs 34,800 x $\frac{1}{5}$)	6,960

PROBLEM 9 : (Where cost price of goods sent is given but % of profit is given on sales). Shri Gopalan from fruit Madurai consigned 10,000 cases to tinned fruit (cost Rs. 75,000) to Gupta of Gujarat on 1st Jan. 2014 charging him a proforma invoice to show a profit of 25% on sales. Shri Gopalan paid on the same date Rs. 7,000 towards freight etc. During the half year ending 30th June. Gupta incurred expenses of Rs. 3,000 and reported sale of 8,000 cases for Rs.80,000

Gupta is entitled to 5% commission on sales which is duly charged up. Pass Journal entries in the books of Shri Gopalan.

SOLUTION

In the Books of Shri Gopalan

JOURNAL ENTRIES

2014			Rs.	Rs.
Jan. 1	Gujarat Consignment Account Dr.		1,00,000	
	To Goods sent on Consignment Account			1,00,000
	(Being goods costing Rs.75,000 sent to the consignee at a proforma invoice price showing a profit of $33^{1/3}$ % on cost or 25% on sales			
Jan. 1	Gujarat Consignment Account Dr.		7,000	
	To Bank Account			7,000
	(Being expenses incurred on the consignment of goods to the consignee)			
Jan. 1	Gujarat Consignment Account Dr.		3,000	
	To Gupta's Account			3,000
	(Being expenses incurred by the consignment in connection with the goods consigned to him)			
Jan. 30	Gujarat Consignment Account Dr.		3,000	
	To Gupta's Account			3,000
	(Being expenses incurred by the consignment in connection with the goods consigned to him)			
Jan. 30	Gupta's Account Dr.		80,000	
	To Gujarat Consignment Account			80,000
	(Being the gross sale proceeds as per account sales)			

Jan. 30	Gujarat Consignment Account Dr.		4,000	
	To Gupta's Account			4,000
	(Being commission on sale of goods sent on consignment payable to the consignee)			
Jan. 30	Consignment Stock Account Dr.		21,400	
	To Gujarat Consignment Account			21,400
	(Being the value of stock on hand with the consignee)			
	Goods sent on Consignment A/c Dr.		25,000	
	To Gujarat Consignment A/c			25,000
	(Being the excess of-invoice price of Rs. 1,00,000 over cost of goods Rs.75,000 sent on consignment written back)			
Jan. 30	Gujarat Consignment Account Dr.		5,000	
	To Consignment Stock Suspense A/c			5,000
	(Being the excess i.e. 25% of invoice price over price. of unsold stock adjusted to write back the unsold stock at cost price)			
Jan. 30	Gujarat Consignment Account Dr.		7,400	
	To Profit and Loss Account			7,400
	(Being profit on consignment transferred)			
Jan. 30	Goods sent on Consignment Account Dr.		75,000	
	To Trading Account			75,000
	(Being Balance in goods sent on consignment transferred To Trading A/c).			

Working Note (1) :

Value of closing stock	Rs.
Invoice price of 10,000 cases	10,000
Therefore, invoice price of 2,000 unsold cases (Rs. 1,00,000 x $\frac{2,000}{10,000}$)	20,000
Add : Proportionate non-recurring expenses on 2,000 cases	
(Rs. 7000 x $\frac{2,000}{10,000}$)	1,400
Value of Closing Stock at Invoice Price	21,400

PROBLEM 10 : When there is normal loss of goods). On 1st January 2014, Bharat Coal Company Ltd. Consigned to Kala Ram of Karnal 1,000 tons of coal, the pit cost being Rs. 100 per ton. The company had paid Rs. 10,000 towards freight and insurance.

Kala Ram took delivery of the goods consigned on 10th January, 2014 and Immediately accepted a bill drawn on him for Rs. 50,000 for 2 months. On 31st March (when the company accounts are closed) the consignee reported that:

(i) There was a shortage of 50 tons on the whole consignment due to loading and unloading of the coal.

(i) 800 tons were sold at Rs. 130 per ton.

(ii) He had incurred the following expenses:

: :' \':

Godown rent Rs. 500, insurance Rs. 500 and selling expenses Rs. 1,000.

Kala Ram is entitled to a commission of 4% on the sale proceeds. Show Necessary Accounts in the books of Bharat Coal Company Ltd. assuming that Kala Ram had remitted the balance due by bank draft on 31st March, 2014

SOLUTION

Bharat Coal Company Ltd.'s Books

CONSIGNMENT TO KARNAL ACCOUNT

2014		Rs.	2014		Rs.
Jan. 1	To Goods sent on Consignment A,/c	1,00,000	Mar. 31	By Kala Ram (Sales)	1,04,000
Jan. 1	To Bank A,/c (Expenses)	10,000	Mar. 31	By Consignment Stock A/c (1)	17,368
Mar. 31	To Kala Ram (Expenses)	2,000			
Mar. 31	To Kala Ram (Commission)	4,160			
Mar. 31	To Profit transferred to Profit and Loss A,/c	5,208			
		1,21,368			1,21,368

GOODS SENT ON CONSIGNMENT ACCOUNT

2014		Rs.	2014		Rs.
Mar. 31	To Trading A/c	1,00,000	Jan. 1	By Consignment to Karnal A,/c	1,00,000

KALA RAM ACCOUNT

2014		Rs.	2014		Rs.
Mar. 31	To Consignment to Karnal A/c	1,04,000	Jan. 10	By Bills Receivable A/c	50,000
			Mar. 31	By Consignment to Karnal A/c (Expenses)	2,000
			Mar. 31	By Consignment to Karnal A/c (Commission)	4,160
			Mar. 31	By Bank A/c	47840
					1,04,000

BILLS RECEIVABLE ACCOUNT

2014		Rs.	2014		Rs.
Jan. 10	To Kala Ram	50,000	Mar. 31	By Bank Account	50,000

CONSIGNMENT STOCK ACCOUNT

2014		Rs.	2014		Rs.
Mar. 31	To Consignment to Karnal A/c	17,368	Mar. 31	By Balance c/d	17,368
April 1	To Balance b/d	17,368			

Working Note :

(i) Valuation of Stock on Consignment Rs.

Cost of 1,000 tonnes of coal @ Rs. 100 per tone	1,00,000
Add: Freight and insurance	10,000
	1,10,000

Rs.10,000 is the value of 950 tonnes of coal (quantity of coal sent - quantity or normal loss i.e 1,000 tonnes - 50 tonnes).

Therefore, value of unsold stock of 150 tonnes (950 tonnes-800 tonnes quantity of coal sold) is Rs. 17,368(i.e Rs. $\frac{1,10,000}{950}$ x 150)

PROBLEM 11: (Calculation of Abnormal Lose and, Value of Stock) A Consigned to B 1000 kgs. of certain goods at Rs. 200 per kg. incurring Rs. 5,000.,as expenses. 100 kgs. were lost in transit. B spent Rs. 1,000 as non-recurring expenses and Rs. 3,000 as recurring expenses. B sold 600 kgs. of the goods 5 kgs. goods were lost due to breakage at B's godown which was considered to be normal. Calculate the amount of abnormal loss and the value of stock on consignment.

SOLUTION

Calculation of the Amount of Abnormal Loss

	Rs.
Cost of 100 kgs. lost in transit @ Rs. 200 per kg.	20,000
Add: Proportionate non-recurring expenses : Rs. $\frac{5,000}{500}$ x 100	1,000
Amount of Abnormal Loss	20,500

Calculation of the Value of Stock Rs.

Cost of goods consigned : 1,000 kgs. @ Rs. 200	2,00,000
Add: Expenses incurred by A	5,000
Cost before loss in transit	2,05,000
Less : Value of abnormal loss as calculated above	20,500
Value of remaining 900 kgs. (1000 - 100)	1,84,500
Add: Non-recurring expenses incurred by B	1,000
Cost of 895 kgs. (i.e. 900 kgs. - 5 kgs. normal loss)	1,85,000

Value of 295 kgs. Closing stock after saleRs. $\frac{1,85,500}{895 \text{ kgs.}}$ x 295 kgs. = Rs. 61,142

PROBLEM 12 : (When there is abnormal loss of goods). B whose accounting year ends on 31st May 2014, consigned 200 bags of sugar, each.bag costing Rs. 300 to A of Mumbai on 1st April, 2014. He had paid Rs. 1,000 towards freight and insurance, 30 bags were damaged in transit and on 31st May.2014 the consignor has received Rs. 2,000 on account of the damaged bags from the Insurance Company.

A took delivery of the goods on 10th April, 2014 and immediately accepted. a bill drawn on him for Rs. 40,000 for 60 days. On 31st May, 2014, the consignee reported that

(i) 140 bags were sold at Rs.350 per bag ;

(ii) The damaged bags were sold at Rs.110 per bag ; and

(iii) He had incurred the following expenses:

Godown rent Rs.1,400; clearing charges Rs 1,700 and carriage outwards Rs.600 He is entitled to a commission of l0% on the sale proceeds of all goods sold.

Assuming that A remits the balance by bank draft on 31st May, 2014.

Prepare Ledger Accounts in the books of B. Also assume that no portion of the expenses incurred by the consignee is attributable to the damaged bags.

SOLUTION

CONSIGNMENT TO MUMBAI ACCOUNT

2014		Rs.	2014		Rs.
April 1	To Goods sent on Consignment A/c	60,000	?	By Accidental Loss A/c (1)	9,150
April 1	To Bank A/c (Expenses)	1,000	May 31	By A (Sales)	49,000
May 31	To A (Expenses)	3,700	May 31	By Consignment Stock A/c (2)	9,450
May 31	To A (10% commission on Rs. 49,000 sale of goods)	4,900		By Loss on Consignment transferred to Profit & Loss A/c	2,000
		69,600			69,600

ACCIDENTAL LOSS ACCOUNT

2014		Rs.	2014		Rs.
?	To Consignment to Mumbai A/c	9,150	May 31	By Bank A/c (Amount received from insurance Co.)	2,000
May 31	A(10% Commission on Rs. 3,300 sale)	330	May 31	By A (Sale of 30 bags @ Rs. 1 10 per bag)	3,300
			May 31	By Abnormal Loss transferred to Profit & Loss A/c	4,180
		9,480			9,480

A'S ACCOUNT

2014		Rs.	2014		Rs.
Mar. 31	To Consignment to Mumbai A/c	49,000	April 10	By Bills Receivable A/c	40,000
Mar. 31	To Accidential Loss A/c	3,300	May 31	By Consignment to Mumbai A/c	3,700
			May 31	By Consignment to Mumbai A/c	4,900
			May 31	By Accidental Loss A./c	330
			May 31	By Bank A/c	3,370
		52,300			52,300

GOODS SENT 0N CONSIGNMENT ACCOUNT

2014		Rs.	2014		Rs.
May 31	To Trading A/c	60,000	Apr. 1	By Consignment to Mumbai A/c	60,000

BILLS RECEIVABLE ACCOUNT

2014		Rs.	2014		Rs.
Apr. 10	To A	40,000	May 31	By Balance c/d	40,000
June 1	To Balance c/d	40,000			

CONSIGNMENT STOCK ACCOUNT

2014		Rs.	2014		Rs.
May 31	To Consignment to Mumbai A/c	9,450	May 31	By Balance c/d	9,450
June 1	To Balance c/d	9,450			

Working Notes:

(1) Valuation of Goods Destroyed by Fire		**Rs.**
Cost of 3C bags @ Rs. 300 per bag		9,000
Add: Proportionate freight and insurance charges Rs. $\frac{1,000 \times 30}{150}$ bags		
		200 bags

(2) Valuation of Consignment Stock

No. of bags consigned		200
Less: No. of bags damaged		30
No. of good bags sold	140	170
No. of bags in stock		30
Cost of 30 bags @ Rs. 300 per bag		9,000
Add : Proportionate non-recurring expenses	$\left(\frac{\text{Rs. } 1,000 \times 30}{150}\right)$	
Freight and insurance		200
$\frac{(\text{Rs. } 1,700 \times 30)}{300}$		
Clearing charges on 30 bags	170	9,450

[**Note** : clearing charges have been incurred on 170 bags and not on 200 bags.]

PROBLEM 13 : (Where some goods are in transit besides unsold, stock With the consignee). Sri Mehta of Mumbai consigns 1,000 cases of goods costing Rs. 100 each to Sri Sundaram of Chennai. Sri Mehta pays the following expenses in connection with the consignment:

Carriage Rs 1,000; Freight Rs.3,000; Loading charges Rs. 1,000 Sri Sundaram sells 700 cases at Rs. 140 per case and incurs the following expenses:

Clearing charges Rs.850; warehousing and storage Rs. 1,700; packaging and selling expenses Rs.600.

It is found that 50 cases have been lost in transit and lo0 cases are still_Sri Sundaram is entitled to a commission of 10% on gross sales. Draw up Consignment Account and Sundaram's Account in the books of Sri Mehta.

SOLUTION

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods Sent on Consignment A/c	1,00,000	By Sundaram (Sales)	98,000
" Bank A/c (Expenses)	5,000	700,cases @ t 140 per case	5,250
' Sundaram (Expenses)	3,150	" Accidental Loss A/c (1)	10,500
" Sundaram(Commission)		" Goods in Transit A/c (2)	15,900
(10% on Rs. 98,000 Sales)	9,800	" Consignment Stock A/c (3)	
To Profit on Consignment transferred to Profit and Loss account	11,700		
	1,29,650		1,29,650

SUNDARAM'S ACCOUNT

	Rs.		Rs.
		By Commission A/c (Expenses)	3,150
		" Consignment (Commission)	9,800
		" Balance c/d	85,050
To Consignment A,/c (Sales)	98,000		98,000

Working Notes:

(1) Value of Accidental Loss Rs.

Cost of 50 cases @ Rs.100 per case 5,000

Add: Proportionate non-recurring expenses incurred by the consignor,

i.e $\frac{50}{1,000}$ x Rs.5,000 250

5,250

(1) Value of Goods in Transit **Rs.**

Cost of 100 cases @ Rs.100 per case 1,000

Add: Proportionate non-recurring expenses incurred by the consignor,

i.e $\frac{100}{1,000}$ x Rs.5,000 500

10,500

(2) Value of Closing Consignment Stock **Rs.**

Cost of 150 cases @ Rs. 100 per case . 15,000

Add: Proportionate non-recurring expenses incurred by the consignor ,

i.e $\frac{150}{1,000}$ x 5,000 750

Add: Proportionate non-recurring expenses incurred by the consignee.

Clearing charges on 850 cases (1 ,000 cases c6nsigned - 50 cases lost in transit - 100 cases still in transit) Rs. 850

Therefore, clearing charges on 150 cases $\left(\text{Rs.}\frac{850}{850} \times 150\right)$ 150

15,900

PROBLEM 14 : (Where damaged. Goods in transit are valued than their cost). Ram sent 500 articles to his agent Mohan at an invoice price of Rs.25 per article and paid freight and cartage Rs. 460. Mohan sold 300 articles at a flat Rate of Rs. 30 per article and sent an account sales deducting therefore Rs. 200 for storage charges and Rs.300 for selling expenses. He charged 10% commission on the gross sale proceeds and remitted the amount. Mohan also informed that 50 articles were so damaged in transit that they could bring 70% of their cost.

Record the above transactions by means of ledger in the books of Ram.

SOLUTION

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods sent on Consignment A/c	12,500	By Mohan (Sales)	9,000
" Cash (Freight & Cartage)	460	"Abnormal Loss A/c (1)	1,296
" Mohan (Storage Charges)	200	" Consignment Stock A/c (2)	3,888
"Mohan (Selling Exp.)	300	" Loss on Consignment transferred to Profit & Loss A/c	76
"Mohan (Commission 10% on Rs. 9,000 Sales)	900		
	14,360		14,360

ABNOBMAL LOSS ACCOUNT

	Rs.		Rs.
To Consignment A/c	1,296	By Mohan (Sales : 70% of Rs.1,296)	907
" Mohan (Commission @ 10% on Rs. 907)	91	" Profit & Loss A/c	480
	1,387		1,387

MOHAN'S ACCOUNT

	Rs.		Rs.
To Consignment A/c (Sales)	9,000	By Consignment A/c	200
" Abnormal Loss A/c (Sales)	907	(Storage Charges)	300
		"Consignment A/c (Selling Exp.)	900
		"Consignment A/c (Commission)	91
		" Abnormal Loss A/c (Commission)	8,416
	9,907	"Bank A/c (Final Settlement)	9,907

GOODS SENT ON CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Purchase A/c	12,500	By Consignment A/c	12,500

CONSIGNMENT STOCK ACCOUNT

	Rs.		Rs.
To Consignment A/c	3,888	By balance c/d	3,888
To Balance b/d	3,888		

Working Notes:

(1) Calculation of Value of Abnormal Loss

		Rs.
Cost of 50 articles destroyed @ Rs. 25 per article		1,250
Add: Proportionate expenses for goods destroyed:		
Freight on 500 articles		Rs.460
Freight on 50 articles	Rs. $\frac{469}{500}$ x 50	46
Cost of 50 articles		1,296

(2) Calculation of Value of Closing Stock

		Rs.
Cost of 150 articles (i.e.500 - 50 destroyed - 300 sold)		3,750
Left unsold @ Rs. 25 per article		
Add: Proportionate freight and cartage charges i.e.,	Rs. $\frac{460}{500}$ x 150	138
Value of closing stock		3,888

PROBLEM 15 : Dinesh of Kolkata consigned 100 transistor sets Costing Rs. 500 each to Suresh of Patna. The invoice Performa was made at Rs. 600 per set. Suresh was entitled to a commission ot7 ½ on sales plus 2 $^{1/2}$ del cedre commission and l0% of any excess price realized over invoice price' Suresh was to bear all expenses incurred after the goods reached his godown While sending the goods, Dinesh paid Rs. 1,500 as forwarding expenses and insurance' In transit, 10 transistor set were damaged and Dinesh recovered Rs. 4000 from the insurance company. Suresh took delivery of remaining transistor sets paying Rs. 4,500 as freight, cartage, etc. suresh sold 70 transistor sets at Rs 800 each, 30 of them on credit. Out of which the proceeds of 3 transistor sets could not be recovered because of the disappearance of the customers. He paid Rs. 500 as storage and selling expenses. Suresh sent a bank draft for the amount due to Dinesh. Show Consignment Account and Suresh's Account in the books of Dinesh.

SOLUTION

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods Sent on Consignment A,/c	60,000	By Abnormal Loss A/c cost of 10	
To Bank (Expenses & insurance)	1,500	sets @ Rs. 500 5,000	
To Suresh (Freight & Cartage)	45,00	Add: Proportionate	
To Suresh (Commission) : Rs		Expenses of the	
Ordinary $7^{1/2}$ % of		Consignor	
Rs 56,000 4,200		10 x Rs. 1,500 150	
Del Credere $2^{1/2}$%		100 5,150	
of Rs. 56,000 1,400		Less: Recovered from	
Extra 10% of Excess		insurance co 4,000	
of invoice Price, i.e.,			1,150
10% of Rs. 200 x 70 1,400		By Bank (insurance Claim)	4,000
To Stock Reserve (on 20		By Suresh (Sales : 70 x Rs.800)	56,000
Transistor Sets @ Rs. 100)	7,000	By Goods Sent on Consignment	2,000
To Profit on Consignment		A/c (Loading 100 x Rs.100)	10,000
transferred to Profit & Loss A/c	2,000	By Consignment Stock A/c :	
		invoice Price (20 x T 600) 12,000	
		Proportionate Expenses :	
		of Consignor	
		(20 x Rs. 1,500) 300	
		100	
		of Consignee	
		(20 x Rs. 4,500) 1,000	
		90	13,300
	84,450		84,450

SURESH'S ACCOUNT

	Rs.		Rs.
To Consignment A/c (Sales)	56,000	By Consignment A/c (Freight & Cartage)	4,500
		By Consignment A/c (Commission)	7,000
		By Bank (Final Settlement)	44,500
	56,000		56,000

PROBLEM 16 : (Where loss on damaged stock is to be calculated & discount on bill is given. On 1st September, 2014 Faquirchand of Kanpur consigned of Akbar-of Aizawal 100 bales of cloth invoiced at Rs. 60 each. The invoice price was made up of 20% above cost. The freight and other charges amount to Rs. 310. Faquirchand also drew a bill on Akbar for Rs. 3,000 and discounted the same with the bank for Rs. 2,980. Akbar duly met the bill on the due date.

On 25th December, 2014 Akbar sent Account Sales together with the necessary remittance showing that 40 bales had realized Rs. 60 each and 30 bales at Rs. 70 each and that 30 bales remained unsold, out of these 20 bales were damaged due to faulty packing and that he estimated the selling price of damaged goods to be Rs. 20 per bale.

Akbar was entitled to a selling commission of 5%. Show Consignment Account in the books of Faquirchand. Also ascertain the final remittance made by Akbar.

SOLUTION

In the Books of Faquirchand

CONSIGNMENT ACCOUNT

	Rs.		Rs.
1-9-2014		25-12-2014	
To Goods sent on Consignment A/c	6,000	By Akbar's A/c [Rs. 2,400 + Rs 2,100]	4,500
		31-12-2014	
To Bank (Freight & Other Charges)	310	By Consignment Stock A/c (1)	1,031

To Akbar's A,/c (Commission)	225	By Abnormal Loss A/c (Loss on Damaged Stock) (2)	662
To Consignment Stock Reserve A/c ($\frac{1}{6}$ x Rs.600)	100	By Goods sent on Consignment A/c	1000
To Profit and loss A/c(Profit)	558		
	7,193		7,193

AKBAR'S ACCOUNT

	Rs.		Rs.
25-12-2014		01-09-2014	
To Consignment A/c	4,500	By B/R A/c 31-12-2014	3,000
		By Consignment A/c (Commission)	225
		By Bank	1,275
	4,500		4,500

Working Notes:

(1) Calculation of the Value of Stock	**Rs.**
10 Cases @ Rs. 60 per Case	600
Add : Proportionate Expenses (Rs. $\frac{310}{100}$ x 10)	31
	631
Add : Value of 20 Damaged Cases @ Rs. 20 each	400
	1031

(2) Loss on Damaged Stock

Cost of 20 Cases @ Rs 50 each	1,000

Add: proportionate Expenses (Rs. $\frac{310}{100} \times 20$)	62
	1000
Less: Realizable Value	400
Loss on Damaged Stock	662

PROBLEM 17 : (Where there is abnormal loss and. Value of stock is to be Calculated). Abani of Kolkata consigned goods to sajani of Mumbai for Rs. 1,00,000 to be sold on the basis of commission of 5% and del credere commission of 1%. Abani paid the following expenses : freight Rs.2,500 insurance Rs.1,500 , booking expenses Rs. 2,000. 1/10th of the goods were lost in transit for which the insurance company paid Rs.9,000, 4/5th of the original goods were sold by sajani for Rs.1,20,000 and sajani paid the following expenses: Freight Rs.900, Railway Yard Rent Rs.450, Godown Rent Rs.1,200, Selling Expenses Rs. 3,000, Sajani informs that one of the customer owing Rs. 2,400 has left without making the payment. sajani paid the amount due to Abani.

Show necessary Ledger Accounts in the books of Abani

SOLUTION

In the Books of Abani

CONSIGNMENT TO MUMBAI ACCOUNT

	Rs.			Rs.
To Goods sent on Consignment A/c	1,00,000	By Sajani (Sales)		1,20,000
To Bank (Expenses)	6,000	By Accidental Loss A/c	(1)	10,600
To Sajani (Expenses)	5,500	By Consignment Stock A/c	(2)	10,750
To Sajani (Commission)	7,200			
To Profit & Loss A/c	22,600			
	1,41,350			1,41,350

ACCIDENTAL LOSS ACCOUNT

	Rs.		Rs.
To Consignment to Mumbai A,/c	10,600	By Bank (Insurance Claim)	9,000
		By Profit & Loss A/c	1,600
	10,600		10,600

SAJANI'S ACCOUNT

	Rs.		Rs.
To Consignment to Mumbai A/c	1,20,000	By Consignment to Mumbai A/c	
		(Expenses)	5,550
		By Consignment to Mumbai A/c	7,200
		By Bank A/c	1,07,250
	1,20,000		1,20,000

GOODS SENT ON CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Purchases A/c (Transfer)	1,00,000	By Consignment to Mumbai A/c	1,00,000

CONSIGNMENT STOCK ACCOUNT

	Rs.		Rs.
To Consignment to Mumbai A/c	10,750	By Balance c/d	10,750
To Balance b/d	10,750		

Working Notes

(1) Value of Accidental Loss i.e. Goods Lost in Transit	**Rs.**
Cost of 1/10 goods sent on consignment lost in transit (Rs. 1,00,000 x $\frac{1}{10}$)	10,000
Add : 1/10 of expenses incurred by Abani ($\frac{1}{10}$ x 6,000)	600
	10,600

(2) Calculation of Value of Consignment Stock	Rs.
cost of 1/10th (i.e 1- $\frac{1}{10}$- $\frac{4}{5}$) goods sent remained unsold (Rs.1,00,000 x $\frac{1}{10}$)	10,000
Add : Proportionate non-recurring .expenses :	
1/10 of expenses incurred by Abani ($\frac{1}{10}$ x 6,000)	600
1/9 of expenses incurred by Sajani ($\frac{1}{9}$ x 1,350) (3)	150
	10,750

(3)9/10th of goods sent on consignment (i.e 1 – 1th goods lost in transit) have been received by the consignee and non-recurring expenses Rs 1,350 (i.e. Freight Rs. 900 + Rs 450 Railway yard Rent) have been incurred by the consignee. Therefore, share of such expenses to be included in closing stock is calculated as given below :

Expenses on 9/'l0th goods	Rs 1 ,350
.'. Expenses on 1/10th goods not yet sold	
(Rs. $\frac{1,350}{\frac{9}{10}}$ x $\frac{1}{10}$ = Rs. 1,350 x $\frac{10}{9}$ x $\frac{1}{10}$ = Rs. 1,350 x $\frac{1}{9}$)	Rs. 150

July 1	Consignment to Amritsar Account Dr. To Singh & Co. (Being 5% commission on gross proceeds Rs 48,145 payable to the consignee)	2,407	2,407
July 1	Bills Receivable Account Dr. To Singh & Co. (Being the amount due received)	35,252	35,252
July 1	Consignment to Amritsar Account Dr. To Profit and Loss Account (Being Profit on consignment transferred)	3,478	3,478
July 1	Goods sent on Consignment Account Dr. To Trading Account (Being goods sent on consignment transferred to Trading Account)	41,235	41,235

CONSIGNMENT TO AMRITSAR ACCOUNT

2014		Rs	2014		Rs
Mar. 15	To Goods sent on Consignment Account	41,235	July 1	By Singh & Co. (sales)	48,145
Mar. 15	To Cash Account (Expenses)	539			
Mar. 20	To Singh & Co. (Expenses)	486			
July 1	To Singh & Co. (Commission)	2,407			
July 1	To Profit & Loss A/c (Profit transferred	3,478			
		48,145			48,145

PROBLEM 18 : (Where goods are sent at invoice price, there is abnormal loss and commission of all types is to be calculated and Bad Debts occur). Dinesh of Kolkata consigned 100 transistor sets costing Rs.500 each to Suresh of Patna. The invoice proforma was made at Rs. 600 per set. Suresh was entitled to commission of $7^{1/2}\%$. On sales plus $2^{1/2}\%$ del credere commission and 10% of any excess price realized over invoice price. Suresh was to bear all expenses incurred after the goods reached his godown. While sending the goods, Dinesh paid Rs. 1,500 as forwarding expenses and insurance. In transit, l0 transistor sets were damaged and Dinesh recovered Rs. 4,000 from the insurance company. suresh took delivery of remaining transistor remaining transistor sets paying Rs.4,500 as freight, cartage, etc. suresh sold 70 transistor sets at Rs.800 each, 30 of them on credit. Out of which the proceeds of 3 transistor sets could not be recovered because of the disappearance of the customers, He paid Rs.500 as strong's and selling expenses. suresh sent a bank draft for the amount due to Dinesh. show consignment Account and suresh's Account in the books of Dinesh.

SOLUTION

In the Books of Dinesh

CONSIGNMENT ACCOUNT

		Rs.		Rs.
To Goods sent on			By Abnormal Loss A/c	
Consignment A/c		60,000	$\left(\frac{10}{100} \times \text{Rs.}51{,}500 - \text{Rs.}4{,}000\right)$	1,150
To Bank (Expenses)		1,500		
To Suresh's A/c:	Rs.		By Bank (insurance claim received)	4,000
Expenses	4,500		By Suyesh's A/c (Sates)	56,000
Commission ordinary	4,200		By Goods Sent on	
Del credere	1,400		Consignment A/c	10,000

SUBESH'S ACCOUNT

	Rs.		Rs.
To' Consignment A/c	56,000	By Consignment A/c (Exp. & Commission)	11,500
		By Bank A/c	44,500
	56,000		56,000

PROBLEM 19 : Where Consignee also gets Commission on the sale of damaged, goods and Bad Debts occur) B of Mumbai send a consignment of goods to C of Kolkata and charges at Performa invoice price so as to show a profit of $33^{1/3}$ per cent on cost. The agent receives commission @ 7 per cent plus 3 per cent del credere on all sales made by him. Stock of goods with the agent at the beginning of the year -20 cases at Performa price Rs. 4,000.

During the year ended 31st December, 2019, B had the following transactions with C :

(a) Performa invoice price of 100 cases of goods consigned to C Rs.24,000.

(b) Advance received from C-Rs. 10,000.

(c) Freight and Insurance on the consignment paid by B – Rs.11000.

(d) Sales made by C :

(i) 50 cases for cash - Rs. 12,500.

(ii) 40 cases on credit-Rs. 10,800.

(e) Selling Expenses made by the Agent-Rs.1,200 and discount allowed by Him -Rs. 500.

(f) 12 cases of goods were damaged by the railway for which C received Rs. 1,400. The damaged cases were sold at Rs. 600.

(g) Out of the goods sold on credit, Rs. 1,500 was irrecoverable and considered bad by the Agent.

(h) The Agent remitted the balance due by him by bank-draft. Show Ledger Accounts to record the above transactions in the books of B and ascertain the profit made by him on the consignment up to December 31 2013 valuing closing stock at average cost method.

SOLUTION

In the Books of B

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Consignment Stock A/c (20 Cases)	4,000	By Consignment Stock Reserve A/c	
'' Goods sent on Consignment		(Opening Stock)	1,000
A"/c (100 Cases)	24,000	' ' C (Sales): Rs.	
" Bank (freight & insurance)	1.000	50 Cases 12,500	
''C Rs.		40 Cases <u>10,800</u>	23,300
Selling Expenses 1,200		" C (amount recovered	
Discount 500		from railway authority)	1,400
Commission <u>2,330</u>		" Abnormal Loss A/c	
	4,030	[12 x Rs. $\frac{18,000}{100}$ + Rs. $\frac{1,000}{100}$ x 12 – Rs.1,400	800
" Consignment Stock Reserve A,/c	1,050		
(1/4 of Rs. 4,200)			
" P & L A/c	2,880	(i.e., Rs.2,160 + Rs. 120 –Rs. 1,400)]	
		Consignment Stock A/c	4,380
		(Rs. $\frac{28,000}{120}$ x 18 + Rs. $\frac{1,000}{100}$ x 18)	6,000
		" Goods sent on Consignment A/c	
		($\frac{1}{4}$ of Rs. 24,000)	
	<u>36,960</u>		<u>36,960</u>

ABNORMAL LOSS ACCOUNT

	Rs.		Rs.
To Consignment A,/c	880	By C (Sale of damaged goods)	600
To C (Commission 10% on Rs. 600)	60	By P.& L.A/c	340
	940		940

C'S ACCOUNT

	Rs.		Rs.
To Consignment A/c	23,300	By Bank	10,000
To Consignment A,/c	1,400	By Consignment A/c	4,030
To Abnormal Loss A,/c	600	(Exps. & Commission)	
		By Abnormal Loss A/c	60
		" Bank A/c	11,210
	25,300		25,300

CONSIGNMENT K ACPOUNT

	Rs.		Rs.
To Balance b/d (Opening)	4,000	By Consignment A/c	4,000
To Consignment A"/c (Closing)	4,380	By Balance c/d	4,380

CONSIGNMENT STOCK RESERVE ACCOUNT

	Rs.		Rs.
To Consignment A/c	1,000	By Balance b/d (Opening)	1,000
To Balance c/d	1,050	By consignment A/c (Closing)	1,050

GOODS SENT ON CONSTGNMENT ACCOUNT

	Rs.		Rs.
To Consignment A./c	6,000	By Consignment A/c	24,000
To Trading A/c	18,000		
	24,000		24,000

Note. Closing stock has been valued at average cost method

Where Both Normal and Abnormal Losses occur Simultaneously

In some cases it may be possible that both losses i.e., are given' normal and abnormal losses are given. While preparing consignment account normal loss is ignored. The valuation of abnormal loss is done on the same basis as has already been discussed. But while calculating the value of stock, the following procedure is to be followed:

(i) First of all deduct-the quantity of normal loss from the total quantity without deducting anything from the total cost.

(ii) Then deduct the quantity as well as value of abnormal loss (without deducting anything received or receivable from the insurance company) from the rest of the quantity and cost as arrived at in (i) above.

(iii) Calculate the average value per unit by dividing the residual amount by the residual quantity.

(iv) Multiply with the units of unsold stock lying in the hands of the consignee by average cost of a unit as calculated in (iii) above. This will give the value of consignment stock which is to be shown on the credit side of the Consignment Account.

PROBLEM 20 : (Where both losses occur simultaneously). Calculate value of stock and of abnormal loss from the following particulars:

(a) 5,000 kgs. of oil consigned at Rs. 16 per kg. (b) Freight Rs. 2,000 and insurance Rs 3,000 paid by consignor. (c) Consignee's expenses : Rs.700 for advertisement and Rs 200 for godown rent. (d) 750 kgs of oil was lost in transit and the insurance company paid Rs. 10,000 for it to the consignor. (e) sales : 3,000 kgs at Rs. l8 per kgs (f) Commission at 5% on sales. (g) Stock with the consignee was 1000 kgs. (h) Normal loss 250 kgs.

SOLUTION

Calculation of Abnormal Loss		**Rs.**
Cost of 5,000 kgs. @ Rs. 16 per kg.		80,000
Add: Freight and insurance		5,000
Total Cost of 5,000 kgs.		85,000
Cost of 750 kgs.		$= \text{Rs. } \frac{85{,}000}{5{,}000} \times 750$
		= Rs.12,750
Less: Received from insurance Co.		Rs. 10,000
Net Abnormal Loss		Rs.2, 750
Calculation of Value of Stock	kgs	cost
Cost	5,000	85,000
Less: Normal Loss	250	-——
	4,750	85,000
Less: Abnormal Loss	750	12,750
Value of 4,000kgs after normal loss and abnormal loss	4,000	72,250

Value of Stock = $\text{Rs.}\frac{72{,}250}{4{,}000} \times 100$ = **Rs. 18,062.50**

PROBLEM 21 : (When both normal and abnormal losses occur Simultaneously). Oswal Mills, Ludhiana consigned 5,000 kgs. of vanaspati Ghee To Vijay Dealers of Chandigarh. Each kg. ghee costs Rs. 8. Oswal Mills paid Rs.50 as carriage, Rs.250 as freight and Rs.200 as insurance in transit. During transit 500 kgs. were accidentally destroyed for which the insurance company paid directly to the consignors Rs. 2,500 in full settlement of the claim. After three months from the date of the consignment of the goods to Chandigarh,

Vijay Dealers reported that 3,500 kgs. of ghee was sold @ Rs.9.50 per Kg. and expenses being : on godown rent, Rs. 500 and on salesman salary Rs.750. VijaY Dealers are entitled to a 5% commission on sales. Vijay Dealers also reported a loss of 20 kgs. due to leakage. Prepare Necessary Accounts in books of both the parties.

SOLUTION

In the Books of Oswal Mills, Ludhiana

CONSIGNMENT TO CHANDIGARH ACCOUNT

	Rs.		Rs.
To Goods sent on Consignment A/c	40,000	By Bank (insurance Claim)	2,500
To Cash A/c (Expenses)	500	By Profit & Loss A/c	
To vijay Dealers (Expenses)	1,250	(Abnormal loss) (1)	1,550
To vijay Dealers (Solo commission		By Vijay Dealers (Sales)	33,250
on sales (33,250)	1,663	By Consignment Stock A/c (2)	7,973
To Profit to Consignment transferred to Profit and Loss A/c	1860		
	45,273		45,273

VIJAY DEALERS

	Rs.		Rs.
To Consignment to Chandigarh A/c	33,250	By Consignment to Chandigarh A/c	1,250
		By Consignment to Chandigarh A/c	1,663
	33,250	By Balance c/d	30,337
To Balance b/d	30,337		33,250

GOODS SENT ON CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Trading A/c	40,000	By Consignment to Chandigarh A/c	40,000

CONSIGNMENT STOCK ACCOUNT

	Rs.		Rs.
To Consignment to Chandigarh A/c	7,973	By Balance c/d	7,973
To Balance b/d	7,973		

IN THE BOOKS OFVIJAY DEALERS

OSWAL MILLS

	Rs.		Rs.
To Cash A/c	1,250	By Cash A/c (Sates)	33,250
To Commission A/c	1,663		
To Balance c/d	30,337		
	33,250		33,250
		By Balance b/d	30,337

COMMISSION ACCOUNT

	Rs.		Rs.
To Profit & Loss A/c (Transfer)	1,663	By Oswal Mills	1,663

Working Notes

(1) Value of Vanaspati Ghee Accidentally Destroyed	**Rs.**
Cost of 5,000 kgs. @ Rs. 8 per kg.	40,000
Add: Expenses:	Rs.
Carriage	50
Freight	250
insurance in Transit	200

	500
Total cost of 5,000 kgs.	40,500
Therefore, cost of 500 kgs. Accidentally destroyed (Rs. $\frac{40,500 \times 500}{5,000}$)	4,050
Cost of remaining 4,500 kgs.	36,450
Value of goods accidentally destroyed	4,050
Less: Amount recovered from insurance Company	2,500
Abnormal	1,550

(2) Value of Stock on Consignment	**Quantity**	**Cost**
. Total cost of goods consigned Rs.40,500		5,000Kgs.
Less: Abnormal Loss	500kgs.	Rs.4050
	4,500 Kgs	Rs.36,450
Less: Normal Loss	20kgs	———
	4,480 kgs.	Rs.36,450

Value of Stock = $\frac{\text{Unsold Stock}}{\text{Remaining Stock}}$ x Value of Remaining Stock

= $\frac{\text{980 kgs.}}{\text{4,480 kgs.}}$ x Rs.36,450 = 7,973.

PROBLEM 22 : Where cost of goods sent on consignment is not given). Mr. Krishan Murthy requests you to prepare a Consignment Account for the Year ended 30th June, 2014 and for the purpose given you the following information to ascertain the profit earned on consignment.

		Rs.
(i)	**Agent's commission@ 5%oon gross sales**	**20,000**
(ii)	**Cost of goods fully damaged in transit (insurance claim recovered Rs. 18,000)**	**20,000**
(iii)	**Expenses incurred by the agent:**	
	Godown Rent — Rs. 400	
	Landing & Clearing — Rs. 1,000	
	Advertisements — Rs. 200	
	Transport charges — Rs. 900	
	Selling Expenses — Rs. 1,000	
		3,500
(iv)	**Freight expenses incurred by Krishna Murthy**	**2000**
(v)	**Cost of unsold stock lying with the agent at the end of the year**	**60,000**

All sales were effected by the agent at a profit of 25% on cost.

SOLUTION

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods sent on Consignment A/c (1)	4,00,000	By Agent's A/c (Sales)	4,00,000
To Bank (Freight)	2,000	(Rs. 20,000 x $\frac{100}{5}$)	
To Agent A/c			
Rs.		Rs.	
Expenses 3,500		By Abnormal Loss: Cost 20,000	
Commission (5%) 20,000		Add : Expenses 100	
	23,500		20,100

Working Note :

(1) Calculation of Cost of Goods Sent on Consignment	**Rs.**
cost of goods sold (Rs. 40,00,000 – $\frac{25}{125}$ x 4,00,000)	3,20,000
Add: Cost of damaged goods in transit	20,000
Add: Cost of unsold stock	60,000
Cost of goods sent on consignment	4,00,000

PROBLEM 23 : (where goods unsold with the consignee were brought back after incurring expenses). Ali of Kolkata sent a consignment of cotton goods to Osman of Delhi invoiced at Rs. 1,000 The invoice price was made by adding 25% to the Cost. The expenses incurred by Ali were packing Rs. 24, Carriage, etc., Rs.16. Insurance Rs.12 and other expenses Rs.26.

After three months he received an Account Sales intimating that half the consignment was sold at Rs. 600, The expenses incurred by the consignee were: Freight Rs.30, Fire Insurance Rs.18 and other expenses Rs. 10. His commission was 6% on sales and Del Credere commission $1^{1/2}$%.

But no sale could be made of the remainder, so that it was brought back after another nine months at a further cost of Rs. 60. (paid by Osman). The goods were damaged and valued at 20% below cost.

Give Ledger A/cs. in the books of Ali.

SOLUTION

In the Books of Ali .

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods sent on Consignment A/c	1,000	By Goods sent on Consignment A/c	200
To Cash (Expenses)	78	By Osman (Sales)	600
To Osman (Expenses)	58	By Consignment Stock A/c	
			320
To Osman (Commission)	45	(80% of ? 400 cost)	
			121
To Osman (Expenses)	60		
	1,241	By Profit and Loss A/c	1.241

OSMAN'S ACCOUNT

	Rs.		Rs.
To Consignment A/c	600	By Consignment A/c	
		(Expenses & Commission)	163
		By Balance c/d	437
	600		600

2014		Rs.	2014		Rs.
Sep. 1	To Goods sent on Consignment A/c (Rs. 33,000 + $\frac{20}{100}$ x Rs.33,000)	39,600	Dec. 31	By B: Rs. Cash Sales 16,500 Credit Sales 16,500(1)	33,000
Sep. 1	To Bank A/c (Insurance and Freight)	1,250	?	By abnormal Loss A/c (2)	4,313
Dec. 31	To B : Rs. Establishment Cost 1,000 (For 4 months @ Rs. 250) Landing charges 255 5% Commission On Gross Sales 1,650 3% Del Credere Commission on Credit Sales 495	3,400	Dec. 31	By Consignment Stock A/c (3)	5,138
			Dec. 31	By Goods Sent on Consignment A/c (Loading) (Rs.39,600 x $\frac{20}{120}$)	6,600
Dec. 31	To Consignment Stock Suspense A/c	825 189			
	To B (5% of Net Profit)	3,789			
Dec. 31	To Profit & Loss A/c	——			
		49,051			49,051

ABNORMAL LOSS ACCOUNT

2014		Rs.	2014		Rs.
?	To Consignment A/c	4,313	?	By Insurance Claim A/c	
			Dec. 31	(Rs. 4,000 + $\frac{20}{100}$ x Rs.4,000)	3,200
				By Profit and Loss A/c	1,113
		4,313			4,313

Working Notes:

(1) Ascertainment of Cash and credit Sales — Rs.

	Rs.
Cost of total goods consigned	33,000
Therefore, cost of ¾ goods sold (i.e Rs.33,000 x ¾)	24,750
Add: Profit $33^{1/3}$% on cost (i.e Rs. $\frac{24,750 \times 100}{3 \times 100}$)	8,250
Total Sales	33,000
Credit Sates (50% of Rs. 33,000)	16,500

(2) Valuation of Abnormal Loss

Cost of 1/8th the goods consigned (i.e., Rs. 33,000 x $\frac{1}{8}$)	4,125
Add: Proportionate Non-recurring Expenses ;	
1/8 of freight and insurance (ie., Rs. 1,250 x 1/8)	156
1/8 of landing charges (i.e., Rs. 255 x 1/8)	32
	4,313

(3) Valuation of Consignment Stock

Cost of 1/8th of the goods consigned	4,125

Add: 20% profit on cost to get the invoice price	825
	4,950
Invoice value of stock	
Add: Proportionate Non-recurring Expenses:	
1/8 of freight and insurance	156
1/8 of landing charges	32
	5,138

PROBLEM 25 : (Where Trading and, Profit & Loss Account is to be prepared besides consignment A/c). pyare Lal & sons of Delhi purchase 10,000 meters of cloth for Rs. 20,000, 5,000 meters sent on consignment to Ram Chand & Bros. of Ajmer at the selling price of Rs. 3 per meter. The consignment Pay Rs. 500 for freight and Rs. 50 for packing etc. Rs. 10 for petty expenses.

Ram chand & Bros. sell 4,000 meters at Rs. 4 per meter and incur Rs. 200 for Sundry expenses. They are entitled to a commission of 5% on Total sale proceeded plus a further 20% on any surplus price realized over Rs. 3 per meter. 3,000 meters are sold at Delhi directly at Rs.3 a meter less Rs.300 for expenses And commission. owing to a fall in market the stock of cloth in hand is to be reduced by 10%.

Prepare consignment Account and Trading and profit and Loss Account in the books of pyare Lal & sons and pyare Lal's Account in the book of the consignee.

SOLUTION

In the Books of Pyare Lal & Sons of Delhi

CONSIGNMENT ACCOUNT

	Rs.		Rs.
			16,000
To Goods sent on Consignment A/c	15,000	By Ram Chand & Bros. (Sates)	
To Bank Account Rs.		" Consignment Stock A/c	
Freight 500		Cost of 1,000 meters Rs.	
Packing 50		@ Rs. 2/- 2,000	
Petty Expenses 10	560	Less: 10% reduction in cost price	
" Ram Chand & Bros.			
" Sundry Expenses 200 Commission		(i.e.,10% of Rs. 2,000) 200 1,800	
(Rs. 800 + Rs. 800) 1,600	1,800	Add 50% Loading 900	
			2,700
" Consignment Stock Reserve A/c	900		5,000
" P.& L A/c	5,440	By Goods sent on Consignment A/c	
	23,700		23,700

M/s Pyare Lal& Sons
TRADING AND PROFIT & LOSS ACCOUNT
For the year ending

	Rs.		Rs.
To Purchases	20,000	By Sales	9,000
" Gross Profit c/d	2,600	" Goods sent on Consignment A/c	10,000
		" Closing Stock	
		2,000 meters @ Rs. 2/- R.s	
		per meter 4,000	
		Less: 10% reduction 400	3,600
	22,600		22,600
To Expenses	300	By Gross Profit b/d	2,600
" Net Profit transferred to		" Profit on Consignment A/c	5,440
Capital A/c	7,740		
	8,040		8,040

In the Books of Ram Chand & Bros.

PYARE LAL & SONS ACCOUNT

	Rs.		Rs.
To Bank (Expenses)	200	By Bank (Sales)	16,000
" Commission A/c	1,600		
' Balance c/d	14,200		
	16,000		16,000

PROBLEM 26 : (Where charge is made to the consignee for goods taken over by him or lost through his negligence). R of Ranchi consigned goods of the invoice price of Rs. 2,00,000 which is 25 per cent above cost to D of Delhi.

The terms of the consignment were :

(a) Consignee to get a commission of 5 per cent on all sales.

(b) Any goods taken by the consignee himself or lost through consignee's negligence, shall be valued at cost plus $12^{1/2}$ per cent and no commission will be allowed on them.

The expenses incurred by the consignor were : Carriage and freight Rs.6,720 and insurance Rs. 3440. The consignor received Rs. 50,000 as advance against the consignment. Account sales together with a draft for the balance due was received by the consignor showing the following position :

Goods of the invoice price of Rs. 1,60,000 were sold for 2,48,000. Goods of the invoice price of Rs. 10,000 and Rs. 5,000 were taken by D and lost through his negligence respectively. Amounts of Rs. 1,720 on advertisement and Rs.1,080 on selling expenses were incurred by D. prepare Consignment Account and Consignee,s Account in the books of the consignor

SOLUTION

In The Books of R

CONSIGNMENT TO DELHI ACCOUN

	Rs.		Rs.
To Goods sent on Consignment A/c	2,00,000	By D (Sales proceeds)	2,48,000
Rs.		By D (Goods taken over & lost	
" Cash		by his negligence) Rs.	
Carriage & Freight 6,720		invoice Price 15,000	
Insurance <u>3,440</u>	1 0,1 60	Less: 1/5 Loading <u>3,000</u>	
" D:		Cost 12,000	
Advertisement 1,720		Add: $12^{1/2}$% of Rs.12,000 <u>1,500</u>	13,500
Selling Expenses 1,080		" Consignment Stock A/c	
Commission <u>12,400</u>	15,200	invoice price of unsold goods	
" Consignment Stock Reserve A/c	5,000	[Rs.2,00,000 - Rs.1,60,000	
(1/5 of Rs. 25,000)		- Rs.15,000= 25,000	
		Add : Proportionate Exp.	
" P & L A/c	97,410	[1/8 of Rs.1 0,1 60] 1 ,270	
		" Goods sent on Consignment A/c	26,270
		(1/5 of Rs. 2,00,000)	<u>40,000</u>
	3,27.770		<u>3,27,770</u>

PROBLEM 27 : (where some goods are shop-spoiled, and, are to be valued at depreciation). The Bharat Cycles Ltd. of Delhi appointed B of Mumbai as their selling agent on the following terms :

(a) **Goods to be sold at invoice price or over:**

(b) **B to be entitled to a commission of $7^{1/2}$% on the invoice price and 20% of any surplus price realized.**

(c) The principals to draw on the agent a 30 days draft for price. 80% of the invoice Price.

on 1st August, 2014,1,000 bicycles were consigned to Naresh Kumar, each bicycle costing Rs. 64, including freight and invoiced at Rs.80.

Before 31st December, 2014 (when the principal's books are closed), B met his acceptance on due date and sold off 820 bicycles at an average price of Rs. 93 per bicycle, the sale expenses being Rs. 1,250, and remitted the amount due by means of bank draft.

20 of the unsold bicycles were shop-spoiled and were to be valued. at depreciation of 50%.

Prepare. Consignment Account and B's A./c in the books of consignor.

SOLUTION

In the Books of Bharat Cycle Ltd.

CONSIGNMENT TO MUMBAI ACCOUNT

	Rs.		Rs.
To Goods sent on Consignment A/c	80,000	By B (Sale proceeds)	76,260
To B:	1,250	By Consignment Stock A/c Rs.	
Expenses		160 x Rs. 8 = 12,800	13,440
Commission 7 1/2% on Rs. 65,600		2o x Rs 64 x $\frac{50}{100}$ =640	
+20% on Rs.10,660	7,052		
(i.e., 4,920 + 2,132	2,560	By Goods sent on Consignment A/c (1/5 of Rs. 80,000)	16,000
To Consignment Stock Reserve A/c (160 x Rs.16)	14,838		
To P. & L. A/c	1,05,700		1,05,700

PROBLEM 28 : (When Calculation of Commission requires the use of Algebric Equation). X of Kolkata sent, on 15th January 2O14, a consignment of 500 bicycles costing Rs.100 each. Expenses of Rs.7O0 were met by the consignor. Y of Mumbai spent Rs. 1,500 for clearance and the selling expenses were Rs. 10 per bicycle.

Y sold on 4th April 2014, 300 bicycles @Rs. 160 per bicycle and again on 20th June, 2014, 150 bicycles @ Rs. 172.

Y was entitled to a commission of Rs. 25 per bicycle sold plus one fourth of the amount by which the gross sale proceeds less total commission thereon exceeded a sum calculated at the rate of Rs. 125 per bicycle sold. Y sent the amount due to X on 30th June 2014.

You are required to show Consignment Account and Y's Account in the books of X.

SOLUTION

CONSIGNMENT ACCOUNT

2014		Rs.	2014		Rs.
Jan. 15	To Goods sent on		April4	By Y -Sales of 300	
				bicycles	
	Consignment A/c-		June 20		48,000
				@Rs.160	
	500 @ Rs. 100	50,000	"30		
Jan. 15				" Y-Sales of 150	
	" Bank A,/c-Expenses	700			25,800
?				bicycles @ Rs. 172	
	" Y -Clearing	1,500			
April 4	Expenses			" Consignment	
		3,000			5,220
June	" Y-Selling Expenses			Stock A/c (1)	
		1,500			
20 "					
	To Y -Selling				
30		12,510			
	Expenses " Y -				
" 30	Commission (2)	9,810			
	" P. & L. A/c (Profit)	79,020			79,020

Y'S ACCOUNT

2014		Rs.	2014		Rs.
April 4	To Consignment A/c	48,000	Jan. 15	By Consignment A/c-	
June	Consignment			Clearing Expenses	1,500
20	A/c25,800		April 4	" Consignment A/c-	
				Selling Expenses	3,000
			April 4	" Consignment A/c-	
				Selling Expenses	1,500
			June	" Consignment A/c-	
			20	Commission (2)	12,510
				" Bank A/c	55,290
		73,800	" 30		73,800

Working Notes:

(1) Valuation of closing Stock	**Rs.**	**Rs.**
50 Bicycles @ Rs100 each		5,000
Add.' Proportionate Expenses :		
Expenses incurred by X on 500 bicycles	= 700	
Clearing expenses incurred by y	= 1,500	
Total Expenses on 500 bicycles	= 2,200	
.'. Expenses on 500 bicycle" = Rs. $\frac{2,200}{500} \times 50$		220
		5,220

(2) Calculation of Commission

Let total commission be x

x=No of bicycles x Rs.25+1/4[(gross sales proceeds) –Rs.125 x No of bicycles sold)-x]

x = 450 x Rs. 25 + 1/4 [73,800 - (Rs. 125 x450) – x]

4x – Rs. 45000 + (Rs. 17,550 - x)

5x =Rs.45,000 + Rs.17,550

5x = Rs. 62,550

$x = \text{Rs. } \frac{62{,}550}{5} = \text{Rs.}12{,}510$

PROBLEM 29 : (where deficit in selling price is to be borne by the consignee and some % of surplus is to be retained by him) Bhola consigned 40 machines to Ram on 1st January, 2013 on the following termers :

(a) All machines were to be sold, 20% above the cost of each machine i.e. Rs. 10,000, Any deficit in selling price is to be borne by Ram while Ram is to retain 50% of any surplus price realized.

(b) Ram is to be paid 3% commission and 2% Del Credere commission on all sales.

Bhola incurred freight charges of Rs. 40,000 in consigning the machines. Ram sent Account Sales on 3lst December 2013 disclosing 10 machines sold for Rs. 12,000 each. 5 machines sold for Rs. 10,000 each. 15 machines sold for Rs.14,000 each.

Ram had incurred unloading charges of Rs. 4,000 and selling expenses of Rs. 6,000. He had collected the entire sale proceeds except Rs. 2,000 which had become a bad debt. Ram sent a bank draft for the net amount due to Bhola.

On 20th June, 2014 Ram sent a further Account Sales disclosing- 10 machines sold at Rs. 12,000 each. Selling expenses were Rs, 1,500 He also sent a draft for the net amount due.

Bhola closes his books on 31st December each year.

Write up Consignment Account and Ram's Account for the year 2013 and up to 30th June, 2014.

SOLUTION

In the Books of Bhola

CONSIGNMENT ACCOUNT For 2013

	Rs.		Rs.
To Goods sent on Consignment A/c		By Ram (Sales) Rs.	
(40 x Rs. 10,000)	4,00,000	10 x Rs. 12,000 = 1,20,000	
To Bank (Expenses)	40,000	5 x Rs.10,000 = 50,000	
To Ram: Rs.		15x Rs.14,000 = 2,10,000	3,80,000
Unloading Charges 4,000		By Consignment Stock A/c	1,11,000
Selling Expenses 6,000		(1/4 of Rs. 4,44,000)	
Commission (5% on			
Rs. 3,80,000 + 50% on			
Rs.30,000_5x Rs.2,000) 24,000			
	34,000		
Profit & Loss A/c	17,000		
	4,91,000		4,91.000

CONSIGNMENT ACCOUNT (up to 30th June 2014)

	Rs.		Rs.
To Consignment Stock A,/c	1,11,000	By Ram (Sales : 10 x Rs. 12,000)	1,20,000
" Ram: Rs.			
Selling Exp. 1,500			
Commission (5% on			
Rs. 1,20,000) 6,000	7,500		
To Profit & Loss A,/c	1,500		
	1,20,000		1,20,000

RAM'S ACCOUNT

2013		Rs.	2013		Rs.
Dec.31	To Consignment A/c	3,80,000	Dec.31	By Consignment A/c (Exp. & Com.)	34,000
			Dec.31	By Bank A/c	3,46,000
		3,80,000			3,80,000
2014			2014		
June 30	To Consignment A/c	1,20,000	June 30	By Consignment A/c (Exp.& Com.)	7,500
			June 30	" Bank A/c	1,12,500
		1,20,000			120,000

PROBLEM 30 : (Where goods damaged are valued less than the cost). On lst April, 2013 Mr. Doshi of Darjeeling consigned 2,000 kgs of Tea costing Rs. 60 per kg. to Mr. Nail of Nagpur. Mr. Doshi incurred the following expenses:

Freight Rs. 2,000 Insurance Rs. 400 ; Sundry Expenses Rs.600.

During the year ended 31st March, 2014, Mr. Naik incurred the following expenses:

Selling Expenses Rs. 600 ; Godown Rent Rs. 500 ; Carriage to godown Rs. 1,000.

On 1st December,2013, Mr. Naik sold 1,200 kgs. of tea for cash at a profit of 25% on sales. on 15th December, 2013, Mr. Naik returned 150 kgs. of Tea, which were of poor quality, to Mr. Doshi and paid return freight and carriage of Rs. 250.

Out of the remaining Tea, 200 kgs. being partially damaged were valued, at 30% less than cost. Mr. Naik charged his commission at 5% and sent the balance so far due from him to Mr. Doshi on 31st March, 2014. Mr. Doshi closes his books every year on 3lst March

You are required to prepare the following Accounts in the books of Mr. Doshi:

(a) Consignment to Nagpur, and (b) Personal Account of Mr.. Naik.

SOLUTION

CONSIGNMENT TO NAGPUR ACCOUNT

	Rs.		Rs.
To Goods Sent on Consignment A/c	1,20,000	By Naik's A/c (Sales)	96,000
		(1,200 x Rs. 60 + 1/3 of Rs. 72,000)	
To Bank : Rs.			
Freight 2,000	3,000	By Goods Sent on Consignment A/c	9,000
Insurance 400			3,720
Sundry Expenses 600		(Returned 150 kgs. @ Rs. 60)	
		By Abnormal Loss A/c (1)	
To Naik's A/c :			
Selling Expenses 600		By Consignment Stock A/c	
		Good Quality 450 kgs.	
Godown Rent 500		@ Rs. 62 per kg 27,900	
Carriage to Godown 1,000		Damaged (1) 8,680	
Return Freight and Carriage 250	7,150		
	15,150		
Commission (5% on Rs. 96,000) 4,800			
To P. & L. A/c (Profit)	1,45,300		1,45,300

NAIK'S ACCOUNT

	Rs.		Rs.
To Consignment to Nagpur A/c	96,000	By Consignment to Nagpur A/c	7,150
		By Bank A/c	88,850
	96,000		96,000

Working Note :

(1) Value of Abnormal Loss **Rs.**

Cost of 2,000 kgs. of tea @ Rs. 60 per kg.		1,20,000
Add: Non-recurring Expenses :	Rs.	
Freight	2,000	
Insurance	400	
Sundry Expenses	600	
Carriage to Godown	1,000	4,000
Total cost of 2,000 kgs.		1,24,000
Therefore, cost of 1 kg. (Rs.1,24,000 / 2,000)		62
Cost of 200 kgs. partially damaged tea @ Rs 62		12,400
Less: 30% of Rs. 12,400 treated as abnormal loss		3,720
Value of 200 kgs. partially damaged tea taken in stock		8,680

PROBLEM 31 : (When damaged goods in transits are sold by the Consignee). A consigns to B 100 bags of sugar, costing Rs. 300 each. He pays Rs.500 towards freight and insurance. 10 bags are damaged in transit and the insurer pays therefor Rs. 1,000 to the Consignor.

B takes the delivery of the goods and immediately accepts a one month bill drawn on him for Rs. 20,000. The Consignee thereafter reports :

(i) The sales of 70 bags at Rs. 350 each.

(ii) The sales of the damaged bags at Rs. 110 each; and

(iii) The incurrence of the (a) clearing charges Rs. 900 (b) godown rent Rs.700 and (c) carriage outward Rs. 300.

He is entitled to a commission at l0% on the sale proceeds of all goods except damaged goods. Assuming that B remits the balance by crossed bank draft, and no portion of the consignee's expenses is attributable to the damaged bags, show Ledger Accounts in the books of A.

SOLUTION

In the Books of A

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods Sent on Consignment	30,000	By Cash (Insurance Co.)	1,000
A/c	500	By B's A/c :	
To Cash (Freight and insurance)			
		Damaged Goods	1 ,100
To B's A,/c : Rs.			
		Sale (Rs. 350 x 70)	24,500
Clearing Charges 900			
		By Abnormal Loss A/c	
Godown Rent 700			
		(Rs. 3,050 –Rs. 1 ,000 –	950
Carriage Outward 300		Rs. 1,100)	
Commission <u>2,450</u>		By Consignment Stock A/c	
	4,350		
		Rs.	
		Cost 20xRs.300 = 6,000	
		Add: $\frac{20}{100}$ xRs.500 = 100	6,300
			1,000
	<u>34,850</u>		<u>34,850</u>
		Add : 20 x Rs.900 = <u>200</u>	
		By P. & L. A/c (Loss)	

B'S ACCOUNT

	Rs.		Rs.
To Consignment A/c (Sale)	24,500	By Bills Receivable A/c	20,000
" Consignment A/c		" Consignment A/c	
(Sale of damaged goods	1,100	(Exp. & Commission)	4,350
		" Bank A/c	1,250
	25,600		25,600

PROBLEM 32 : (Where there is no profit or loss on consignment) On lst July, 2013, Mantu of Chennai consigned goods of the value of Rs. 50,000 to Pandey of Patna. This was made by adding 25% on the cost. Mantu paid thereon Rs. 2,500 for freight and Rs.1,500 for insurance. During transit one-tenth of the goods were totally destroyed by fire and a sum of f Rs.2,400 was realized from the Insurance Company.

On arrival of the goods, Pandey paid Rs. 1,800 as carriage to godown. During the year ended 30th June,z0l4, Pandey paid Rs.3,600 for godown rent and Rs. 1,900 for selling expenses.

One-ninth of the remaining goods was again destroyed by fire in godown and nothing was recovered from the Insurance Company.

On lst June, 2014, Pandey sold half the original goods for Rs. 30,000 and charged a commission of 5% on sales. On 30th June, 2014, Pandey sent a Bank Draft to Mantu for the amount so far due from him.

You are required to prepare the following Ledger accounts in the books of Mantu of Chennai for the year ended 30th June, 20l4 :

(a) Consignment to Patna Account, (b) Goods destroyed by Fire Account and
(c) Personal Account of Pandey

SOLUTION

In the Books of Mantu of CHENNAI

CONSIGNMENT TO PATNA Account

	Rs.		Rs.
To Goods sent on Consignment	50,000	By Goods Destroyed by Fire	
A/c		A/c	4,400
To Cash A/c : Rs.	4,000	(1/10 0f Rs. 44,000)	
Freight 2,500		By Goods Destroyed by Fire	
Insurance 1,500		A/c	
		[1/9 of Rs. 41,400(i.e.	
To Pandey's A/c :		Rs.44,000-Rs.4,400	4.,600
Carriage 1,800		+ Rs. 1,800)I	30,000
Godown Rent 3,600		By Pandey's A/c (Sale)	
Selling Expenses 1,900	8,800	By Consignment Stock A/c	
Commission 1,500			
To Consignment Stock	3,000	3/10 of Rs. 50,000	
Reserve A/c		15,000	16,800
(1/5 of Rs. 15,000)		+ 3/10 of Rs. 4,000 12,00	
			10,000
		+ 3/10 of [10/9 x 1,800] 600	65,800
	65,800	By Goods sent on Consignment	
		A/c	
		(1/5 of Rs. 50,000)	

GOODS DESTROYED BY FIRE ACCOUNT

	Rs.		Rs.
To Consignment to Patna	9,000	By Cash (Insurance claim)	2,400
Rs.4,400+Rs.4,600]		By Profit & Loss A/c	
		(Abnormal Loss)	6,600
	9,000		9,000

PANDEY'S AGCOUNT

	Rs.		Rs.
To Consignment to Patna	30,000	By Consignment to Patna A/c	8,800
		By Bank A/c	21,200
	30,000		30,000

Note : Balance of unsold goods remained in stock

Total Goods Destroyed = 1/10 + 1/10 = 2/10

Goods sold = 5/10

Unsold googs = 1- 2/10 – 5/10 = 3/10 of goods sent

PROBLEM 33 : **(Where both opening and, closing unsold stock of goods are given) Star Mills Ltd., Surat, sends regular consignments of yarn to X who is the selling agent of the Mill and is entitled to a commission of 10 paise per kg of yarn sold. This includes del credere commission. Following further information is furnished to you:'**

On lst July,2013, stock of yarn with the agent 20,000 kgs. Costing Rs. 50,000. During the year ended 30th june, 2014:

Total quantity of yarn consigned Rs.1,60,000 at kgs. at Rs.3 per kg.

Total quantity of yarn sold - 1,50,000 kgs. at Rs 3.75 per kg. These included the opening stock of 20,000 kgs..

Total remittances by the Agent-Rs. 5,10,000.

Railway freight paid by the agent-Rs. 40,000.

Of the sales made, X could not collect Rs. 11,000 due to the insolvency of customer.

5,000 kgs. of yarn were damaged in transit by Railway for which the agent Recovered Rs. 6,000. The damaged goods were sold at the rate of Rs. 1.50 per kg.

Show the following Ledger Accounts in the books of Star Mills Ltd. for the Year ended 30th June, 2Ol4.

(a) Consignment Account ; (6) Goods Damaged (in Transit) Account, and (c) X's Account.

SOLUTION

In the Books of Surat Mi[s Ltd.

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Balance b/d (Opening		By X's A/c :	5,62,500
Stock of 20,000 kgs.)	50,000	1,50,000 kgs. @ Rs. 3.75 per kg.	
To Goods sent on Consignment A/c		By Goods Damaged A,/c	
(1,60,000 kgs. @ Rs. 3 per kg.)	4,80,000	(5,000 kgs.)	
To X's A,/c:		$\left(\frac{\text{Rs. } 4,80,000 + \text{Rs. } 40,000}{1,60,000 \text{ kgs.}} \times 5,000 \text{ kgs.}\right)$	16,250
Railway Freight	40,000		
Commission (10 paise per kg. on 1,50,000 kgs.)	15,000	By Consignment Stock A/c (25,000 kgs.)	
To Profit & Loss A/c (profit)	75,000	$\left(\frac{\text{Rs. } 5,20,000}{1,60,000 \text{ kgs.}} \times 25,000 \text{ kgs.}\right)$	81,250
	6,60,000		6,60,000

GOODS DAMAGED (in Transit) ACCOUNT

	Rs.		Rs.
To Consignment A/c	16,250	By X A/c (gmount recovered from railway)	6,000
" X's A/c (Commission) (10 Paise per kg on 5,000 kgs.)	500	" X's A/c (5,000 kgs. at { 1.50 per kg.)	7,500
		" Profit & Loss A/c (Abnormal Loss	3,250
	16,750		16,750

X'S ACCOUNT

	Rs.		Rs.
To Consignment A/c	5,62,500	By Consignment A/c (Commission and Expenses)	55,000
" Goods Damaged A/c	6,000		
To Goods Damaged A/c	7,500	By Goods Damaged A/c (Commission)	500
		" Bank	5,10,000
		" Balance c/d	10,500
	5,76,000		5,76,000

PROBLEM 34 : (When defection goods are to returned. by the consignee to the consignor). Meena & co. of Kolkata who sent 100 sewing machines on consignment to Nazma of patna, 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. Nazma was asked to pay Rs475 as freight of the remaining Machines. She had to spend Rs. 95 as cartage and octroi duty and Rs.190 as godown, rent. She sold 75 machines "@ Rs. 190 .She found 10 machines defective And therefore returned them to Kolkata at a cost of Rs. 50. Nazma is entitled to a commission of 5% on invoice price and 20% of any excess realized on the invoice price and,1% del credere commission. Nazma could not realise sale proceeds of 5 machines.

Prepare consignment Account, consignee's Account, consignment stock Account and Consignment Stock Suspense Account in the books of Meena & Co.

SOLUTION

In the Books of Meena & Co.

CONSIGNMENT ACCOUNT

	Rs.		Rs.
To Goods Sent on Consignment		By Nazma (Sales)	14,250
A/c (100 x Rs. 140)	14,000	" Abnormal Loss A/c (1)	573
To Cash (Packing)	250	By Goods sent on	
' Nazma (Expenses) Rs.		Consigment-Returns	1,120
Freight 475		" Gonsignment Stock A/c (2)	1,485
' Carriage &Octroi Duty 95		" Goods sent on Consignment	
		(Adjustment)	
Godown Rent 190	760		2,800
To Nazma (Commission) (3)	1,418		
To Nazma (Expenses)	50		
' Stock Suspense A/c	280		
" P. & L. A/c (Profit)	3,470		
	20,228		20,228

NAZMA'S ACCOUNT

	Rs.		Rs.
To Consignment (Sales)	14,250	By Consignment (Expenses)	760
		" Consignment(Commission)	1 ,418
		" Consignment (Exp.)	50
		" Balance c/d	12,022
	14,250		14,250

CONSIGNMENT STOCK ACCOUNT

	Rs.		Rs.
To Consignment Account	1,485	By Balance c/d	1,485
To Balance b/d	1,485		

CONSIGNMENT STOCK SUSPENSE ACCOUNT

	Rs.		Rs.
To Balance c/d	280	By Consignment A/c	280
		By Balance b/d	280

Working Notes:

(1) Calculation of Abnormal Loss	**Rs.**
Cost of 5 Machines @ Rs. 112	560
Add: Proportionate Expenses of Consignor (Rs. 250 x 5/100)	13
	573

(2) Calculation of Stock at end	
Value of 10 Machines @ Rs. 140/- each at invoice price	1,400
Add: Proportionate Expenses of Consignor	
Packing (.Rs. 250 x 10/100)	25
Add: Proportionate Expenses of Consignee i.e	
Rs. 475 +Rs. 95 i.e. Rs. 570 x 10/95	60
	1,485

(3) Calculation of Commission Payable to the Consignee	Rs.
5% of invoice price of Rs. 10,500 (i.e., 75 x Rs. 140)	525
20% of excess realised on invoice price Rs. 3,750 (i.e.14,250 – Rs.10,500)	750
1% Del Credere Commission i.e.1% on Rs. 14,250	143
	1,418

PROBLEM 35 : (When goods are sent at invoice price but sold at a profit on sales). On 5-8-2014, Zuben consigns 2,000 cassettes to Suzie costing Rs. 15 each. The proforma invoice is made out to him at a figure to show gross profit of 20% on sales, below which the consignee is not allowed to sell. On 25-8-2014 the consignee sells half the consignment at a profit of 25% on sales. The expenses are:

On 5-8-2014 Freight and insurance Rs.1,500 (paid by consignor) 20-8-2014 Loading charges, import duty .etc. Rs. 1,000 (paid by consignee) The consignee is entitled to a commission of 5% on sales and to 1/6th of the profits after charging up both commission and share of profits.

On 31-8-2014 Suzie remits a sight draft for the balance to settle his account.

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

SOLUTION

In the Books of Zuben

CONSIGNMENT ACCOUNT.

To Goods sent on Consignment A/c

	Rs.		Rs.
To Good s sent on Consignment A/c (Rs.15 x 2,000 + 1/4 of Rs. 30,000)	37,500	By Suzie A/c (Sales) ($\frac{100}{75}$ x Rs.15 x 1,000)	20,000
" Bank (Freight & Insurance)	1,500	By Consignment Stock A/c	20,000
To Suzie's A/c :		By Goods sent on Consignment A/c	7,500

To Profit & Loss A/c (Profit)

(Loading charges & import duty)	1,000	(loading) (Rs. $\frac{15}{4}$ x 2,000)	
" Consignment Stock Reserve A/c (Rs. $\frac{15}{4}$ x 1000)	3,750		
	43,750		
" Suzie's A/c : Commission 1,000; Share of Profit 1/7 of 2,750 (i.e. Rs. 47,500 - Rs.43,750 – Rs. 1,000) 393	1,393		
	2,357		
	47,500		47,500

Profit & Loss A,/c (Profit)

SUZIE'S ACCOUNT

	Rs.		Rs.	Rs.
To Consignment A/c (Sales)	20,000	By Consignment A/c :		
		Expenses	1,000	
		Commission	1,000	
		Profit	393	2,393
		" Bank		17,607
	20,000			20,000

Working Notes:

Invoice Price & Loading per Cassette

Cost (Rs.)	invoice(Rs.)
80	100
15	$\frac{\text{Rs. } 100}{\text{Rs. } 80} \times \text{Rs. } 15 = \text{Rs } \frac{75}{4}$

Loading per cassette = $\left(\text{Rs.}\frac{75}{4} - \text{Rs. } 15\right) = \text{Rs. } \frac{15}{4}$

PROBLEM 36 : (Where consignee reports sales made and, collection of Book Debts) Goods are invoiced by Shri Amar, Consignor, to his agent Shri Ashok at selling price. The agent reports sales made and collection of book/debts by him by monthly advice. He received. 5% commission on cash collected plus an allowance of expenses at the rate of Rs. 400 per month.

During the half year ended 30-9-2014 goods were invoiced to the agent at a value of Rs. 80,600. Such goods cost Shri Amar Rs. 59,000 plus freight and packing charges thereon Rs. 3,740. During the same period, sales were made by the agent amounting to Rs. 68,400. Debts collected were Rs.57,600 and discounts were allowed amounting to Rs. 400. The agent remitted to Shri Amar Rs. 56,000. Some of the goods consigned to Shri Ashok were damaged in transit and a claim on the insurance company was settled for Rs.1,24O. On 30-9-2014, the stock in the hand of the agent and unsold represented a cost to Shri Amar Rs. 8,200.

Prepare the consignment account and the account of Shri Ashok in the books of Shri Amar, for the half ended 30.9-2014.

SOLUTION

In the Books of Amar

CONSIGNMENT ACCOUNT

		Rs.			Rs.
To Goods Sent on Consignment A/c		80,600	By Goods sent on Consignment A/c		21,600
To Bank A/c			By Ashok's A/c (Sales)		68,400
(Freight & Packing charges)		3,740	By Consignment Stock A/c		
To Ashok's A/c :	Rs.		I.P. Rs. $\frac{80,600}{\text{Rs. } 59,000} \times 8,200$	11,202	
Discount Allowed	400				
Allowance			Exp. $\frac{3,740}{59,000} \times 8,200$	520	
(400 x 6 months)	2,400				11,722
Commission	2,880	5,680	By Abnormal Loss A/c		
			Cost of Remaining Goods	731	
To Consignment Stock Reserve A/c		3,002	+ Proportionate Expenses		
To General Profit & Loss A/c		9,477	Expenses $\frac{3.740}{59,000} \times 731$	46	
					777
		1,02,499			1,02,499

ASHOK'S ACCOUNT

		Rs.		Rs.
To Consignment A/c			By Bank A/c	56,000
Sales	68,400		By Bank A/c (Collects of Debts)	57,600
Collection for Debtors	57,600		By Consignment A/c	
			(Exp. & Commission)	5,680
		1,26,000	By Balance c/d	6,720
		12,6000		1,26,000

PROBLEM 37 : (When goods sent on consignment were treated. as sales and correcting entries are made afterwards). In the Sales Ledger of XY Goods Co., the following account appears :

RAM

2014		Rs.	2014		Rs.
May 10	To Goods	12,000	July 5	By Cash	5,000
May 10	" Expenses	720	"31	" Balance c/f	7,720
		12,720			12,720

them in his own make, or otherwise return them. For this he is to be allowed a commission of 10 per cent on all sales effected, out of which he is to defray the expenses that he may incur.

on 31st July, 2014 when XY Goods co., make up their annual accounts, it transpires that Ram has sold half the goods at the prices at which they were invoiced to him but is doubtful about his ability to sell the remaining. He, therefore, purposes to offer his customers a special trade discount of 20 per cent and to waive any further sales commission. To this XY Goods Co. agreed and took this information into account when closing their books.

You are required :

(a) to show the necessary correcting entries in the firm's journal.

(b) to set out the account of Ram as it will appear when the journal entries have been posted, and

(c) to state clearly the resultant profit or loss on the matter.

SOLUTION

JOURNAL ENTRIES

			Rs.	Rs.
	Goods A/c Dr.		12,000	
	Consignment A/c Dr.		720	
	To Ram's A/c			12,720
	(Being the cancellation of wrong entry and transfer of expenses to Consignment A/c)			
	Consignment A/ c Dr.		10,000	
	To Goods Sent on Consignment A/c			10,000
	(Being cost of goods sent to Ram on consignment)			
	Ram's A/c Dr.		6,000	
	To Consignment A c			6,000
	(Being half the goods sold by Ram)			
	Consignment A/c Dr.		600	
	To Ram's A/c			600
	(Being 10% commission on goods sold by Ram)			
	Consignment Stock A/c Dr.		4,800	
	To Consignment A/c			4,800
	(Being the remaining stock valued at Rs. 6,000 less 20%			

RAM'S A/C

	Rs.		Rs.
To Balance b/d	7,720	By Goods A/c	12,000
To Consignment A/c	6,000	By Consignment A/c	720
		By Consignment A/c	600
		By Balance c/d	400
	13,720		13,720

CONSIGNMENT A/C

		Rs.		Rs.
To Goods sent on Consignment A/c		10,000	By Ram's A/c (Sales)	6,000
			By Consignment Stock A/c	4,800
To Ram's A/c	Rs.		By Loss transferred to P. & L. A/c	520
Expenses	720			
Commission	600	1,320		
		11,320		11,320

PROBLEM 38 : Rana consigned goods to Jana, his agent at new delhi at cost price of Rs. 40,000. Rana's accountant, at the end of the year, drew up the agent's account as under

JANA'S ACCOUNT

	Rs.		Rs.
To Goods	40,000	By Cash	24,000
To Profit and Loss Account	3,300	By Balance	19,300
	43,300		43,300

Jana sold the goods for Rs. 45,000 which exceeded by Rs. 9,000 their invoice value. He collect.Rs. 38,000 after allowing discount of Rs. 2,000 to customers. Bad debts come to Rs. 1,000 and his expenses to Rs. 800. Jana was entitled' to a 5% commission on cash collected. Balance of stock is to be valued at invoice price.

From the above information, draw up accounts of Jana, Consignment and Consignment Debtors in the books of Rana.

SOLUTION

In the Books of Bana

CONSIGNMENT TO NEW DELHI ACCOUNT

		Rs.		Rs.
To Jana	(1)	40,000	By Consignment Debtors A/c (Sales)	45,000
To Consignment to Debtors A/c	Rs.		By Consignment Stock A/c	
Bad Debts	1,000		(Rs. 40,000 Goods Sent -	
Discount	2,000		Rs.36,000 Cost of Goods Sold)	4,000
		3,000		
To Jana (Expenses)		800		
To Jana (5% Commission on				
Rs.38,000 Cash Collected)		1,900		
To Profit & Loss A"/c				
(Profit on Consignment)		3,300		
		49,000		49,000

CONSIGNMENT DEBTORS ACCOUNT

	Rs.			Rs.
To Consignment to New Delhi A/c		By Jana		38,000
(Sales)	45,000	By Consignment to		
		New DelhiA/c :	Rs.	
		Discount	2,000	
		Bad Debts	1,000	
				3,000
		By Balance c/d		4,000
	45,000			45,000

JANA'S ACCOUNT

	Rs.		Rs.
To Balance b/d (as given in books)	19,300	By Consignment to New Delhi A/c	40,000
To Consignment Debtors A/c	38,000	By Profit & Loss A/c (2)	3,300
		By Consignment to New Delhi A/c (Expenses)	800
		By Consignment to New Delhi (Commission)	1,900
			1 1,300
	57,300	By Balance c/d	57,300

Working Notes

(1) Goods sent on consignment wrongly debited to Jana's Account ih the books have been transferred to Consignment A/c by passing the following Journal Entry :

Consignment to New Delhi A/c	Dr.	Rs. 40,000
To Jana's Account		Rs. 40,000

(1) Profit & Loss A/c wrongly debited to Jana,s Account previously has been reversed by giving credit to jana's A/c

QUESTIONS

2.12 SHORT PRACTICE QUESTIONS :

1. What is Account Sales
2. Who is Consignor and Consignee.
3. What is non-occuring expenses.
4. What si everriding Commission.
5. What is Proforma Invoice and who prepared this proforma Invoice.

2.11 Long Practice Questions :

1. Define'consignment'. what is the difference between a consignment and a sale of goods ?

2. Why goods are sent to consignee at invoice price ? what adjustment entries are recorded in the books of the consignor to find profit on consignment when goods are invoiced at proforma prices ?

3. Define consignment. Give journal entries in respect of consignment transactions in the books of consignor and consignee.

4. Write short not,es on : (a) Del credere commission. (b) Treatment of.Normal and Abnormal Losses in Consignment Account. (c) Value of Unsold Stock in Consignment. (d) Profcrrrna Invoice' (e) Accouni Sales. (f) Non-recurring Expenses. (g) Recurring Expenses.

5. What is consignment method ? Make ils comparison rvith sare and discuss the accounting treatment in the books of both consignor. and consignee.

2.13 Practical Practice Problems

1. Ram & Co of Kolkata consigned 50 cases of goods at Rs. 200 each to Nathan of Mumbai. The consignor pays Rs. 200 for insurance and for freight Rs. 300. Nathan sent an account sales showing the gross proceeds at Rs.24,000. The expenses paid by Nathan were dock dues Rs.20 Carriage Rs. 50, werehousing expenses Rs. 130. He sent the amount due to the consignor after deducting 4 per cent commission. Give journal Entries in the books of both the parties.

   Ans. [Profit Rs 12,340; Amount received from Nathan Rs. 22,840].

2. A sends goods worth Rs. 50,000 to B for sales for 5% commission. He incurs Rs. 1,500 for freight and Rs. 500 for insurance. The goods are sold for Rs. 60,000, consigne incurs Rs. 500unloading expenses and Rs. 500 rent. B sends a draft after deducting his expenses and commission. Prepare necessary accounts in the books of A.

Ans. [Profit on Consignment Rs. 4,000; Amount received from B Rs. 56,000]

3. David sent goods costing Rs.5,50,000 on consignment basis to Devi on 1-1-2014 @ 7% commission Rs.75,000 was spent on transportation by David. Devi spent Rs. 45,000 on unloading. Devi sold 85% of the goods received for Rs. 6,25,000 10% of the goods for Rs. 85,000 and she took over the balance @ 5% below the cost price and sent a DD for the amount due from her to David.

   Show Consignment A/c and Devi's A/c in the books of David.

   Ans. [Profit on consignment Rs. 14,596; Amount received from Devi Rs.6,39596.25]

4. (i) The firm of S.C. & Co. of Delhi consigned to Premier & Co. of Rangooo 50 cases of piece goods valued at Rs. 350 each.

   (ii) The consignors paid freight and insurance thereon Rs. 1,800.

   (iii) They received an advance from Premier & Co. Rs. 8,000.

   (iv) Received an Account Sales from Premier & Co. giving particulars as under :

   Gross proceeds Rs. 28,000, expenses of warehousing, carriage, dock dues etc., incurred by them amounted to Rs. 900 andtheir commission to Rs. 1,000.

   (v) Received a bank demand draft of the balance due by them on consignment.

   From the above particulars, prepare Necessary Ledger Accounts in the books of the consignor and ofthe consignee.

   Ans. [Profit Rs 6,800; Amount received from Premier & Co. Rs. 18,100].

5. Minerva Mills Ltd. of Bangalore sent 50 pieces of shirting to Fancy Stores, Delhi on consignment basis. The consigrees are eniitled to receive 5% commission plus expenses.

The cost of Minerva Mills Ltd. is Rs. 40 per piece. Fancy Stores; Delhi pay the following expenses:

Railway freight etc. Rs. 100 ; Godown rent & insuranee Rs. 50.

Minerva Mills Ltd. draw on the consignees a draft for Rs. 1,000.which is duly accepted.

It is discounted for Rs. 970. Later Fancy Stores, Delhi report that the entire consignment has been sold for Rs. 3,000. Show Journal Entries and important Ledger Accounts in the books of the consignor.

Ans. [Profit Rs. 670; Balance due from Fancy Stores Rs. 1,700].

6. A of Agra sent on consignment goods valued Rs. 1,00,000 to B of Bhagalpur on 1st March, 2013. He incurred expenditure of Rs.12,000 on Freight and Insurance. A's accounting year closes on 31st December. B was entitled a commission of 5% on gross sales plus a delcredere commission of 3 per cent. B took delivery of the consignment by incurring expenses of Rs 3,000 for goods consigrned.

On 31-12-2013, B informed on phone that he had sold all the goods for Rs 1,50,000 by incurring selling expenses Rs. 2,000. He further inforrned that only Rs. 1,48,000 had been realised and rest was considered irrecoverable, and would be sending the cheque in a day or so for the amount due along with the accounts sale.

On 5-1-2014, A received thc cheque for the amount due from B and incurred bank charges of Rs. 260 for collecting the cheque. The amount was ciedited by the Bank on 9-1-2014. Write up Consignment Account finding out the profit/loss on the consignment, B's A/c, Provision for Expenses A/c and Bank Account in the boOks of the consignor, recording the transactions up to the receipt and collection ofthe cheque.

Ans. [Profit on Consignment Rs. 20,740;Amount received from B Rs.1,33,000]

7. On lst July, 2014 Radio House of Delhi consigned 200 Radioa to Banerjee Bros. of Kolkata.

The cost of each radio was Rs. 400. Radio House paid Rs. 5,000 for freight and insurance. On 7 July, 2014 Banerjee Bros. accepted a 3 months bill drawn upon them by Radio House for Rs. 50,000. Banerjee Bros. paid Rs. 2,200 as rent and Rs. 1,300 for advertisement and upto 31st December, 2014 (on which date Radio House close their books) they sold 180 radios at Rs.500 each. Banerjee Bros. were entitled to a commission of 5% on sales. Give Journal entries and prepare necessary accounts to record the above transactions in the books ofboth the parties.

Ans. [Profrt Rs. 5,500; Value of Stock Rs. 8,500; Balance due from Bangrjee Bros. Rs. 32,000].

8. Manufacturers Ltd. of Mumbai sends regular consignments of nylon yarn to Vyapari & Co. of Kanpur, who are agents for selling the cloth at the risk of the consignor.

Record the following transactions in the Ledger Accounts of Manufacturers Ltd., showing the profit on the Kanpur consignment and the balance due from Vyapari & Co. after allowing them commission @ 2 per cent on gross sales.

Cost of Yarn consigned : Rs. Rs.

Rs.2,56,000 kgs. @ 75 paise per kg. 1,92,000 Remittance by the agents 1,55,000

Yarn sold 2,00,000 kgs. @ Rs. 1 per kg. 2,00,000 Railway freight paid by the agents 7,680

Ans. [Profit Rs. 40,000; Balance due Rs. 33,320; Value of Stock Rs. 43,680].

9. Williams of Chennai consigned 300 chests of tea at Rs. 2,000 per chest to Johnson of New Delhi paying freight Rs. 4,000 and other expenses Rs.

2,000. Johnson sold 250 chests at Rs. 2,500 per chest on credit and 25 chests at Rs. 2,200 per chest for cash. Johnson spent for freight and octroi Rs. 3,000 and other expenses Rs. 1,000. He remitted the amouni due to Williams after deducting his commission at 5% (normal) 2.5% (overriding), and 0.5% del credere (del credere commission to be given on total sales). Johnson found that one customer to whom credit of 40 days was allowed paid only - 4,800 out of the total arnount of Rs.5,000 due from him in full settlement of account. Other customers paid the amount on due dates.

Pass Journal Entries in the books ofboth the parties.

Ans. [Profit Rs. 66,350; consignment Stock Rs. 50,750 ; Balance received Rs. 6,2,600].

10. A of Ahmedabad sent 50 cases of goods to B of Mumbai at Rs. 200 per case. Expenses on consignment incurred by the consignor amounted to Rs. 300. B worked as Del Credere Agent. His ordinary commission was 5% and Del Credere commission 7 .5%.In due course B sent an Account Sales to A giving the following information.

(a) Sales proceeds of 40 cases, Rs. 11,000.

(b) Stock of unsold goods on hand, 10 cases.

(c) Consignee's expenses amounted to Rs. 120.

(d) Consignee charged commission at agreed rates.

(e) A bank draft for Rs. 8,000 was sent by B along with the account sales. Show necessary accounts in the books of A.

Ans. [Profit Rs. 1,265 ; Value of Stock Rs. 2,060 ; Balance due from B Rs. 1,505].

11. On 1st January, 2014, Govinda of Rampura sends 300 chests of rare medicines to Sankar of Simla on consignment basis. The cost of each ehest was Rs. 1,000 only. Govinda incurred the following expenses on the consignment: Rs. 750 on Railway freight and Rs. 450 on insurance. Sankar spends Rs.

1,200 on various accounts when the chests ieached Simla. 200 chests were sold by Sankar uniformiy at Rs. 2,000 per chest. Out of these, 10 chests were sold to a party on credit and this transaction ultimately proved bad. Besides another party deducted Rs. 300 because ofa dispute regarding qualily.

Sankar sent an account sales on 30th June, 2014 which revealed that he charged 5% as ordinary commission and 10% as del credere commission. The consignee sent a sight draft for Rs. 90,000.

You are required to give in Govinda's books : (i) Consig:nment to Simla A/c. (ii) Sankar's Personal A/c; and (iii) Goods sent on Consignment A/c.

Ans. [Profit Rs. 1,37,700; Value of Stock Rs. 1,00,400; Balance due from shankar Rs. 2,49,500].

12. A of Sonepat consigned 500 bicycles to B of Cochin to be sold on his account and at his risk. The cost of one bicycle was Rs. 200. A paid Rs. 5,500 as freight and insurance and received Rs. 40,000 as advance from B. B paid Rs. 1,000 as octroi and cartage, Rs. 1,500 as rent and Rs. 1,200 as insurance. 410 bicycles were sold by B for Rs 1,10,000. B was entitled to a commission of 5% on sale @ Rs. 250 per bicycle and 25% of any surplus price realised. Give journal entries in the books of A and B.

Ans. [Profit Rs. 12,970; value of stock Rs. 19,l70; commission t Rs.7,000; Balance due from B Rs.59,300].

13. A consigned to B on lst January, 20l4,500 bales ofcotton costing Rs 100 per bale. Freight charges incurred in the consignment were Rs.5,000. A drew a bill on B for Rs. 50,000 payable on 30th June, 2014 which B accepted. The bill was discounted by A with his bankes on 31st January,2014 at l2% p.a.

B rendered account sales to A on 31st March, 2014 showing sales of 300 bales for Rs. 80,000 and selling expenses of Rs. 5,000. B's commission was 10 per cent. On this date B remitted to A the net amount due to him.

On 31st May, 20L4 B sold the balance stock for Rs. 30,000 after incurring expenses of Rs 4,000. He remitted Rs 20,000 to A, the balance being treated as commiision earned by him. On 30th June, 2014 the bill accepted by B was dishonoured by him and the amount due to the bank was paid off by A along with incidental charges of Rs. 200.

Pass Journal Entries in the books of A (including bank t-ransactions).

Ans. [Profit Rs. 32,000].

14. On January l,2014 Jay Engineering Co. ofKolkata, consigned to India Traders of Delhi 250 table-fans invoiced at Rs. 75 each, which was 25% above their cost price. jay Engineering Co. paid packing etc. Rs. 100, insurance Rs. 50 and carriage Rs. 300. On March 1, India Traders sold 225 fars for Rs. 18,200, the expenses thereon being Rs. 530. Their commission was 5% and $2^{1/2}$ del credere on sales. They remitted Rs. 15,000 on account.

Show Necessary Ledger Accounts in the books of the consignor.

Ans. [Profit Rs. 2,400; Va]ue of Stock at Invoice Price Rs. 1,920; Balance due from Indian Traders Rs. 1,305].

15. B of Batala sent a consignment to his agent C of Chandigarh The invoice price of the goods was Rs. 30,000 which was 25 per cent above cost. On receiving.the goods, C sent Rs. 10,000 as advance to B. He also spent the following sums :

On freight and cartage	Rs.500
On godown insurance and rent	Rs.300

Four-fifth of the goods were sold for Rs. 26,000. C is entitled to a commission of 10 per cent of the invoice plus 1/4th of profit (finally remaining) that B might make. Prepare accounts in the books of both parties.

Ans. [Profit on Consignment Rs. 2,960 Commission Rs. 3,140 ; Value of Stock Rs. 6,100]

16. Dinesh of Mumbai consigned medicines to Rao of Bangalore costing Rs. 1,00,000. The proforma invoice was made so as to show a profit of 25% on cost. Dinesh paid freight Rs. 2,000 and insurance Rs. 325.

Rao sold part of the consignment for Rs. 88,000 at a uniform price of 10% over invoice price and spent Rs. 3,000 as warehouse charges and Rs 1,000 as selling expenses.

Rao is entitled to a commission of 5% on sales ayrd 25% of the net profit after charging such commission. Rao paid the amount due by bank draft.

Prepare the Necessary Accounts in the books ofboth the parties.

Ans. [Net Profit on Consignment Rs. 11,290. Value of Stock Rs. 45,837. Total Commission Rs. 7,222 (i.e. Rs. 4,400 +Rs. 2,822 Special Commission)].

17. Rs. 45,000 worth of good.s were invoiced by A. Bose of Kolkata to C. Dutta of Chandigarh at 20 per cent profrt on invoice price. The invoice price is covered up to 50 per cent by advance from C. Dutta. Dutta is to get 5 per cent commission ofr sale and 2.5 per cent del credere commission, Eighty per cent of the goods were sold for Rs. 57,000 but Rs. 300 proved bad. Expenses of the consignor were Rs. 3,000 and consignee Rs. 1,500 (including Rs. 450 as selling expenses). The account was settled by eash payment with the account sales. Make necessary accounts showing the amount of gain to A. Bose and also to C. Dutta.

Ans. [Profit to A Bose Rs. 13,035; Value of Stock at I.P Rs. 12,060; Amount Received from C. Dutta Rs. 28,725; Profit to C. Dutta Rs. 3,975].

18. Ram consigned goods to Shyam of value of Rs. 10,000 and invoiced the same proforma at 20% above cost. He paid thereon Rs. 240 for freight and cartage and Rs. 160 for insurance. He drew on Shyam for Rs. 4,000 as advance against consignment and sold the bill for Rs. 3,950. He received account sales showing that three-fourths of the goods were sold for Rs.10,400 and Shyam's expenses amounted to Rs. 350 and his commission to Rs. 600. The unsold stock was valued and two month's draft was received from Shyam in settlement of account to date.

Show the Necessary Accounts in the books of Ram and Shyam assuming that the entry for the goods consigned was made on the basis of Proforma Price.

Ans. [Profit Rs. 1,650; Value of Stock I.P. Rs. 3,100; Bill received from Shyam Rs. 5,450].

19. Krishnan of Chennai sent some piece goods to Mukherjee of Kolkata to be sold on behalf of Krishnan. Mukherjee getting a commission (including del credere commission) of 10% on sales. All expenses were to be borne by Krishnan. The invoice value of the goods was Rs. 30,000 made up as cost plus 20%. Krishnan spent Rs. 1,000 on forwarding and packing. Mukherjee paid the following Freight and cartage to godown Rs. 3,000 ; Stores Rs. 500 ; Insurance of godown Rs.300 ; Miscellaneous Rs. 200

At the end of the three months Mukherjee reported that he had sold 4/5 of goods for Rs. 30,000. One customer who had bought on credit failed to pay Rs. 800 from him. Mukherjee settled his account.

Prepare Important Ledger Accounts in the books ofboth the parties.

Ans. [Profit Rs.2,800; value of stock at I.p. Rs. 6,800; Amount received from Mukherjee Rs. 23,000].

20. Arun of Meerut consigned 100 sewing machines to Snjay of Ranchi to be sold The cost of one sewing machine wai Rs.150, but the invoice price was Rs. 200. Arun paid freight Rs. 600 and insurance in transit Rs. 200.

Sanjay sent a bank draft to Arun for Rs. 10,000 as advance payment and later sent an Account Sales showing that 80 sewing machines were sold at Rs.220 each. Expenses incurred by sanjay were : carriage inward Rs. 25 octroi Rs. 75, godown rent Rs.500 and advertisement Rs. 300. Sanjay is entitled to a commissio._ of 5% on sales.

Journalise the above transactions in the books of Arun and sanjay.

Ans. [Profit Rs. 3,200; Value of Stock (Invoice Price) Rs. 4,180; Balance due from Sanjay Rs. 5,820].

21. On 1st January, 2014 B of Mumbai consigned 100 cases (cost price Rs.7,500) at a proforma invoice of 25%.profit on sale to his agent C of chandigarh. On the same date B paid Rs.600 as expenses. on 30th January, C took delivery and paid Rs. 1,200 for octroi and other duties and remitted Rs.4,000 as an advance. On 31st January he sold 80 cases for Rs.10,500; C is entitled to 5%a commission on gross sales and, 10% of the sales price in exces of invoice price.

Show Consignment A/c and C's Account in the books of B. C is required to maintain proportionate security with the consignor for unsold stock.

Ans. [Profit Rs. 2,285; value of stock at I.p. Rs. 2,360; Balance received from C Rs.5,325, Commission Rs. 751.

22. (a) The M. Coal Co. consigned to M sales Ltd. 200 tons of coal at a cost of Rs. 15,000 and paid Rs. 4,600 towards railway freight. M. Sales Company sold 100 tons and reported a shortage of 4 tons on the whole consignment. Calculate the value of stock at the end.

(b) X consigned 100 packets of cosmetics, each costing Rs. 300 to his agent at Chennai. He paid Rs. 400 torvards freight and insurance. 15 packets were destroyed on the way. The consignee took delivery of the remaining packets and spent Rs.700 as godown rent, Rs. 850 as clearing charges and Rs.300 as carriage outwards. You are required to calculate the abnormal loss or cost of damage and the value of closing stock at the end, if the agent sells away 80 packets.

(c) 1,000 transistors each costing Rs.80 were sent by A to B of Mumbai on consignment basis. A paid freight amounting to Rs.1,000 and cartage Rs.100. B received only 900 sets as 100 sets were destroyed during transit. B incuried an expenditure of Rs.1,000 on account of clearing charges and cartage. Calculate the abnormal loss on transistors destroyed during transit.

(d) Philips Radio of Kanpur despatched 1,000 transistors at Rs.70 each to Mohan Bros., Mumbai. The consignors paid freight Rs.750; cartage

Rs.50 and insurance Rs.250. Mohan Bros. received only 900 sets and incurred Rs.10,000 on octroi and other expenses, Rs. 500 for cartage and Rs.600 on sales expenses. The consignee sold 600 sets only. you are required to caiculate the value of closing stock.

(e) Compute commission and abnormal loss from the following: (a) Cost of goods sent on consignment Rs.60,000 ; (b) Loading on goods at25% on invoice price ; (c) Commission At 10% on sales plus 20% on excess amount realised.over invoice price of good. sold ;(d) Expenses paid by the consignor are freight and insuran. Rs. 4,000 ; (e) Experrse paid by the consignee are octroi and duty Rs. 1,000, advertisement and rent Rs.1,300;(f) Goods sold are 80%, of the consignment for Rs.70,000 ; (g) Half the remaining goods are destroyed by fire at consignee,s warehouse.

(f) Arun ionsigned 10,000 kgs. of groundnut oil to. praveen of Bangalore at Rs.30 per kg. Expenses incurred by Arun are Rs. 15,000 for freight and Rs.5,000 for insurance. During Transit 500 kgs of oil were destroyed due to accident and the insurance company accepted the loss to the extent of Rs.14,000. Praveen received the balance of consisment and sold 7,000 kgs. at Rs. 40 per kg. 100 kgs. of oil was lost due to leakage. Expenses incurred by Praveen are duties Rs. 6,200 and storage Rs. 2,500 Calculate the value of (i) Abnornal loss and (ii) Closing stock on corisignment. And also show the respective journal entries for abnomal loss and closing stock.

Ans. [(a) Rs. 9,600; (b) Rs. 4,560; Rs. 1,570; (C) Rs.8,110 (d) 24,815;(e)Total Conmission Rs. 8,200. Abnormal loss Rs. 6,500; (f) (i) Abnormal Loss Rs. 16,000' (ii) Value of Stock Rs.79,200].

23. Somesh of Kolkata consigned 100 @ cases of candles to Sailesh of Bankura, which cost him Rs. 30 per case. He incurred the following costs; packing Rs. 40, carriase Rs. 20 and Railway freight (paid in advance) Rs. 40. Some of the cases were damaged in transit and Sailesh took delivery of 90 cases only. He

(Sailesh) spent Rs.10 for cartage and Rs.40 for godown rent and sold the consignment at Rs. 35 per case. He sent the net amount to Somesh after deductins his expenses and comission at the rate of 5 per cent on the sale proceeds together with his Accounts Sales. Somesh also received Rs. 80 from the Railway as damages.

Show how the transactions would appear in the books of Somesh.

Ans. [Profit on Consignmert Rs.152.50; Abnormal Loss Rs. 230; Received from Sailesh Rs. 2,942.50].

24. 1,000 bicycles were consisned by Prmier Bicvde Co., Dethi to Supeior Bros., Kanpur at Rs.150 each. Premier Co. Paid fright Rs.10,000 and insurance in tranrit Rs.1,500. During transit 100 bicycles were totally damaged by fire. Suprior Bros. took delivery of the remaining bicycles and paid Rs. 1,530 for octroi. superior Bros. sent a bank draft to Premier Co. Rs.50,000 as advance payment and later sent an account Sales showing that 800 bicycles were sold at Rs. 220 each. Expenses incurred by Supeior Bros. on godown rent end advertisement etc amounted to Rs.2,000.

Superior Bios. is entitled to commission of 5%. Prepare Consignment Account, Accidental loss account and Superior Bros. Accout in the books of Premier Bicycle Co, Delhi assuming that a claim from insurance company was settled for Rs. 14,000.

Ans. [Profit Rs. 34,640; Balance Due Rs. 1,13,670; Abnomal Loss Rs. 2,150; Value of Stock Rs. 16,320].

25. On 1st July, 2014, Sengupta of Kolkata sent 150 cases of goods at a cost of Rs.750 per case to Kapoor of Munbai on consignment basis and paid Rs. 1,900 for Insurance Premium; Rs. 3,500 for Freisht and Rs. 2,600 for Dock Charges. On arrival of the goods, Kapoor sent a bank draft for Rs.10,000 to Sengupta on 30th July. 20l4 and paid Rs. 2,500 for Clearing charges Rs. 870 for cartage andRs. 750 for Godown Rent. 5 cases were damaged in transit and a sum of Rs.3,500 was realised by way of compensation from the

insurance company. upto 31st December. 2014. 100 cases were sold for Rs. 1,05,000 incurring a bad debt of Rs. 1,150. Kapoor was entitled to a commission of 5% of the Gross Sales with further 2% as del credere commission. The amount due t Sengupta upto 31st Delmber, 2014 was remittad by a bank draft.

Show (a) Consisnment to Mumbai A/c (b) Kapoor's A/c (c) Loss in transit A/c and (d) Consigment Stock A/c in the books of Sengupta.

Ans. [Profit Rs. 14,243; Abnormal Loss Rs. 517; Value of Stock a Rs.37,196; Draft received from Kapoor Rs. 83,530].

26. Punjab Cycle Co. of Ludhiana consisned 150 bicvcles to Kanpur Cycle Co. of Kanpur costing Rs. 2.250 each, invoiced at Rs. 3,000 each. The consignor paid freight Rs. 15,000 and insurance in transit Rs. 2,250. During trasit, 15 bicycles were totally damaged.

Kanpur Cycle Co. took delivery of the remaining bicycles and paid Rs. 2,295 for octoi duty Kanpur Cycle. Co. sent a ban k draf to Punjab Cycle Co. for Rs.78000 as advance and later on sent an account sales showing that 120 bicycles had ben sold @ Rs. 3,300 each Expenses incurred by Kanpur Cycle Co. on godown rent were Rs. 3,000. Kanpur Cycle Co. Co is entitted to a commission of 5% on invoice price and 25% on any surplus of sale price over invoice price. Insurance claim was settled at Rs. 21,000.

Preparc Consignment. Account. Consignee's Account and Accidentat Loss Account in the books of the consignor.

Ans. [Profit on Consignment Rs. 80,160, Value of Accidental Loss Rs.35,475 value of Consignment Stock Rs. 46,980]

27. R of Rohtang consigned l00 cases of medicines costing Rs.1,000 per case. Katrina Kaif of Kota on t 1-1-2014. Goods were sold at 25 % abov e cost. Any deficiency in selling was to be born by Katrina. Katrina. was. How ever, entitled to a special commission @ 25% of any surplus price realised She

was further entitled to an ordinary commission of 5% and del credere commission of $2^{1/2}$% on all sales. R incurred the following expenses:

Packing charges Rs. 6,000; Loading chargcs Rs. 1,000 ; Lorry Hire Rs.12,000 ; Railway Freight Rs. 21,000

The cases were received by Katrina on l5-1-2014.

The Account sales received on. 30- 6- 2014 .revealed the following:

40 cases sold on 2l- 3-2011 @ Rs.1,500 per case. 30 case sold on 24-3-2014 @ Rs. 1,200 per case. l0 cases sold on 15-6- 2014@ Rs. 1,300 per case. 5 cases were.stolen by a dishonest employee. A compensation of Rs.2,000 Was realised from him. Katrina incurred unloading charges of Rs. 2,000 and Warehouse rent Rs.3,000. Katrina enclosed a bank draft for the balance due. Prepare Consignment. Accountt, Katrina's .Account and Abnormal Loss Account in the Books of R.

Ans. [Loss Rs. 16,900; Abnormal Loss Rs.15,100: value of Stock Rs. 21,300; Commission Rs.9,300]

28. A Consignment of 1,00,000 kgs. of tea costing Rs.4 per kg. is sent on consignment on August l, 2014 to an agent, on a commission of 5% on gross sales.

Following expenses are incurred.

	Rs.		Rs.
(a) By thc consignor—	(b) By thc Consignee —	Freight	2,000
Godown Rcnt	800		
Dock Charges and Miscellaneous		Miscellaneous Expenses	1,
Expenses	800		

Chests containing 2,000 kgs of tea were damaged in transit and the contents and the contents had to be destroyed on landing as having become unfit for sale. 70,000 kgs. of tea were sold at 6 per kg. and on 3lst August, the date of closing the accounts, the balance. of the consignment remained uns Outward Account and old in stock in unopcned chests. Draw up Consignment ard Account and Consignee's Account in the books ot the Consignor showing the amount due from the Consignee on August 31, 2014. When the Accounts of the Consignee were closed.

Ans. [Profit Rs.1,14,840; Abnormal Loss Rs. 8,056 ; Value of Stock Rs. l,l2,784 ; Amount due from Consignee Rs. 3,96,800].

29. Ram Swaroop Maloo Turmeric Mill, Nizamabad. consigned 400 quintals of turmeric to Nathumal of Gulbarge 300 per quintal on 1st July, 2014. The consignors pais Rs.6.000 towards freight and insurance. During transit l0 quintals of turmeric was totally destroyed for which the Insurancc company paid Rs.1,500 in full settlement of the claim. Nathumal took delivery of the consignment on 10th July, 2014 and accepted a bill drawn on him by Ram Swaroop Mallo Turmeric Mills, Nizamabad for Rs 30,000 for 3 months. On 31st July Nathumal reported that 350 quintals of turmeric was sold at Rs. 500 per quinial, the expenses being as follows :

Godown Rent Rs.1,000, Advertisement Rs. 1,000, Salaries to Salesman Rs.3,000. Nathumal charged a commission of 5 per cent plus del credere commission of 5%. He sold remaining stock for Rs. 22,500 on credit. who were declared bankrupt after one months and only 50 paise per rupee was realised from them.

Show Consignment Account and Nathumal,s Account in the books of R.S. Maloo Turmeric Mills, Nizamabad.

Ans. [Profit a Rs.49,900; Abnormal Loss Rs. 1,650; Amount Received from Nathumal Rs.1,42,750].

30. X Company Ltd. Of Kolkata despatched 1,000 radio sets costing Rs.150 each to Y of Mumbai on 23rd March, 2014. Following expenses were paid by the company on the consignment.

Freight Rs.7,500, Cartage Rs. 500, insurance Rs. 2,000. The Performa invoice to the agent was for Rs 2,00,000 and remuneration was fixed at 5% on the gross sale proceeds. The agent accepted a bill for Rs. 50,000 &awn on him as an advance.

50 sets were stolen in transit to Mumbai and an insurance claim of Rs. 7,000 was received in final settlement On 31st December,2014, the company received an account sales from the agent as under :

		Rs.
Sale proceeds of 800 sets		1,60,000
Less : Clearing Charges	1,900	
Storage	3,100	
Commission	8,000	13,000
Net Proceeds		1,47,000

He remitted a sight draft for the balance after deducting the amount of the bill already accepted.

Show Ledger Accounts in the books of the Consignor.

Ans. [Profit 19,300; Abnormal Loss Rs.1,000; Value of Stock at I. P. Rs. 3l,800 Amount received from Y Rs. 97,000].

31. P of Kolkata consigned goods costing a 45,000 t Q of Delhi. The invoice was made so as to show a profit of $33^{1/3}$% on cost P paid Rs. 300 as carriage and Rs.1,200 as freight and insurance. Goods costing Rs.5,000 were destroyed while in transit add the insurance company **admitted the full claim**.

In Delhi Q paid Rs. 240 as carriage and Rs. 600 as godown rent. Two-thirds of the goods received by Q were sold by him. Q sent a cheque to P for the sale proceeds after deducting the expense incurred by him and the commission due to him, ordinary @ 5% and del] credere @ $2^{1/2}$% Show Consignment A/c and Qs A/c in P's Ledger.

Ans. [Profit Rs. 4,572; Amount received from Q Rs.32,048].

32. Rahim of Kolkata consigned 100 cases of medicine costing Rs1,000 per case to Karim of Kanpur on 1-1-2014 The goods were to be sold at 25% above cost. Any deficiency in selling price was to be borne by Karim. Karim was, however, entitled to a special commission @ 25% of any surplus price realized. Karim was further entitled to an ordinary commission of 5% and del credere commission of $2^{1/2}$% on all sales.

Rahim incurred the following expense : Packing Charges Rs. 6,000 ; Loading Charges Rs.1,000; Lorry Hire Rs.12,000 ; Railway Freight Rs.2l,000.

The cases were received by Karim on 15 12014. The account sales received from Karim on 30-6-2014 revealed the following I 40 cases sold on 2l-3-2014 @ Rs. 1,500 per case, 30 cases sold on 24-5,2014 @ Rs. 1,,200 per case, l0 case sold on 15-6-2014@ Rs.1,300 per case. 5 cases of medicines were stolen by a dishonest employee. A compensation of Rs. 2,000 was realized from him. Karim incurred unloading charges of a 2,000 and warehouse rent Rs. 3,000. Karim enclosed a bank draft for the balance due.

Write up Necessary Accounts in the books of Rahim.

Ans. [Loss Rs. l6,900; Abnormal Loss Rs. 5,100 Value of Stock at Cost Rs. 21,300; Amount Received from Karim Rs. 96,700, Commission Rs 9,300].

33. Consignor Chandra and Co. sent 100 scooters to Rajdeep Brothers on consignment basis.

The cost of each scooter was Rs. 6,000 but was invoi.cd to Rajdeep Brothers at cost plus 25%. The expenses of the consignor were : freight Rs. 3.500 and insurance Rs.1,500. During transit one scooter was damaged and the insurance company paid Rs. 4,500 towards that Rajdeep Brothers sold 7 scooters at Rs. 7,500 each and Paid for storage and insurance Rs. 1,700 They accepted a bill for Rs. 45,000 at 3 months drawn by the consignor. The Consignor discounted the bill with, his bank at 6% per annum. It was agreed that rajdeep Brothers are to get 5% commission Give Journal Entries in the books of the consignor and the consignee.

Ans. [Profit 5,825; Abnormal Loss Rs.1,550; Value of Stock at Invoice Price 6,94,600 ; Balance due from Rajdeep Bros. Rs3,175.

34. S Prasad of Mumbai consigned 100 units of commodity to S. Deep of Delhi. The goods were invoiced at Rs.150 each so as to yield a profit of 50% on cost. S. Prasad incurred Rs.1,000 on freight and insurance. S. Deep incurred Rs. 500 on freight and Rs. 800 on rent. He sold 50 units for cash at Rs 160 per unit, 20 units at Rs.175 per unit on credit. S. Deep noticed that 10 units were damaged on account of bad packing and he colud sell them at Rs. 80 per unit. There was bad debt of Rs. 500 due to the insolvency of one of the customers. S. Deep settled his account with S. Prasad by bank draft retaining 5% + 1% credere commission sales.

Ans. [Profit on Consignment Rs.1,960. Net Abnormal Loss Rs.398. Value of Closing Stock Rs. 3,300. Amount received from S. Deep Rs.10,262].

35. Hindustan Traders consigned 20,000 kgs. of oil to Ganesh Traders Bijapur. The invoice price of each kg was Rs 80 being cost + 25%. The consignor paid Rs. 16,000 as freight Rs. 20,000 as packing charges and Rs.4,000 as insurance.

3,000 kgs of oil was lost in transit. and the insurance company accepted the claim for Rs.70,000.

The consignee sells 12,000 kgs of oil at Rs 100 per kg. He also reported a loss of 1,000 kgs. due to leakage which was accepted and allowed as normal loss. The Consignee's expenses were Rs. 4,000 on godown rent and Rs. 2,000 on sales expenses. The commission was $7^{1/2}$% on Sales

Prepare Consignment A/c and Abnormal Loss A/c in the books of consignor.

Ans. [Profit on Consignment Rs. 2,62,500. Abnormal Loss Rs.1,98,00. Value of Stock Rs.3,44,500].

38. X of Jalandhar consigned to Y of Delhi goods to be sold at invoice price which represents 125% Of Cost. Y is entitled to a commission of 10% on

sales at invoice price and 25% of any excess realised over invoice price. Expenses on freight and insurance incurred by X were Rs. 10,000. Account sales received shows that Y effected sales aggregating to Rs.1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were Rs. 8,000.

Ten percent of the consigned goods of the value of Rs.12,500 were destroyed by fire at Delhi, godown and insurance claim received was Rs.11,000 net of salvage. Y remitted the balance due in favour of X. Prepare Consignment Account and Y's Account in the books of X making calculations to the nearest rupee.

Ans. [Loss on Consignment Rs.1,438; Abnormal Loss Rs. 1,500; Closing Stock Rs. 20,250;

Amount received from Y 87,062]

39. Lila & Co. of Kolkata sent on 10-10-2013, a consignment of 150 fans, costing Rs. 300 each, to Shila & Co. of Mumbai. The invoice price was stated at Rs.350 each. Lila & Co. paid thereon Rs. 750 for railway freight, Rs. 200 for cartage and Rs 500 for insurance. On the same date, the consignor also drew a three months bill for Rs. 10,000 which was accepted by the consignee, by way of advance remittance against the consignment, 25 fans were stolen in transit and a claim of Rs.7,500 was accepted by the insurance company. On 28-2-2014, Shila & Co. sent Account Sales reporting sales of 100 fans for Rs. 37,500 of which Rs. 500, was unrealisable. Shila & Co. who was entitled to a commission of 10% on sales, spent Rs.250 as godown rent, Rs. 500 as advertisement cost and Rs. 300 as cartage.

Give Journal Entries to record the above transactions in the books of Lila & Co.

Ans. [Profit Rs. 1,294; Abnormal Loss Rs. 242; value of Stock at I.P. Rs. 9,052].

40. (Where Del Credere commission is given and bad debts occur). Ram & Co., Kolkata, sent 50 cases of hair oil valued at Rs 200 each, to Krishna of

Kakinada, for sale on consignment basis. They paid freight and insurance Rs. 200. Each case contained 40 bottles. When Krishna received the consignment, he found two cases damaged and he salvaged 40 bottles out of them. Krishna, whose terms of commission were 5% normal commission and, 1% Del Credere, sold 1,300 bottles at Rs. 8 each partly on credit and partly for cash. One customer who had lifted 100 bottles paid only for 75 bottles and the balance has become a bad debt.

Ram & Co., have decided to treat the damage in transits as an abnormal loss to be separately written of in their Profit and Loss Account. Show, in the books of Ram and Co. (a) Consignment A/c ; and (b) Krishna's A/c, showing the amount due from him.

Ans. [Profit Rs. 3,146; Abnormal Loss Rs. 204; Value of Stock Rs. 3,366]

41. (Where insurance claim is received for cost of goods lost in transit). Niresh consigns 1,000 bats costing Rs. 500 each to Swaroop for sales and incurs Rs. 4,000 towards freight and Rs.1,000 for insurance. Swaroop was able to take delivery of 900 bats only and 100 bats were destroyed in transit. Insurance Co. admitted the claim for cost of goods (including proportionate expenses) lost and paid the same. Swaroop will be entitled to a commission of 5% on sales, 2% Del credere commission on credit sales only. He will be entitled for additional commission of 25% of the excess if the sale price exceeds the cost price by more than 20% Swaroop has spent Rs.2,000 towards sales expenses. The sale account is as under :

500 bats at Rs. 600 per bat cash ; 200 bats at Rs. 700 per bat credit. Consignmcnt debtors paid their dues except one customer to whom 4 bats sold for Rs. 2,800 could pay only Rs. 800. Show Consignment Ac, Swaroop A/c, Consignment Debtors A/c and Commission Calculation.

Ans. [Profit Rs.54,700; Abnormal Loss admitted as Insurance Claim Rs.50,500; Value of Stock Rs.1,01,000]

42. On 1st September ,2014, goods which cost Rs. 33,000 to X were consigned y him to his agent Y at a Performa price which was 20% over cost. X paid

insurance and freight charges amounting to Rs.1,250. Y was allowed Rs. 3,000 per annum towards establishment cost 5% commission on gross sales and 3% del credere commission. He was also allowed 5% extra commission on profit on such consignment sales, after charging such commission. Y incurred an expense of Rs. 255 as landing charges. ¾ of goods were sold at 33.33% profit on cost, half of which were on credit; half of the Balance of goods was damaged and a claim on insurancd company was made for Rs. 4,400 which was settled at a discount of 10%.

you are required to prepare a Consignment Account and an Abnormal Loss Account in the books of X, for the year ended 31st December, 2014.

Ans. [Profit on consignment Rs. 3,315; Abnormal Loss Rs. 4,313; commission on Profits to Y Rs 166]

WHERE SOME GOODS ARE SENT ON JOINT VENTURE

48. Given below is the relevant portion of a Trial Balance as on 31-3-2014. You are asked to give adjustment entries and open necessary Ledger Accounts after taking into consideration, the information under the Triai Balance. Prepare also adjusted Trial Balance as on 31-3-2014:

TRIAL BALANCE

as on 31-3-2014

	Dr.	Cr.
	Rs.	Rs.
Materials Consumed	3,75,000	
Stock as on 31-3-2014	50,000	
Suspense A/c of N.K Sinha	20,000	
Suspense A/c of S.K Sinha	7,500	
Other Balance	4,12,500	
	4,32,500	4,32,500

Information:

(i) Analysis of N.K. Sinha's Account reveals that goods costing Rs. 30,000 were sent to him under consignment agreement. All the goods were sold except ¼ (Which was valued at cost) for Rs. 50,000 against which a cheque of Rs. 20,000 only was received. No entry was passed except that of cheque received. Commission @ 1% is payable to N.K Sinha.

(ii) Similarly is joint venture agreement was entered into with S.K. Sinha for which an Advance of Rs.7,500 was made. It is now ascertained that the venture earned a Profit of Rs.5,000 of which the proprietor's share is 3/5 ths.

Ans. [(i) Profit on consignment Rs. 27,OOO; Balance 4lre_from s.K. Sinha Rs. 10,500; Total Of adjusted Trial Balance Rs.4,42,5O0; (ii) Debit S.K. Sinha with Rs. 3,000, Credit Profit and Loss A/c with Rs. 3,000]

WHERE BOTH LOSSES OCCUR SIMULTANEOUSLY

44. R consigned 10,000 kgs. of Ghee at Rs. 20 per kg. He spent Rs. 5 per kg. as freight and insurance for sending the Ghee to his agent D at Delhi. on the way 100 kgs. of Ghee was lost due to the leakage (which are to be treated as normal loss) and 400 kgs. of Ghee was destroyed in transit. Rs. 8,500 was paid to the consignor directly by the Insurance Co. as insurance claim. D sold 7,500 kgs. at Rs. 40 per kg. He spent Rs. 32,000 on advertisement and recurring expenses. Calculate (i) the amount of abnormal loss, (ii) value of stock at the end, (iii) prepare Consignment A/c showing profit or loss on consignment, if D is entitled to 5% commission on sales.

Ans. [(i) Rs. 1,500 ; (ii) Rs.50,526 ; (iii) Profit Rs. 63,526

45. Canodia oil Mills, Delhi consigned 500 tins of vanaspati ghee Jalandhar. Each to Aggarwal Bros., Jalandhar. Each tins cost Rs. 132 @ Rs. 8 per kg. canodia oil Mills; paid Rs. 50 as carriage Rs. 250 as freight and Rs. 200 as insurance in transit. During transit 330 kgs. of ghee was Accidentally destroyed for which the insurance company paid directly to the consignors, Rs.1,250.

The damaged tins were sold by Aggarwal Bros. at Rs.1,100. After three months from the date of consignment of goods; reported that 410 tins were sold at Rs.150 per tin and expenses being on godoen rent Rs.1,500; laboour charge Rs. 500. Aggarwal Bros. are entitled to commission of 4% and. 1% del credere. Consignee reported a loss of 33 kgs. due to leakage. Assuming that Aggarwal Bros. paid the amount due by bank draft,show Necessary Accounts in the books both the parities.

Ans. [Profit on Consignment Rs.1,667; Accidental Loss Rs.2,660; Value of Consignment Stock Rs. 9,082]

46. On 31sl December, 'R' sent 5,000 kg. of Ghee to 'K of H.P. on consignment. Each kg. of Ghee costs Rs. 80. 'R' paid Rs. 500 as carriage. Rs. 250 as freight and Rs.200 as insurance in transit. During transit 500 kg. of Ghee were destroyed for which Insurance Co. paid Directly to the consigners Rs. 32,500 in full settlement of the claim.

After three months of the consignment of Ghee K reported that 3,500 kg. of Ghee was sold @ Rs. 95 per kg and expenses being; : Godown Rent Rs. 1,500 and Salaries to Salesmen Rs.1,750 were paid, 'K' is entitled to a commission of 5% on sales, 'K' also reported a loss of 20 kg. Ghee due to leakage. Prepare necessary accounts in the books of both the parties.

Ans. [Profit Rs. 30,707; Value of abnormal Loss Rs. 7,595; Value of Consignment Stock Rs. 78,937; Balance due from K Rs.3,12,625].

47. Ottarwa Exports, Baddi, consigned 50,000 kgs of oil to Gonterman piper of Nalagarh. Each kg of oil costs Rs 80. ottawa Exports paicl Rs. 5.000 for carriage, Rs. 25,000 for freight and RS. 20,000 for insurance in transit,. During transit 5,000 kgs were accidentally destroyed for which insurance company paid directly to the consignor Rs. 2,50,000 in full settlement of the claim.

After two months from the date of consignment of goods to Nalagarh, Gonterman piper reported that 25,000 kgs of oil was sold at Rs.95 per kgs expenses being ; on godowm rent Rs. 50,000 and on salesman's salary Rs.

75,000. Gonterman Piper are entitled to a commission of 5% of sales. They also reported a loss 200 kgs due to leakage in transit.

Prepare the Consignment A/c, and the account of both Consignee and Consignor in their books of account.

Ans. [Profit on Consignment Rs. 1,86,094; Balance due from Gonterman paper Rs. 30,33,750; Abnormal Loss (Net) Rs.1,55,000; Value Consignment Stock Rs.7,97,344]

48. Oil India Ltd. of Mumbai consigned 1,000 barrels of lubricant oil costing Rs. 800 per barrel to central oii company, Calcutta. Oil India Ltd. paid Rs. 50,000 as freight and insurance. 25 barrels were destroyed in the transit. The insurance claim was settled at Rs.15,000 and was paid directly to the consignor.

Central oil company took delivery of the consignment and accepted a bill drawn upon them by oil India Ltd. for Rs. 5,00,000 for 3 months. central oil company reported as follows :

(i) 750 barrels were sold at Rs. 1,200 per barrel;

(ii) The other expenses were unloading Rs. 2,500; wages of salesman Rs. 50,000; printing Rs. 21,300; godown rent Rs. 10,000;

(iii) 25 barrels of oil were lost due to leakage which is considered to be a normal loss.

Central oil Company is entitled to a commission of 5% on all sales effected by them. central oil company paid the amount due in respect of the consignment. show the consignment account, Central oil Company paid the amount due I respect of the consignment. Show the consignment account, Central Oil company account and the loss in transit account in the books of both the parties.

Ans. [Profit Rs.1,17,450; Amount received from central oil company Rs. 2,71,200; Net Loss in Transit Rs. 6,250 ; Valuation of Closing Stock Rs. 1,75,000]

49. M of Mathura consigned 5,000 kg. of oil costing Rs. 20 per kg. to S of Surat. M paid Rs. 25,000 as Freight and Insurance. 125 kg. of oil was destroyed in transit. The insurance claim was settled at Rs. 2,250 and was paid directly to the consignor. S took delivery of consignment and accepted a bill drawn upon him by M for Rs. 50,000. S reported as follows:

(i) 3,750 kg. of oil was sold at Rs. 30 per kg.

(ii) His expenses were Godown rent Rs. 10,000; Wages Rs. 1,000; Printing and Stationery Rs. 5,000.

(iii) 125 kg. of oil was lost due to leakage, which is quite normal.

S is entitled to a commission of 5% on the sales effected. S paid the amount due in respect of the consignment. Show Consignment Account, the Account of S and Abnormal Loss Account in the books of M.

Ans. [Loss on consignment Rs. 5,342, Value of Abnormal Loss Rs. 3,125; Value of Consignment Stock Rs. 25,658]

Accounting for Joint Ventures

3.1 Meaning of Joint Venture :

A joint venture is usually a temporary partnership without the use of a firm name, limited to carrying out a particular business plan in which the persons concerned agree to contribute capital and to share profits or losses. The parties in a joint venture are known as co-venturers and their liability is limited to the adventure concerned for which they agree to contribute capital and share profits or losses. For example, X and Y decide to contribute Rs. 1,00,000 each and to invest the same in the purchase and sale of wheat. They purchased wheat costing Rs.1,80,000 and incurred Rs. 20,000 as expenses. The entire wheat was sold by them for Rs. 3,00,000. Thus, they made a profit of Rs. 1,00,000 in this venture. Then X and Y share the profits in the agreed ratio say, equally. Each will get Rs. 50,000 share of profit.

3.2 Areas of Business where Joint Venture Form of Business can be adopted

(i) Joint Consignment of Goods, (ii) Special Shares, (iii) Underwriting of Shares or Debentures, (iv) Construction of a Building, (v) Distribution of Goods, (vi) Sale and Purchase of Properties

3.3 Characteristics of a Joint Venture

Following are the main characteristics of a joint venture :

(a) It is an agreement between two or more persons.

(b) It is a temporary partnership and comes to an end after the completion of a particular venture.

(c) The partnership is for a specific uentu.re, so it is a particular partnership.

(d) The partnership is without the use of a firm name.

(e) The main purpose of a joint venture is to make profit and to distribute that profit among all co-venturers. Loss, if any, will also be borne by the co-venturers in the agreed ratio or equally if no agreement regarding ratio has been made.

(f) The venturers may do any type of business of their own during the course of the venture.

3.4 Benefits of Joint Venture

Following benefits will be available from Joint Venture business :

(i) **Sharing of Risk**. The risk in case of joint venture business will be borne by all co-adventurers as profit or loss on joint venture transactions are shared by all co-adventurers in a predetermined ratio.

(ii) **Financial Resources**. Adequate financial resources provided by two or more persons will be available to undertake relatively big projects requiring more capital.

(iii) **Sufficient Experience**. More people of different skills and experience can come together to undertake costly and profitable projects and execute them efficiently.

3.5 Difference Between Joint Venture and Consignment :

Points of Distinction	Joint Venture	Consignment
1. Relation between Parties	The relationship between the parties is that of owners.	The relationship between the parties is that of the principal and the agent.
2. Method(s) of keeping accounts	There are four methods of keeping accounts	There is only one method of keeping accounts.
3. Continuity of relationship between parties	The relationship is terminated	The relationship will be there even after one transaction.
4. Ownership of Goods	as soon as the venture is over Ownership is that of co-adventures. Ownership is that of co-adventurers.	Ownership remains with the consignor though possession of goods passes from the consignor to the consignee.

8. Finance	Money is contributed by all co-venturers in a certain proportion.	Sales are made at consignor's risk.
9. Risk	Risk is shared between venturers.	Its scope is limited only to trade.
10. Scope	Its scope is wide as it covers many activities besides trade.	Its scope is limited only to trade.

11. Number of Parties	Its scope is wide as it covers many activities besides trade	There are usually two parties normally the principal and the agent.
12. Parties	There are at least two co-adventurers but may be more than two. The parties to a joint venture are called co-adventurers.	The parties to a consignment called consignor and consignee.
13. Nature of Business	It may be undertaken for any Iegal business including sale and purchase of movable goods.	It is concerned only with sale of movable goods.

3.6 Distinction Between Joint Venture & Partnership

Basis of Distinction	Joint Venue	Partnership
1. Name of the Firm	It is carried on without a firm's name.	It is carried on with firm's name
2. Co-venturers,/ Partners	The parties are called co-venturers.	The parties are called partners.
3. Continuity	It is temporary partnership and comes to an end after the completion of a particular venture.	It is continuous and does not end after the completion of a particular venture.
4. Liability	The liability of co-ventures is limited to the adventure concerned for which they agree to contribute capital and share profits or losses.	The liability of partners is unlimited to the extent of their business and private estate.

Basis of Distinction	Joint Venue	Partnership
5. Location of Business	It is genrally local.	It may be located at different places.
6. Position of Minor	In it, minor is generally not admitted.	It may be located at different places.
7. Application of the Act	No enactment is applicable	A minor can be admitted only for benelits. lndian Partnership Act, 1932 is applicable.
8. No. of Partners / members	There is no limit in it.	The numbers of partners is limited to 20 in ordinary trade and 10 in bank business.

3.7 Methods of Recording Joint Venture Transactions

It is necessary to maintain proper accounts of all transactions of joint venture so that correct profit or loss on joint venture may be ascertained. Following are the methods of recording Joint Venture transactions.

(a) When one of the co-venturers is appointed to manage the joint venture.

(b) When separate set of books is not maintained for recording joint venture transactions.

(c) When a separate set of books is kept for the joint venture.

(d) When a joint venture transactions is recorded through the Memorandum Joint Venture Account.

(A) when one of the co-venturers is appointed to manage the joint venture

This method is followed when most of the buying and selling on account of joint venture is managed by one-coventurer. Other co-venturers are only to contribute their share of investment in the joint venture. So, all transactions relating to joint venture are recorded by the co-venturer so appointed in his books as follows :

(i) On receipt of cash from other co-venturers as their share of investment.

Cash Account Dr.

To Other Co-venturers' Accounts (with their respective contributions)

(ii) On purchase of goods

Joint Venture Account Dr.

To Cash Account (If purchased for cash)

or To Supplier's Account (If purchased on credit)

(iii) On supplying goods out of his stock

Joint Venture Account Dr.

To Purchases or Goods Account

(iv) On goods being supplied by other co-venturers

Joint Venture Account Dr.

To Other Co-venturers' Accounts

(v) On expenses incurred on account of joint venture

Joint Venture Account Dr.

To Cash Account

(vi) On sale of goods on account of joint venture

Cash Account Dr.

To Joint Venture Account

(vii) If the working partner gets commission, the entry is :

Joint Venture Account Dr.

To Commission Account

(viii) If unsold stock is taken by the working partner

Goods Account Dr.

To Joint Venture Account

If unsold stock is taken by other co-venturers

Other Co-venturers' Accounts Dr.

To Joint Venture Account

(ix) Joint Venture Account is closed by transferring the balance of the account, either profit or loss to Profit and Loss Account (working partner's share of profit) and other Co-venturers' Accounts (their share of profit or loss).

(a) In case of a profit, the entry is :

Joint Venture Account Dr.

To Profit and Loss Account

To Other Co-venturers' Accounts

(b) In case of a loss on joint venture, the entry is :

Profit and Loss Account Dr.

Other Co-venturers' Accounts Dr.

To Joint Venture Account

Thus, we have seen that Joint Venture is a nominal account. It is debited with the cost of goods purchased or supplied out of stock as well as with all expenses and is credited with sales and unsold stock.

(x) On completion of the joint venture, the amount due to the other co-venturers is ascertained and parment is made to them. The entry is

Other Co-venturers' Accounts Dr.

To Cash or Bank Account

5.1 PRACTICAL PROBLEMS

PROBLEM 1 : Ram, Mohan and Rahim were partners in a joint venture, each contributing Rs. 5,000. Ram purchased goods for Rs. 13,000 and also supplied goods worth Rs.1,000 from his stock. Rahim also supplied goods to the value of Rs. 1,500 from stock and his expenses in connection with the supplying of goods on account of joint venture amounted to Rs. 50. Ram paid Rs. 250 for expenses in connection with the joint venture. Ram sold goods on behalf of the joint venture and realized Rs. 20,800. Ram was entitled to a commission of 5 per cent on sales. Unsold goods amounting to Rs. 500 were taken over by Mohan. Ram settled accounts of Mohan and Rahim by Bank draft.

Record these transactions in Ram's Journal and also prepare Joint Venture Account and Mohan and Rahim Accounts in Ram's Books.

SOLUTION

RAM'S JOURNAL

			Rs.	Rs.
	Bank Account Dr.		10,000	
	To Mohan			5,000
	To Rahim			5,000
	(Being amount received from Mohan and Rahim for joint venture)			
	Joint Venture Account Dr.		13,000	
	To Bank Account			13,000
	(Being goods purchased on account of joint venture)			
	Joint Venture Account Dr.		1,000	
	To Goods Account			1,000

JOINT VENTURE ACCOUNT

	Rs.		Rs.
To Bank Account (purchases)	13,000	By Bank Account (Sales)	20,800
To Goods Account (Goods supplied)	1,000	By Mohan (Unsold goods taken)	500
To Rahim (Goods and expenses)	1,550		
To Bank Account (Expenses)	250		
To Commission Account (5%)	1,040		
To Profit on Joint Venture			
transferred to : Rs.			
Profit & Loss Account 1,486			
Mohan 1,487			
Rahim 1,482			
	4,460		
	21,300		21,300

MOHAN

	Rs.		Rs.
To Joint Venture Account	500	By Bank Account	5,000
To Bank Account	5,987	By Joint Venture Account (profit)	1,487
	6,487		6,487

RAHIM ACCOUNT

	Rs.		Rs.
To Bank Account	8,037	By Bank Account	5,000
		By Joint Venture Account	1,550
		By Joint Venture Account (profit)	1,487
	8,037		8,037

PROBLEM 2 : CC of Chennai entered into joint venture with A of Amritsar and M of Mirzapur on the following arrangements :

(a) A would purchase blankets and M would purchase carpets both of whom would send to C goods for sale.

(b) C would sell the goods at the best possible price and would send the remittances to A and M in accordance with their respective dues.

(c) Profits would be shared equally between the parties. A purchased 800 blankets at Rs.50 each and spent Rs.600 for freight etc, M purchased 100 carpets at Rs. 350 each and spent Rs. 800 for freight etc.

C sold all the blankets and car Pets at Rs. 75,000 and his expenses amounted to Rs. 1,600.

Show Joint Venture Account and Co-venturers' Accounts in the books of c.

SOLUTTON

In the Books of C

JOINT VENTURE ACCOUNT

		Rs.		Rs.
To A (Purchase of blankets)		25,000	By Bank (Sales)	75,000
To A (Freight)		600		
To M (Purchase of carpets)		35,000		
To M (Freight)		800		
To Bank (Expenses)		1,600		
To Profit transferred to :	Rs			
Profit and Loss A/c	4,000			
A	4,000			
M	4,000			
		12,000		
		75,000		75,000

CO-ADVENTURES ACCOUNT

	A	M		A	M
To Bank A/c	Rs.	Rs		Rs.	Rs.
	29,600	39,800	By Joint Venture A,/c		
			(Purchases)	25,000	35,000
			By Joint Ventures A/c		
			(Freight)	600	800
			By Joint Venture A/c (Profit)	4,000	4,000
	29,600	39,800		29,600	39,800

(B) When a separate set of books is not maintained for recording joint venture transactions .

Under this method, each co-venturer opens a Joint Venture Account and The personal accounts of other co-venturers. This system of accounting is Explained below :

1. Each co-venturer debits Joint Venture Account with the cost of goods purchased And expenses incurred on account of joint venture. The credit is given to the Bank or to The Creditor's Account (if goods are purchased on credit and expenses not yet paid.)

2. Each co-venturer also debits Joint Venture Account and credits the account of Other co-venturer with the cost of goods purchased and expenses incurred by the other co-venturer on account of joint venture. It may be remembered that it is possible only if each co-venturer gives information regarding purchase of goods, and expenses incurred by him to the other co-venturer.

3. When goods are sold on account of joint venture. Cash or Purchaser Account is debited and Joint Venture Account is credited with the amount of sale. If the goods are sold by the other co-venturer, personal account of the other co-venturer is debited with the amount of sale.

4. When any commission is receivable by the co-venturer, Joint Venture Account is debited and Commission Account is credited with the amount of the commission. If the commission is receivable by the other co-venturer, Joint Venture Account is debited and Personal Account of the other co-venturer is credited.

5. Sometimes, remittance is received by one co-venturer by getting the bill discounted Accepted by the other co-venturer. This is done when one of the co-venturers makes the investment on account of joint venture. In such a case, loss on account of discounting the bill should be transferred to Joint Venture Account because loss on account of discount is to be borne by all the co-venturers. Entries in this connection are as follows :

In Drawer's Books		In Acceptor's Books	
(i) Bills Receivable A/c	Dr.	(i) Other Co-venturer	Dr.
To Other Co-venturer		To Bills Payable Account	
(Being acceptance received)		(Being acceptance given)	

(ii) Bank Account	Dr.	(ii) No entry	
Discount Account	Dr.		
To Bills Receivable Account			
(Being bill discounted)			
(iii) Joint Venture Account	Dr.	(iii) Joint Venture Account	
To Discount Account		To Other Co-venturer	
(Being transfer of discount)		(Being transfer of discount)	

6. If unsold stock is taken by one-coventurer, Goods Account is debited and Joint Venture Account is credited. If unsold goods are taken by the other co-venturer, Personal Account of the Other Co-venturer is debited and Joint Venture Account is credited.

7. Balance in Joint Venture Account will represent profit or loss and will be shared by all-coventurers in the agreed ratio or in the absence of any agreement equally. If there is a profit, each partner debits Joint Venture Account and credits Profit and Loss Account with his own share and the other Co-Venturers' Accounts with their share of profit. In case of a loss, the entries will be reversed.

8. The balance in the Personal Account of any Co-venturer will show the amount due from or due to him.

Under this method, each co-venturer will open the following accounts in his books:

(1) Joint Venture Account. It is a nominal account in nature and prepared to ascertain the Profit & Loss Account.

(2) Co-venturers Personal Account. Each venturer will keep personal account of other co-venturers to record transactions affected by them.

PROBLEM 3 : A and B enter into a joint venture sharing profit and losses in the ratio 3 : 2. A purchased goods costing Rs. 2,00000. B sold 95% goods for Rs.

2,50,000. A is entitled to get 1% commission on purchase and B is entitled to get 5% commission on sales. A drew a bill on B for an amount equivalent to 80% of original cost of goods. A got it discounted at Rs. 1,50,000. Calculate B's share of Profit.

SOLUTION

CALCULATION OF B'S SHARE OF PROFIT

		Rs.
Sales		2,50,000
Closing Stock (5% of Rs. 2,00,000)		10,000
	Rs.	
Less: Purchase	2,00,000	
A's Commission	2,000	
B's Commission	12,500	
Discount Charges (.80 x Rs. 2,00,000– Rs. 1,50,000)	10,000	2,24,500
Net Profit		35,500
B's Share of Profit (Rs. 35,500 x 2/5)		14,200

PROBLEM 4 : Ram and Rahim enter into a Joint Venture to take a building contract for Rs.24,00,000. They provide the following information regarding the expenditure incurred by them :

	Ram	Rohim
	Rs	Rs
Materials	**6,80,000**	**5,00,000**
Cement	**1,30,000**	**1,70,000**
Wages	**—**	**2,70,000**
Architect's Fees	**1,00,000**	**—**

License Fees	**—**	**50,000**
Plant	**—**	**2,00,000**

Plant was valued at Rs.1,00,000 at the end of the contract and Rahim agreed To take it at that value. Contract amount of Rs. 24,00,000 was received by Ram. Profit or losses to be shared equally. You are asked to show : (i) joint Venture Accounnt and Rahim's Account in the books of Ram; and (ii) Joint Venture Account and Ram's Account in the books of Rahim assuming that balance due been settled between the ventures.

SOLUTION

In the Books of Ram

JOINT VENTURE ACCOUNT

		Rs.		Rs.
To Bank A/c	Rs.		By Bank A/c	24,00,000
Materials	6,80,000		By Rahim's A/c (Plant)	1.00,000
Cement	1,30,000			
Architect's Fees	1,00,000			
		9,10,000		
To Rahim's A/c				
Materials	5,00,000			
Cement	1,70,000			
Wages	2,70,000			
License Fees	50,000			
Plant	2,00,000			
To Net Profit		11,90,000		
transferred to :				
Rahim's Account	2,00,000			
Profit & Loss A/c	2,00,000			
		4,00,000		
		25,00,000		25,00,000

RAHIM'S ACCOUNT

	Rs.		Rs.
To Joint Venture A/c (Plant)	1,00,000	By Joint Venture A/c (Sundries)	11,90,000
To Bank A/c	12,90,000		2,00,000
	13,90,000	By Joint Venture A/c (Profit)	13,90,000

In the Books of Rahim

JOINT VENTURE ACCOUNT

		Rs.		Rs.
To Ram's A/c	Rs.			
Materials	6,80.000		By Ram's A/c (Contract amount)	24,00,000
Cement	1,30,000		By Plant A/c	1,00,000
Architect's Fees	1,00,000			
		9,10,000		
To Bank A/c	Rs.			
Materials	5,00,000			
Cement	1,70,000			
Wages	2,70,000			
License Fees	50,000			
Plant	2,00,000			
		11,90,000		
To Net Profit transferred to :				
Ram's Account	2,00,000			
Profit & Loss A/c	2,00,000			
		4,00,000		
		25,00,000		25,00,000

RAM'S ACCOUNT

	Rs.		Rs.
To Joint Venture A/c (Contract amount)	24,00,000	By Joint Venture A/c	9,10,000
		(Sundries)	2,00,000
		By Joint Venture A/c (Profit)	12,90,000
	24,00,000	By Bank A/c	24,00,000

PROBLEM 6 : A and B entered into a joint venture of underwriting the subscription at par of the entire share capital of the Copper Mines Ltd., consisting of 1,00,000 equity shares of Rs.10 each and to pay all expenses up to allotment. The profits were to be shared by them in the ratio of 3: 2. The consideration in return for this agreement was the allotment of 12,000 other shares of Rs.10/- each to be issued to them as fully paid. A provided the funds for registration fees Rs. 12,000, advertising expenses Rs. 11,000, expenses on printing and distribution of the prospectus Rs. 7,500 and other printing and stationery expenses Rs. 2,000. B contributed towards payment of office rent Rs.3,000, legal charges Rs.13,750, salaries to clerical staff Rs.9,000 and other petty disbursements Rs.1,750. The prospectus was issued and applications fell short of the issue by 15,000 shares. A took over these on account of joint account and paid for the same in full. The venture received the 12,000 fully paid shares as underwriting commission. They sold their entire holding at Rs. 12.50 less 50 paisa brokerage per share. The net proceeds were received by A for 15,000 shares and B for 12,000 shares.

Write out the necessary accounts in the books of both the parties showing the adjustment.

SOLUTION

In The Books of A

JOINT VENTURE ACCOUNT

		Rs.		Rs.
To Bank	Rs		By Bank A/c (sale proceeds of	
Registration Fees'	12,000		15,000shares@Rs.12.50	
Advertising	11,000		per share less 50 paisa per	
Printing & Distribution			share brokerage)	1,80,00
of Prospectus	7,500		By B's A/c (Sale proceeds of	1,44,000
Printing and Stationery	2,000	32,500	12,000shares@Rs.12.50	
To B's A/c :			per share less 50 paisa per	
Office Rent	3,000		share brokerage)	
Legal Expenses	13,750			
Salaries	9,000			
Petty Payments	1,750	27,500		
Bank (Cost of Shares)		1,50,000		
Profit & Loss A/c	68,400			
B's A/c (Profit)	45,600			
		1,14,000		
		3,24,000		3,24,000

B'S ACCOUNT

	Rs.		R.s
To Joint Venture A/c (Sale proceeds)	1,44,000	By Joint Venture A/c (Expenses)	27,500
		By Joint Venture (Profit)	45,600
		By Bank A/c (Final Payment Received)	70,900
	1,44,000		1,44,000

In the Books of B

JOINT VENTURE ACCOUNT

		Rs.		Rs.
To A's A/c:	Rs.		By A's A/c (sale proceeds)	1,80,000
Registration fees	12,000		By Bank (Sale proceeds)	1,44,000
Advertising	11,000			
Printing & Distribution				
Of Prospectus	7,500			
Printing and Stationery	2,000	32,500		
To Bank A/c :				
Office Rent	3,000			
Legal Expenses	13,750			
Salaries	9,000			
Petty Payments	1,750	27,500		
To A's A/c (Cost of Shares)		1,50,000		
To A's A/c (Profit)	68,400	1,14,000		
To Profit & Loss A/c	45,600			
		3,24,000		3,24,000

A'S ACCOUNT

	Rs.		Rs.
To Joint Venture A/c	1,80,000	By Joint Venture A/c (Expenses)	32,500
To Bank A/c (Final Settlement)	70,900	By Joint Venture (Cost of Shares)	1,50,000
		By Joint Venture (Profit)	68,400
	2,50,900		2,50,900

PROBLEM 7 : A of Ahmedabad and B of Mumbai enter into a joint Venture to consign 100 bales to c at Kolkata to be sold on their joint account.

They agree to share profits or losses equally.

A sent 50 bales valued at Rs. 60,000 and pays freight and expenses Rs. 1,200. B 50 bales valued at Rs. 55,000 and pays expenses for Rs.900.

All the bales reached Kolkata in time.However, 5 bales were found to have been tampered with during the transit. A recovered T 3,000 from the insurance company, C sold remaining bales for T 1,35,000. He charged. 9% as selling commission and deducted T 1,500 towards expenses. IIe remitted the balance nrnount to A by D/D on State Bank of India payable at Ahmedabad. A settled the account of B by Bank Draft. Record the above transactions in the books of A and B.

SOLUTION

A's Books

JOURNAL

			Rs.	Rs.
	Joint Venture Account Dr. To Bank Account (Being cost of goods purchased on account of joint venture)		60,000	60,000
	Joint Venture Account Dr. To Bank Account (Being expenses incurred on account of joint venture)		1,200	1,200
	Joint Venture Account Dr. To B		55,000	55,000

	900	
		900
	3,000	
		3,000

	C Dr.		1,35,000	
	To Joint Venture Account			1,35,000
	(Being sales effected by C on account of joint venture)			
	Joint Venture Account Dr.		4,050	
	To C			4,050
	(Being 3% commission on Rs. 1,35,000 payable to C)			
	Joint Venture Account Dr.		1,500	
	To G			1,500
	(Being expenses incurred by C on account of joint venture)			
	Bank Account Dr.		1,29,450	
	To C			1,29,450
	(Being D/D received from C for the amount due from him)			

	Joint Venture Account Dr		15,350	
	To Profit and Loss Account			7,675
	To B			7,675
	(Being profit on joint venture transferred)			
	B Dr		63,575	
	To Bank Account			63,575
	(Amount paid to B)			

JOINT VENTURE ACCOUNT

	Rs.		Rs.
To Bank Account (Goods)	60,000	By Bank Account	3,000
To Bank Account (Expenses.)	1,200	(Insurance Claim)	1,35,000
To B (Goods)	55,000	By C (Sales)	
To B (Expenses)	900		
To C (Selling Commission)	4,050		
To C (Expenses)	1,500		
To Profit on Joint Venture transferred to :			
Profit and Loss A/c Rs. 7,675			
B Rs.7,675	15,350		
	1,38,000		1,38,000

CO-VENTURERS ACCOUNTS

	A	B		A	C
	Rs.	Rs.		Rs.	Rs.
To Joint Venture A/c			By Joint Venture Account (Goods)	60,000	--
(insurance Claims)	3,000	--	" Joint Venture Account		
To Joint Venture			(Expenses)	1,200	1,500
Account (Sales)	--	1,35,000	' Joint Venture Account (Profit)	7,675	
" C's A/c	1,29,450		" Joint Venture Account		
			(Commission)	--	4,050
			" Bank A,/c	63,575	
			A's A,/c	--	1,29,450
	1,32,450	1,35,000		1,32,450	1,35,000

PROBLEM 8 : A and B bought a collection of stamps on joint Account . It was agreed that A should finance the transaction and should receive $7^{1/2}$% interest on the sum provided from the date of purchase to the date he received his share of the proceeds and B should sell the collection and should receive 5% of the amount realized. Any amount remaining thereafter be shared equally. B was to bear any expenses paid by him.

The collection was bought on l st March for a sum of Rs. 2,000 ; A borrowing the amount from a friend at 6% p.a. Two months later B sold the stamps for Rs. 2,500. The expenses of sale came to Rs. 50. He paid the appropriate amount to A who immediately repaid the loan. You are required to show how the transactions should be dealt with in A's ledger.

SOLUTION

A's LEDGER

JOINT VENTURE ACCOUNT

		Rs.			Rs.
Mar. 1	To Bank (Purchase of		Apr.30	By B (Sales)	2,500
Apr.30	Stamps)	2,000			
Apr. 30	" Interest A/c (On				
To					
"30	Rs. 2,000 tor 2				
	months @ $7^{1/2}$% p.a)	25			
	B (5% Commission				
	on Rs. 2,500)	125			
	" Profit transferred to :				
	Profit & Loss				
	Account 175				
	B 175				
		350			
		2,500			2,500

B'S ACCOUNT

		Rs.			Rs.
Apr.30	To Joint Venture		Apr.30	By Joint Venture	
	Account (Sales)	2,500		Account (Commission)	125
				" Joint Venture Account (Profit)	175
				" Bank A/c	2,200
		2,500			2,500

FRIEND'S LOAN ACCOUNT

		Rs.			Rs.
Apr.30	To Bank Account		Mar. 1	By Bank Account	2,000
	(Loan Repaid)	2,000			

INTEREST ACCOUNT

		Rs.			Rs.
Apr.30	To Bank Account		Apr.30	By Joint Venture A/c	25
	(6% interest on.				
	friend's loan for				
" 30	2 months)	20			
	" Profit & Loss A/c	5			
		25			25

(c) When a separate set of books is kept for the joint venture

In this method, no individual co-venturer makes a record in his individual books but a complete set of double entry books is used for writing up joint venture transactions. The accounting treatment in this method is similar to that of partnership transactions. This method is usually followed when the parties to a joint venture are at the same place and when the joint venture undertaken is sufficiently large. Under this method, a Joint Bank Account is opened, the co-venturers to a joint venture pay their share of investment into this account and the payments on account of joint venture are also recorded in this account. Accounts of the co-venturers are also opened. When the joint venture is completed, the amounts due to the co-venturers are ascertained and paid and books are thus closed.

Entries to be recorded in this method are as follows :

1. When the amount is contributed by the co-venturers.

   Joint Bank Account Dr.

   To Personal Account of each Co-venturer

2. When goods are purchased on account of joint venture.

Joint Venture Account Dr.

To Joint Bank Account (If purchased on cash)

or To Seller's Account (If purchased on credit)

3. For expenses incurred on account of joint venture from joint bank or by an individual co-venturer.

Joint Venture Account Dr.

To Joint Bank Account

To Personal Account of Co-venturer

4. When goods are sold on account of joint venture.

Joint Bank Account Dr. (If sold on cash)

Shares/Debentures Account Dr. (If received in shares or debentures)

or Purchaser's Account Dr. (If sold on credit)

5. When share/debentures are taken over by a co-venturer

Personal Account of Co-venturer A/c Dr.

Joint Venture Account Dr. (for loss on share/debentures)

To Shares/Debentures Account

To Joint Venture Account (for profit on shares/debentures)

6. Joint Venture Account is closed by transferring the balance, (i.e., profit or loss) of this account to all co-venturers in their profit or loss sharing ratio.

7. For payment of the amount due to co-venturers.

Personal Accounts of the Co-venturers Dr.

To Joint Bank Account

3.8 Accounts Prepared under Joint Venture

Under this method, following account are opened:

(1) Joint Venture Account. It is a nominal account in nature and used to calculate profit or loss on joint venture.

(2) Co-Venturer Account. It is a personal account of each venturer and used to record transactions of venturer with joint business and to ascertain the amount due to/from them.

(3) Joint Bank Account. It is a personal account used to record cash and bank transactions.

It may be noted that there should be no balance in Joint Bank Account when all payments due on account of joint venture are made and the amount due to the co-venturers is paid.

PROBLEM 9 : A and B enter into joint venture. A agrees to bring capital in cash. Accordingly a Joint Banking Account is opened by A for a sum of Rs. 80,000. B buys goods worth Rs. 50,000 as part of his share of capital. Further goods worth Rs. 1,18,000 were purchased from C paying Rs.60,000 and balance by a promissory note signed by A and B.

The goods were sent to Kolkata for sale. Expenses totaling Rs. 5,000 were incurred in sending the goods. Part of goods were damaged and a sum of Rs. 25,000 were recovered from the insurance company. The balance goods were sold for Rs. 2,20,000.

Give Journal Entries to record the above transactions. Also prepare Joint Venture Account, Joint Bank Account and Accounts of A and B assuming that the promissory note was duly honored.

SOLUTION

JOURNAL ENTRIES

			Rs.	Rs.
	Joint Bank Account Dr.		80,000	
	To A			80,000
	(Being amount contributed by A)			
	Joint Venture Account Dr.		50,000	
	To B			50,000
	(Being goods purchased by B on account of joint venture)			
	Joint Venture Account Dr.		1 ,18,000	
	To C			1,18,000
	(Being goods purchased from C on account of joint venture)			
	C Dr.		1 ,18,000	
	To Joint Bank Account			60,000
	To Bills Payable Account			58,000
	(Being payment made to C)			
	Joint Venture Account Dr.		5,000	
	To Joint Bank Account			5,000
	(Being expenses incurred on account of joint venture)			
	Joint Bank Account Dr.		25,000	
	To Joint Venture Account			25,000
	(Being amount received from the insurance company for part of the goods damaged)			
	Joint Bank Account Dr.		2,20,000	
	To Joint Venture Account			2,20,000
	(Being sales on account of joint venture)			

	Bills Payable Account Dr.		58,000	
	To Joint Bank Account			58,000
	(Being payment of the promissory note on the due date)			
	Joint Venture Account Dr.		72,000	
	To A			36,000
	To B			36,000
	(Being profit on Joint venture transferred to A & B)			
	A Dr.		1,16,000	
	B Dr		86,000	
	To Joint Bank Account			2,02,000
	(Being payment made to co-venturers in final settlement of their accounts)			

JOINT VENTURE ACCOUNT

	Rs.		Rs.
To B (Goods)	50,000	By Joint Bank Account	
" C (Goods)	1'1,18,000	(Insurance Claim)	25,000
" Joint Bank Account (Expenses)	5,000	" Joint Bank Account (Sales)	2,20,000
To Profit on Joint Venture			
A Rs.36,000			
B Rs.36,000			
	72,000		
	2,45,000		2,45,000

CO-ADVENTURES' ACCOUNTS

	A	B		A	B
	Rs.	Rs.		Rs.	Rs
To Joint Bank Account	1,16,000	86,000	By Joint Bank Account	80,000	--
			By Joint Venture Account (Goods)	--	50,000
			By Joint Venture Account (Profit)	36,000	36,000
	1,16,000	86,000		1,16,000	86,000

JOINT BANK ACCOUNT

	Rs.		Rs.
To A	80,000	By C	60,000
To Joint Venture Account	25,000	By Joint Venture Account	5,000
To Joint Venture Account	2,20,000	By Bills Payable Account	58,000
		By A	1 ,1 6,000
		By B	86,000
	3,25,000		3,25,000

Construction of Buildings, Bridges, Roads, etc.

Such works, being of a bigger nature, are usually undertaken by companies which become contractees. The consideration to be received by such companies is usually partly in cash and partly in the form of shares or debentures. Shares and Debentures sold or taken over by co-venturers at agreed price in order to determine the overall profit/loss of the venture. The additional entries to be passed are given below

	Debit	Credit
(i) For contract price due	Contractee's A/c	Joint Venture A/c
(ii) For receipt of contract Price	Joint Bank A/c (for cash), Shares/Debentures A/c (for shares/debentures)	Contractee's A/c
(iii) For sale of shares/debentures	Joint Bank A/c Co-adventures A/c	Shares/Debentures A/c
(iv) Profit on sale of Shares/debentures	Shares/Debentures A/c	Joint Venture A/c

Note : For loss on sale of shares/debentures-reverse entry.

PROBLEM 10 : (Construcion of a Building) Prabir and Mihir doing business separately as building contractors undertake jointly to build a building for a newly started Public Company for a Contract Price of Rs.10,00,000 payable as to Rs.8,00,000 by installments in cash and Rs. 2,00,000 fully paid Equity Shares of the new company. A Bank Account is opened in their joint name, Prabir paying Rs.2,50,000 and Mihir Rs.1,50,000. They are to share profit or loss in the proportion of 2 : 1 respectively. Their transactions were as follows:

Paid wages Rs.3,00,000 ; Bought materials Rs. 7,00,000 ; Materials supplied by Prabir from his Stock Rs.50,000 ; Materials supplied by Mihir from his Stock Rs. 40,000; Architect's fee paid by Prabir Rs.20,000 ; The contract was completed and the price duly received.

The Joint venture was closed by Prabir taking up all the Equity Shares of, the company at an agreed valuation of Rs.1,60,000 and Mihir taking up the Stock of materials at an agreed valuation of Rs.30,000. Prepare Joint Venture Account Showing the Profit or Loss, Joint Bank A/c and the accounts of Prabir and Mihir showing the final distribution of Cash.

SOLUTION

JOINT VENTUHE ACCOUNT

	Rs.	Rs.			Rs.
To Joint Bank A/c :			By Joint Bank A/c		8,00,000
Materials	7,00,000		By Shares A/c		2,00,000
Wages	3,00,000	10,00,000	By Mihir A/c (Stock taken over)		30,000
To Prabir :			By Loss to	Rs.	
Material	50,000		Prabir	80,000	
Architect's fees	20,000	70,000	Mihir	40,000	1,20,000
To Mihir (Material)		40,000			
To Shares (Loss)		40,000			
		11,50,000			11,50,000

JOINT BANK ACCOUNT

	Rs.		Rs.
To Prabir	2,50,000	By Joint Venture A/c	10,00,000
To Mihir	1,50,000	By Prabir	80,000
To Joint Venture A/c	8,00,000	By Mihir	1,20,000
	12,00,000		12,00,000

CO. ADVENTURES' ACCOUNT

	Prabir Rs.	Mihir Rs.		Prabir Rs.	Mihir Rs.
To Joint Venture A/c			By Joint Bank A/c	2,50,000	1,50,000
(Loss)	80,000	40,000	By Joint Venture A/c	70,000	40,000
To Joint Venture					
(stock taken over)	--	30,000			
To Shares A/c	1,60,000				
Joint Bank A/c	80,000	1,20,000			
	3,20,000	1,90,000		3,20,000	1,90,000

SHARES ACCOUNT

	Rs.		Rs.
To Joint Venture A/c	2,00,000	By Prabir	1,60,000
		By Joint Venture A/c	40,000
			2,00,000

3.9 Underwriting of Shares

Sometimes co-adventurers agree to underwrite the shares of a company for a consideration of underwriting commission which may be received partly in cash and partly in shares. If all the shares are not subscribed by the public, then underwriters will have to take up the shares not subscribed by the public and shares received as commission. The shares are ultimately sold or taken over by co-adventurers at an agreed price in order to calculate the overall profit or loss on joint venture. The additional entries to be passed are given below:

	Debit	Credit
(i) For receiving Commission	Joint Bank A/c Shares A/c	Joint Venture A/c
(ii) For taking up the shares not subscribed by the. public	Shares A/c	Joint Bank A/c Co-adventures' A/cs
(iii) For Sale of Shares A/c	Joint Bank A/c Co-adventures' A/cs	Shares A/c
(iv)For Profit on Shares	Shares A/c	Joint Venture A/c

Note : For loss on shares reverse entry

PROBLEM 11 : (Underwriting of Shares) Gopal and Govind entered into a joint venture agreement to undertake the subscriptions of 50,000 Equity Shares of Rs.10 each issued by a newly formed Limited Company at a premium of Rs.2 per share. The underwriting commissions 4% as provided in the Articles.

Public subscriptions were received for 38,000 shares and the underwriters duly discharged their obligations by taking up the remaining shares. Gopal and Govind contributed Rs. 80,000 each and deposited the same in a Joint Bank Account. Sundry expenses incurred out of the Joint Bank amounted to Rs. 5,000. The underwriting commission was received by cheque.

Towards the end of the venture 10,000 shares were sold by them in the open market @ Rs.14 per share and the rest of the shares were taken up by them equally @ Rs.13 per sharp.

Profits of the venture were shared equally.

You are required to prepare Joint Venture Account, Joint Bank Account and the Personal Accounts of the Co-venturers recording the above mentioned transactions.

SOLUTION

JOINT VENTURE ACCOUNT

	Rs.		Rs.
To Joint Bank A/c (cost of 12,000 shares @ as 12 Per share)	1,44,000	By Joint Bank A/c Underwriting Commission (4% on Rs. 6,00,000)	24,000
To Joint Bank A/c (Sundry expenses)	5,000	By Joint Bank A/c (Sales of 10,000 Shares @ Rs. 14 per share)	1,40,000
To Profit Rs.		By Gopal's A/c	
To Gopal 20,500		(1/2 shares i.e 1,000 Shares	
Govind 20,500		Taken over)	13,000
	41,000	By Gobind A/c	
		(1/2 Shares i.e 1,000 Shares	
		Taken over)	13,000
	1,90,000		1,90;000

JOINT BANK ACCOUNT

	Rs.		Rs.
To Gopal's A/c	80,000	By Joint Venture A/c	
To Govind A/c	80,000	(sundry Expenses)	5,000
To joint Venture A/c	1,40,000	By Joint Venture A/c (Cost of Shares)	1,44,000
To joint Venture A/c		By Gopal's A/c	87,500
(Underwriting Commission)	24,000	By Govind's A/c	87,500
	3,24,000		3,24,000

CO-VENTURERS' ACCOUNTS

	Gopal Rs.	Govind Rs.		Gopal Rs.	Govind Rs.
To Joint Venture A/c			By Joint Bank A,/c	80,000	80,000
(Shares taken over)	13,000	13,000	" Joint Venture A/c		
'Joint Bank A/c	87,500	87,500	(Profit)	20,500	20,500
	1,00,500	1,00,500		1,00,500	1,00,500

Sale of Plots through Developers

Sometimes co- adventures act as developer in joint venture. They purchase land and incur certain expenses in order to develop the land. The land divided into certain plots besides leaving some portion of land for providing various common facilities and for public roads. These plots are ultimately sold or are taken over by co-adventures on an agreed price. The profit or loss are shared by co-adventures in proportion of the ratio in which they share profit and losses.

PROBLEM : 12 Kailash and Gopal entered into a joint venture for The sales of plots of land A joint bank account was opened in which Kailash deposited Rs. 30lakh and Gopal deposited Rs. 10lakh. They agreed to share profits and losses in the ratio of their respective capitals.

A piece of land was purchased for Rs. 29 lakh. Legal and registration fees of Rs. 3 lakh were paid. A sum of T 8 lakh was spent on development of the land. The land was divided into 40 plots. 30 plots were sold @ Rs.1.5 lakh each and 6 plots were sold @ Rs. 1.2 lakh each. Ttre brokerage of Rs. 2.2.lakh was paid for selling the plots. The remaining plots were taken over by Gopal and Kailash at the cost price in proportion of the ratio in which they shared profits and losses.

Prepare the joint venture account, joint bank account and the accounts of the two co-venturers.

SOLUTION

JOINT VENTUBE ACCOUNT **Rs. In Lakh**

To Joint Bank A/c :		Rs.	By Joint Bank A/c Plot sold	Rs.
Land Purchased		29.00	30 x 1.5 lakh	45.00
Legal Expenses		3.00	6 x 1.2 lakh	7.20
Development Expenses		8.00	By Kailash's A/c (3 plots)	3.00
Brokerage paid		2.20	By Gopal's A/c (one plot)	1.00
To Profit transferred to				
Co-Adventurer's A/cs :				
Kailash	10.5			
Gopal	3.5			
		14.00		
		56.20		56.20

CO-ADVENTURES ACCOUNT

	Kailash Rs.	Gopal Rs.		Kailash Rs.	Gopal Rs.
To Joint Venture A/c	3.00	1.00	By Joint Branch A/c	30.00	10.00
	37.50	12.50	By Joint Venture A/c	10.50	3.50
To Joint Bank A/c	40.50	13.50	(Profit)	40.50	13.50

JOINT BANK ACCOUNT

	Rs.	By Joint Venture A/c	Rs.
To Kailash's A/c	30.00	(Land Purchases + Legal	42.20
To Gopal's A/c	10.00	Expenses + Development	
To Joint Venture A/c (plot Sold)	52.00	Expenses + Brokerage paid)	
		By Kailash's A/c	37.50
		By Gopal's A/c	12.50
	92.20		92.20

(D) Memorandum Joint Venture Account

This method is followed when each co-adventurer in a joint venture wants to make a record of joint venture transactions in his books. This method is an alternative of (B) method and operates as follows : (a) Every co-adventurer will open a personal account called Joint Venture with (name of the other co-adventurer). Account and the following entries will be recorded in this account :

(i) Joint Venture with-Account Dr.

To Cash or Creditors Account

(Being all payments or liabilities incurred on account of joint venture)

(ii) Cash or Debtors Account Dr.

To Joint Venture with-Account

(Being sales effected by him on account of Joint venture)

(iii) Joint Venture with - Account

To Goods Account

(Being goods supplied out of stock for joint venture)

(iv) Joint Venture with-Account

To Commission Account

(Being commission payable to us on sales on account of joint venture)

It may be noted that entries relating to joint venture effecting the co-adventurer regarding the joint venture transactions are to be recorded only in his books. Similarly, entries effecting other co-adventurers will be recorded by other co-adventurers in their books.

(b) In addition to the personal accounts as described above, a Memorandum Joint venture Account is also opened with a view to ascertaining profit or loss on joint venture To enable the preparation of Memorandum Joint venture Account, each party sends to the other party a copy of the transactions effected by him. Memorandum Joint Venture Account can be compared with a Profit and Loss Account because all expenses and losses are debited to it and all incomes and sales on account of joint venture are credited to it. It may be remembered by the students that the items appearing in the personal accounts of all co-adventurers are entered in the Memorandum Joint venture Account on the same rides (debit or credit) as they appear in the personal accounts' The balance of this Memorandum Joint Venture Account represents profit or loss on joint venture and each co-adventurer will make a record of profit or loss in his books as follows :

(i) Joint Venture with-Account

To Profit and Loss Account

(Being our share of profit on joint venture)

(ii) Profit and Loss Account

To Joint Venture with-Account

(Being our share of loss on joint venture)

It may be noted that Memorandum Joint Venture Account does not form part of double entry system ; it has been prepared to find out profit or loss on joint venture. (c) The balance in Joint Venture with-Account will show the amount due to or due from the other co-adventurer.

PROBLEM 13 : A and B entered into a joint venture of underwriting the subscription at par of 50,000 shares of T 10 each of a joint stock company. They agreed to share profits or losses in the ratio of three-fifths and two-fifths respectively. The consideration for guaranteeing the subscription was 500 other shares of Rs.10 each fully paid to be issued to them.

The public took up 48,000 shares and the remaining shares of the guaranteed issue were taken by A and B who provide cash equally. The entire shareholding of the venture was then sold through other brokers, 60 per cent at a price of Rs. 9.50 less brokerage 50 paisa per share, 20 per cent at Rs. 9.75 less brokerage 50 paisa per share and the balance were taken over by A and B equally at Rs. 9 per share. The share proceeds were collected by A.

Give journal entries in the books of A and B and also show a Memorandum Joint Venture Account and Joint Venture with B in the books of A and Joint Venture with A in the books of B assuming that the final settlement of account was made between A and B.

SOLUTION

A'S JOURNAL

			Rs.	Rs.
	Joint Venture with B Account Dr.		10,000	
	To Bank Account			10,000
	(Being 1/2 cash provided for the purchase of 2,000 shares of Rs. 10 each on accoung of joint venture)			
	Bank Account Dr.		(1)18,125	
	To Joint Venture with B Account			18,125
	(Being sale of 1,500 shares @ Rs. 9.50 less brokerage 50 paisa per share and 500 shares @ T 9.75 less brokerage 50 paisa per share on account of joint venture)			
	Shares Account Dr.		(1) 2,250	
	To Joint Venture with B Account			2,250
	(Being 250 shares taken @ Rs. 9 per share)			
	Joint Venture with B Account Dr.		1,575	
	To Profit and Loss Account			1,575
	(Being 3/5 share of profit on joint venture)			
	Joint Venture with B Account Dr.		8,800	8,800

B'S JOURNAL

			Rs.	Rs.
	Joint Venture with A Account Dr.		10,000	
	To Bank Account			10,000
	(Being half of the amount provided for the purchase of 2,000 shares of Rs.10 each on account of joint venture)			
	Shares Account Dr.		(1) 2,250	
	To Joint Venture with A Account			2,250
	(Being 250 shares taken @ Rs.9 per share)			
	Joint Venture with A Account Dr.		1,050	
	To Profit and Loss Account			1,050
	(Being 2/5 share of profit on joint venture)			
	Bank Account Dr.		8,800	
	To Joint Venture with A Account			8,800
	(Being receipt of amount due from A).			

JOINT VENTURE WITH B ACCOUNT

	Rs.		Rs.
To Bank Account	10,000	By Bank Account (Sales)	1 8,1 25
To Profit and Loss Account	1,575	By Shares Account	2,250
To Bank Account	8,880		
	20,375		20,375

JOINT VENTURE WITH A ACCOUNT

	Rs.	Shares Account	Rs.
To Bank Account	10,000	Bank Account	2,250
To Profit and Loss Account	1,050		8,800
	11,050		11,050

Working Note :

(1) Total number of shares to be sold on account of joint venture is as follows :

Total number of shares underwritten	50,000
Less : Number of shares subscribed by the public	48,000
Number of shares purchased on account of joint venture	2,000
Number of shares received as commission	500
	2,500

Number of shares sold @ Rs 9 (Rs. 9.50 - brokerage 50 paisa) = $2,500 \times \frac{60}{100} = 1,500$

Number of shares sold @ Rs.9.25 (Rs. 9.75 - brokerage 50 paisa) = $2,500 \times \frac{20}{100} = 500$

Remaining 500 shares (i.e., 2,500- 1,500 - 500) taken by A and B equally @ Rs. 9 per share.

PROBLEM 14 : Manish of Mangalore and Bangar of Bangalore Entered into a joint venture for the purpose of buying and selling second-hand Cars. Manish was to purchase them while Bangar was to sell them. The profit or Loss was to be shared equally. Bangar remitted a sum of Rs. 2,25,000 to Manish towards the venture.

Manish purchased 5 cars for Rs. 2,40,000 and paid Rs. 90,000 for their reconditioning and sent them to Bangalore. Ife also incurred an expense of Rs.7,500 in transporting the cars to Bangalore.

Bangar sold 4 cars for Rs. 3,60,000 and retained the fifth car: for himself at an agreed value of Rs. 75,000. His expenses were-brokerage Rs. 3,000; garage rent Rs.3,000; insurance Rs. 1,500, and sundry expenses Rs. 600.

Each party's ledger contains a record of his own transactions on joint account. Prepare Memorandum Joint Venture Account and Joint Venture

Account with Manish in the books of Bangar assuming that the accounts were finally settled between the parties.

SOLUTION

In the Books of Bangar

JOINT VENTURE ACCOUNT WITH MANISH

	Rs.		Rs.
To Bank (Remittance)	2,25,000	By Bank (Sale of 4 Cars)	3,60,000
To Bank (Brokerage)	3,000	By Vehicle A/c	75,000
To Bank (Garage Rent)	3,000	(Unsold Car Retained)	
To Bank (Insurance)	1,500		
To Bank (Sundry Expenses)	600		
To Profit & Loss A/c			
(Share of Profit as per			
Memorandum Joint Venture	44,700		
A/c)			
To Bank (Final Settlement)	1,57,200		
	4,35,000		4,35,000

MEMORANDUM JOINT VENTURE ACCOUNT

	Rs.		Rs.
To Manish (Cost of Car)	2,40,000	By Bangar (Sales)	3,60,000
To Manish (Amount paid for		By Bangar (Car taken)	75,000
Reconditioning)	90,000		
To Manish (Transport Exp.)	7,500		
To Bangar (Brokerage)	3,000		
To Bangar (Rent)	3,000		
To Bangar (Insurance)	1,500		

PROBLEM 15 : A and B entered into a joint venture to buy and sell Second hand machinery. Profit and losses were to be shared, A two-third and B One-third.

On 18th March, 2014, A purchased two machines for Rs. 7,200 and Rs. 8,400. He incurred expenditure of Rs. 1,600 on repairs and on 17th April,2014 sold one of machines for Rs. 12,000 and on 24th April the other machine for Rs.11,600. He paid Rs. 15,000 of the proceeds into his own bank account and paid the balance to B.

On 17th May, 2014 A purchased a further machine for Rs.14,400 which was sold on 24th May, 20l4 for Rs. 16,000 less 5 per cent cash discount, the proceed being handed over to B.

On 25th March, 20l4 B purchased a machine for Rs. 8,000 on which he incurred expenditure of Rs. 1,000 and which he sold on 12th April 2014 for Rs.10,400 which he paid into his bank account. This machine was returned by the purchaser on 20th April, and B paid him Rs 10,000 for it. As it was still unsold on 31st May, 2014, it was agreed that it should be taken over by A at a valuation of Rs.9,200.

On 3lst May,2014, the sum required in full settlement as between A and B Was paid by the Party accountable.

To Bangar (Sundry Expenses)		600		
To Profit on Joint Venture				
Transferred to :	Rs.			
Manish	44,700			
Bankar	44,700			
		89,400		
		4,35,000		4,35,000

You are required to prepare (a) Joint Venture Account as it will appear in The books of A and (b) Memorandum Account for the Joint venture showing the net profit.

SOULTION

In A's Books

JOINT VENTURE WITH B ACCOUNT

2014		Rs.	2014		Rs.
Mar. 18	To Bank (Purchases-	15,600	Apr. 17	By Bank (Sales)	12,000
	Rs.7,200+Rs.8,400)	1,600	" 24	By Bank (Sales)	11,600
?	To Bank (Repairs)		May 24	By Bank (Sales)	
?	To Bank (Rs.12,000			(Rs. 16,000-5/100 x Rs.16,000	15,200
	+ Rs.11,600		May 31	By Machinery Account	9,200
	- Rs.15,000)	8,600	" 31	By Bank	12,600
May 17	To Bank (Purchases)	14,400			
May 24	To Bank (Proceeds of sales				
	handed over to B)	15,200			
May 31	To Profit and Loss A/c	5,200			
		60,600			60,600

MEMORANDUM JOINT VENTURE ACCOUNT

	Rs.		Rs.
To A-(Purchases)	15,600	By A-Sales	
To A-(Repairs expenses)	1,600	(Rs. 12,000+Rs.11,600	
To A-(Purchases)	14,400	+ Rs. 15,200)	38,800
To B-(Purchases)	8,000	By B-(Sales)	10,400
To B-(Repairs)	1,000	By A(Machinery taken by A)	9,200

Interest

Sometimes the co-ventures to joint venture argee to charge or allow interest on the debit and credit balance up to the date of the completion of the joint ventures Joint Venture Account in such a case should be treated similar to the Account Current Interest allowed to the co-venturers being loss is debited to Joint venture Account and interest charged to co- venturers being income is credited to Joint venture Account to arrive at the amount of net profit divisible among them.

To B (Amount Paid for return inward)	10,000		
To Profit on Joint Venture transferred to : Rs. A-2/3 5,200 B-1/3 2,600	7,800		
	58,400		58,400

PROBLEM 16 : Vijay and Arun entered into a joint venture for purchase and sale of cotton. They agreed to share profits in the proportion of 2 : 1 and also to be entitled to an interest of l2% per annum (on monthly basis) on moneys invested as well as received. Following transactions took place in between themselves:

(i) On lst January, 2014, Vijay purchased 1,000 bales of cotton @ Rs.500 per bale, the brokerage being Rs.10 per bale.

(ii) On lst February 2014, Arun purchased 500 bales of cotton @ Rs.520 per bale, the brokerage being Rs. l0 per bale.

(iii) On 28th February, 2014,Vijay sold 800 bales of cotton @ Rs. 572 per bale, the brokerage being Rs.12 per bale and took the proceeds to himself.

(iv) on lst April, 2014, Arun sold 600 bales of cotton @ Rs. 580 per bale, the brokerage being Rs.10 per bale and took the proceeds to himself.

It was also agreed that each co-venturer will at first sell from his own purchases and then, if need be, from the goods purchased. by other co-venturer. The balance stock left unsold was taken by Vijay at cost on 30th April, 20l4 when accounts were settled between the co-venturers.

You are required to show the Accounts of Co-venturers and Joint Venture Account as would appear when maintained in a separate set of books.

SOLUTION

JOINT VENTURE ACCOUNT

2014		Rs.	2014		Rs.
Jan.1	To Vijay (Purchases- 1,000 bales @Rs.500+Rs.10 brokerage)	5,10,000	Feb.28	By Vijay (Sales-800 bales @ { 572- Rs.12 brokerage)	4,48,000
Feb. 1	To Arun (Purchases- 500bales@Rs.520 + Rs. 10 brokerage)	2,65,000	April.1	By Arun (Sales-600 bales @ Rs 580- Rs. 10 brokerage)	3,42,000
April30	To Vijay (Interest @ 12% on Rs. 5,10,000 for 4 months from Jan. 1 to April 30 Rs. 2,400 Less: 12% on Rs. 4,48,000 sales made by him for 2 months from Feb. 28 to April 30 = Rs. 8,960		' 30	By Vijay (100 unsold bales taken @ Rs. 510 i.e., cost price of Vijay)	51,000

April30	To Arun (Interest @ 12% on Rs.2,65,000 for 3 months from Feb.28 to April 30 = Rs. 7,950 Less: 12% on Rs. 3,42,000 sales made by him for 1 months from April 1 to April 30 = Rs. 3,420	11,440					
April30	To Profit on Joint Venture transferred to : Vijay-2/3 share Rs. 33,353 Arun - 1/3 share Rs. 16,677	4,530 50,030					
		8,41,000				8,41,000	

VIJAY

2014		Rs.	2014		Rs.
Feb. 28	To Joint Venture Account (Sales)	4,48,000	Jan.1	By Joint Venture A/c (Purchases)	5,10,000
April 30	To Joint Ventures A/c Unsold Goods taken)	51,000	April 30	By Joint Venture A/c (Interest)	11,440
April30	To Joint Bank A/c	55,793	April30	By Joint Venture A/c (Profit)	33,353
		5,54,793			5,54,793

ARUN

2014		Rs.	2014		Rs.
April 1	To Joint Venture A/c (Sales)	3,42,000	Feb 1	By Joint Venture A/c (Purchases)	2,65,000
			Apr 30	By Joint Venture A/c (Interest)	4,530
			Apr 30	By Joint Venture A/c (Profit)	16,677
			Apr 30	By Joint Bank A/c	55,793
		3,42,000			3,42,000

JOINT BANK ACCOUNT

2014		Rs.	2014		Rs.
Apr.30	To Arun	55,793	Apr.30	By Vijay	55,793

PROBLEM 17 : A, B and C entered into a joint venture to purchase and sell motor parts. Profit and losses were to be shared as to 3 :2 : l. Amounts contributed and received by the different co-ventures arc as follows :

	A	B	C
Rs. Rs. Rs.			
Supplies	**15,000**	**10,000**	**5,000**
Expenses	**1,500**	**1,000**	**500**
Sales proceeds	**25,000**	**15,000**	**—**
Goods unsold taken over			**4000**

Co-ventures were entitled to 5% commission on their respective sales. No separate joint venture books are opened. Show the necessary accounts in the books of A (assuming final settlement of accounts was made) under :

(1) Double Entry Joint Venture Accounting, and

(2) Memorandum Joint Venture Accounting.

SOLUTION

(1) Double Entry Joint Venture Accounting

A's Books

JOINT VENTRE ACCOUNT

	Rs.	Rs.		Rs.
To Bank Account :			By Bank Account (Sales)	25,000
Supplies	15,000.		By B (Sales)	15,000
Expenses	1,500	16,500	By C (Stock taken over)	4,000
To B				
Supplies	10,000			
Expenses	1,000	11,000		
Commission Account				
To C:				
Supplies	5,000			
Expenses	500	5,000		
To Commission (5% on Rs. 25,000)		1,250		
To B (5% commission on Rs. 15,000 sales by B)		750		
To Profit on Joint Venture transferred to :				
Profit and Loss A/c	4,500			
B	3,000			
C	1,500	9,000		
		44,000		44,000

CO-ADVENTURERS ACCOUNT

	B Rs.	C Rs.		B Rs.	C Rs.
To Joint Venture A/c			By Joint Venture A/c:		
Sales	15,000	--	Supplies	10,000	5,000
Stock taken over	---	4,000	Expenses	1,000	500
To Bank A/c		3,000	Commission	750	--
(Amount paid in final settlement)			Profit	3,000	1,500
			By Bank A/c (Amount received in full settlement)	250	
	15,000	7,000		15,000	7,000

(2) Memorandum Joint Venture Accounting:

A's Books

JOINT VENTURE ACCOUNT WITH B AND C

	Rs.	Rs.		Rs.
To Bank Account :			By Bank Account (Sales)	25,000
Supplies	15,000		By Bank Account (Amount received from B)	(1) 250
Expenses	1,500	16,500		
To Commission Account		1,250		
To Profit & Loss Account (Profit on Joint Venture)		4,500		
To Bank Account (Amount Paid to C)(2)		3,000		
		25,250		25,250

MEMORANDUM JOINT VENTURE ACCOUNT

Rs.		Rs.		Rs.	Rs.
To Suppliers			By Sales		
A	15,000		A	25,000	
B	10,000		B	15,000	40,000
C	5,000	30,000	By C—Goods taken over		4,000
To Expenses					
A	1,500				
B	1,000				
C	500	3,000			
To Commission – A	1,250				
-B	750	2,000			
To Profit –A	4,500				
B	3,000				
C	1,500	9,000			
		44,000			44,000

Note. Under Memorandum Joint Venture Accounting, amount received from B-and amount payable to C can be ascertained by preparing the personal accounts in the books of B and C as follows :

B's Books

(1) JOINT VENTURE ACCOUNT WITH –A AND C

		Rs.		Rs.
Rs.			By Bank (Sales)	15,000
To Bank Account				
Supplies	10,000			
Expenses	1,000	11,000		
		750		
To Commission (5% on Rs. 15,000)				
To Profit and Loss Account		3,000		
(Share of Profit on Joint Venture)				
To Bank Account (Amount Paid		250		
in final settlement)		15,000		15,000

C's Books

(1) JOINT VENTURE WITH A & B

		Rs.		Rs.
Rs.			By Goods Account	4,000
To Bank Account :			By Bank Account	
Supplies	5,000		(Amount received in final	
Expenses	500	5,500	settlement)	3,000
To Profit and Loss Account		1,500		
(Share of Profit on Joint Venture		7,000		7,000

4.1 Conversion of Consignment into Joint Venture

Whenever it is desired to convert consignment into joint procedure venture, following is followed :

(i) The necessary accounts should be prepared relating to consignment in the books of consignor to calculate profit or loss on consignment and commission due to consignee.

(ii) On conversion of consignment into joint venture, the memorandum joint venture account is to be prepared without forming part of double entry to find out profit or loss on the joint venture as per new agreement. Accordingly value of goods at new rate, discount on bill and interest on capital are charged to this account to show profit distributable among co-venturers after charging commission on sales.

(iii) After comparing the amounts bf above items in two accounts, an adjustment entry is to be passed in the books of consignor to bring change in the relationship between consignor and consignee (now co-venturer).

Co-venturer's (previously consignee) A/c Dr.

Profit & Loss Account (to cancel excess profit)

To Trading A/c

To Interest A/c

To Discount A/c

PROBLEM 18 : (Conversion of consignment into joint venture). On lst April, 2014 Rakesh consigned 100 table fans to Mohan of panipat, each table fan costing Rs 200. The table fans were invoiced at Rs. 250 each. Freight and insurance charges paid by Rakesh amounted. to Rs 500. 5 table fans were damaged in transit and on 30th June, 20l4Rakesh received. Rs.500 on account of the damaged fans from the insurance company.

Mohan took delivery of the table fans and immediately accepted a bill drawn on him for Rs. 10,000 for 3 months. Rakesh got it discounted at 12%p.a. On 30th June, 2014, Mohan sent an Account Sales showing that :

(i) 85 table fans at Rs. 260 each were sold.

(ii) The damaged fans were sold at Rs.130 per fan.

(iii) He had incurred the following expenses :

octroi and carriage inwards Rs.200 ; Godown expenses Rs.200 ; selling expenses Rs.500

Mohan is entitled to a commission of Rs.20 per table fan sold plus one-fifth of the amount by which the gross sale proceeds exceeds a sum calculated at the invoice price. The commission is not payable on the sale of damaged fans. Mohan remitted the balance due from him.

After the preparation of accounts on 30th June, 2014, it was decided that the relationship between Rakesh and Mohan should be one of joint venture, the cost of the table fans being taken at Rs. 220. under the new agreement, Mohan is entitled to 5% commission on all sales and Rakesh is entitled to interest @ 12% p.a. on his capital outlay. Rakesh's accounting year ends on 30th June , 2014.

SOLUTION

CONSIGNMENT TO PANIPAT ACCOUNT

	Rs.	Rs.	2014		Rs.
2014	To Goods Sent on		June 30	By Bank A/c	
April 1	Consignment A/c	25,000		(Insurance Claim)	500
	To Cash A/c		"30	By Mohan-Sale of	
"1	(Freight & Insurance)	500		85fans@Rs.260	
June 30	To Mohan			each	22,100
	(Expenses)	900	30	By Mohan-Sale of 5	

					damaged fans @ Rs.130 each	650	
June 30	To Mohan (Commission) : @Rs.20 on 85 fans	1,700		30	By Consignment Stock A/c : Invoice Price of 10 fans @ Rs.250 each	2,500	
	1/5 of the excess i.e. 1/5 (22,100 - 21,250)	170	1,870		Add: Proportionate Freight & Insurance ($\frac{Rs.500}{100}$ x 10)	50	
June 30	To Stock Reserve on 10 fans @ Rs. 50 each		500		Proportionate Octroi and Cartage ($\frac{Rs.200}{100}$ x 10)	20	2,570
'30	To Profit on Consignment transferred to Profit & Loss A/c		2,050				

GOODS SENT ON CONSIGNMENT ACCOUNT

2014		Rs.	2014		Rs.
June 30	To Consignment to Panipat A/c	5,000	April	By Consignment to Panipat A/c	25,000
"30	To Trading A/c	20,000			
		25,000			25,000

MOHAN

2014		Rs.	2014		Rs.
June 30	To Consignment to Panipat A/c (Sale Proceeds of 85 fans)	22,100	April 1	By Bills Receivable A/c	10,000
			June 30	By Consignment to	
			June 30	Panipat A/c(Expenses)	900
June 30	To Consignment to PanipatA / c (Sale of damaged fans)	650	"30	By Consignment to Panipat A/c (Commission)	1,870
				By Bank A/c	9,980
		22,750			22,750

MEMORANDUM JOINT VENTURE ACCOUNT

	Rs.		Rs.
To Goods-100 table fans @ Rs 220	22,000	By Sales-85 fans @ Rs.260	22,100
To Expenses (Rakesh)	500	By Sales-5 damaged fans@ Rs.130	650
To Discount	300	By Insurance Claim	500
To Expenses (Mohan)	900	By Consignment Stock A/c Rs.	
To Commission to Mohan-5% on (Rs. 22,100 + Rs.650)	1,138	Cost-10 fans @ Rs.220 = 2,200	
To Interest to Rakesh (1)	384	Proportionate Freight and Insurance 50	
To Stock Reserve on 10 fans @ Rs. 20 (i.e. Rs.220 – Rs.200)	200	Proportionate Octroi and Carriage 20	2,270
To Profit on Joint Venture : Rs.			
Rakesh 49			
Mohan 49	98		
	25,520		25,520

(1) Interest is calculated as follows :

On Rs.22,000 (goods) + Rs.500 (expenses) - 9,700 proceeds of the bill i.e., Rs.12,800 for 3 months from April to June 30 @ 12%.

=Rs.12,800 x 12/100 x 3/12 =Rs384.

Under the new agreement of joint venture Mohan is to be credited with Rs. 1,187 (i.e., Rs.1,138 for commission plus Rs.49 share of profit on joint ventre). Previously under the consignment agreement he received Rs.1,870 as commission. Therefore, he is to be debited with Rs.683 (i.e. Rs.1,870 - Rs.1,187). Rakesh will now credit Trading A/c by Rs. 2,000 extra because fans are to be valued @ Rs. 220 per fan instead of Rs. 200. Rakesh will also give credit to Interest Account Rs.384 and Discount Account Rs. 300. In case of consignment, Rakesh's profit was Rs. 2,050. Now, under the new agreement there is a profit of Rs. 49 only, so Rakesh's Profit and Loss Account should be debited with Rs. 2,001 (Rs. 2,050-Rs. 49) to cancel the excess profit. Following journal entry is needed to bring the change in the relationship between Rakesh and Mohan-

		Rs.	Rs.
Mohan	DR.	683	
Profit and Loss Account	Dr.	2,001	
To Trading Account			
To Interest Account			2,000
To Discount Account			384

(Being adjustment of accounts300 of Consignment to Panipat to Joint Venture with Mohan).

WHERE SEPARATE BOOKS ARE NOT MAINTAINED

PROBLEM 19 : Ajoy of Agra and Bijoy of Bijnor enter into a joint venture to consign 200 bales of cloth to Dinesh of Delhi to be sold on their joint risk which is in the proportion of 3/7 and 4/7 respectively. Ajoy sends 150 bales of cloth at Rs. 2,600 each, paying freight and other charges Rs. 4,900. Bijoy sends 50 bales of cloth at Rs 2,500 each, paying expenses amounting to Rs.3,600. All the bales of cloth are sold by Dinesh for Rs.14,00,000 out of which Dinesh deducts Rs.6,000 for expenses and 10% on total sales as his commission. Dinesh remits Rs.3,00,000 to Ajoy and the balance to Bijoy through bank drafts.

Prepare Joint Venture Account and the Accounts of Biioy and Dinesh in Ajoy's ledger.

SOLUTION

In the Books of Ajoy

JOINT VENTURE ACCOUNT

		Rs.		Rs.
To Bank A/c (Goods)		3,90,000	By Sales	14,00,000
To Bank A/c (Freight etc.)		4,900		
To Bijoy's A/c (Goods)		1,25,000		
To Bijoy's A/c (Expenses)		3,600		
To Dinesh's A/c (Expenses)		6,000		
To Dinesh's A/c (Commission)		1,40,000		
To Bijoy's Nc (Profit 4/7)	4,17,429			
To Profit & Loss A/c				
Profit 3/7	3,13,071			
		7,30,500		
		14,00,000		14,00,000

ACCOUNTS OF BIJOY & DINESH

	Biioy Rs.	Dinesh Rs.		Biioy Rs.	Dinesh Rs.
To Joint Venture (Sales)	--	14,00,000	By Joint Venture A/c		
To Dinesh's A/c			(Goods)	1,25,000	---
Rs. 14,00,000			By Joint Venture A/c		
- Rs.1,40,000			(Expenses)	3,600	6,000
- Rs. 6,000			By Joint Venture A/c		
- Rs. 3,00,000)	9,54,000		(Commission)	---	1,40,000
			By Joint Venture A/c		
			(Profit)	4,17,429	
			By Bank A/c	4,07,971	3,00,000
			By Bijoy's A/c (Bal. Fig.)		9,54,000
	9,54,000	14,00,000		9,54,000	14,00,000

PROBLEM 20 : John and Ali entered into joint venture agreeing to Share profit and losses in the ratio 3:2.

On 4-1-20l4, Ali purchased goods costing Rs.60,000 and spent Rs.2,000 as expenses. On the same date he sent to John part of these goods costing Rs. 40,000.

On 7-2-2O14, John sent Rs.30,000 to Ali. on 10-2-2014, he purchased goods costing Rs. 50,000 and sent half of the goods to Ali. He paid Rs.1,000 as carriage.

On 24-3-2O14, Ali sold most of the goods in his possession for Rs. 55,000 and the remaining goods costing Rs. 3,000 were over by him at an agreed valuation of Rs. 4,000.

On 18-4-2014, John sold all the goods in his possession for Rs. 75,000 except some damaged goods costing Rs. 5,000 which it was agreed to be written off as unsaleable. His selling expenses amount to Rs. 2,000.

On 30-4-2014, the amount required to settle the accounts between John and Ali was paid by the appropriate party. show Joint venture Account and John's Account in the books of Ali.

Following expenses were incurred by Mr. Ajay for the joint venture :

Purchase of raw materials Rs. 80,000 ; Wages Rs. 21,000 : Machinery purchased Rs. 44,000; Repairs and maintenance Rs. 8,500 ; Establishment expenses Rs. 14,000.

The contract was completed on lst July, 2014. On the same date, Mr. Vijay received the contract price and the dues between, Mr. Vijay and Mr. Ajay were settled. Machinery purchased for the joint venture was taken over by Mr. Vijay at an agreed price of Rs. 21,000.

You are required to show in the books of Mr. Ajay : Joint Venture Account, Mr.Vijay's Account and Cash Account.

SOLUTION

In the Books of Ajay

JOINT VENTURE ACCOUNT

2014		Rs.	2014		Rs
Feb. 1	To Cash A/c :		July 1	By Vijay's A/c	2,10,000
	Purchase of Raw Material	80,000		(Contract price Received)	
	Wages	21,000	July 1	By Vijay's A/c Machinery Taken over)	21,000
	Machinery Purchased	44,000			
	Repair & Maintenance	8,500			
	Establishment Expenses	14,000			

July 1	To Viajy's A/c Interest on Capital (Rs. 1,75,000 x 5/12 Rs. X 12/100) 8,750 Commission 5,250	14,000	
July 1	To Cash A/c Salary 5 x Rs. 2,500 12,500 Compensation For office 5,000	17,500	
July 1	To Profit &Loss A/c 16,000		
July 1	To Vijay's A/c 16,000	32,000	
		2,31,000	2,31,000

VIJAY'S ACCOUNT

2014		Rs.	2014		Rs.
July 1	To Joint Venture A/c	2,10,000	Feb. 1	By Cash A/c	1,75,000
July 1	To Joint Venture A/c	21,000	July 1	By Joint Venture A/c (Interest)	8,750
			July 1	By Joint Venture A/c (Commission)	5,250
			July 1	By Joint Venture A/c (Profit)	16,000
			July 1	By Cash A/c	26,000
		2,31,000			2,31,000

CASH ACCOUNT

2014		Rs.	2014		Rs.
Feb. 1	To Vijay's A/c	1,75,000	Feb.2	By Joint Venture A/c	1,67,500
July 1	" Vijay's A/c	26,000	July 1	" Joint Venture A/c (Salary)	12,500
			July 1	By Joint Venture A/c (Compensation for office space)	5,000
			July 1	" Balance c/d (Ajay's share of profit)	16,000
		2,01,000			2,01,000

PROBLEM 22 : (Joint Venture Income Subject to Payment of Income Tax). R of Rajkot and C of Chennai enter into a Joint Venture deciding to share profits and losses in the ratio of 3 : 2. R purchases 31000 kgs. of material for Rs. 1,50,000 and sends it to P of Pune for processing. R pays the transport cost amounting to Rs 6,000. C purchases 2,000 kgs. of material for Rs. 2,00,000 and sends it to P of Pune for processing. The transport cost amounting to Rs. 10,000 is paid by C. P does the processing work and manufacturers 4,800 units of finished product. P prepares a' Conversion Cost' bill on Joint Venture at (20 per unit. R pays this bill. The goods are sent to Bannerjee of Calcutta, the transport cost amounting to ? 181000 being paid by R. Bannerjee sells 90% of the goods at Rs.150 per unit. He takes over the balance of goods at Rs120 per unit. After deducting his own commission@ 10% of sale proceeds, he remits the amount to R. The co-venturers agree to settle the account, after retaining 30% of the profits for taxation on the income of Association of Persons. You are required to show the Ledger Accounts in the books of R.

SOLUTION

BOOKS OF R

JOINT VENTURE ACCOUNT

	Rs.		Rs.
		By Bannerjee - Sales	6,48,000
To Bank A/c :		-Goods taken	57,600
-Purchases	1,50,000		
-Transport Cost	6,000		
-Conversion Cost	96,000		
-Transportation Cost	18,000		
To C			
-Purchases	2,00,000		
-Transportation Cost	10,000		
To Bannerjee's A/c-Commission	64,800		
To Provision for Taxation A/c			
@ 30% of Rs. 1,60,800	48,240		
To Venture Profit Rs.			
-Profit and Loss A/c 67,536			
-Ramanan 45,024	1 ,12,560		
	7,05,600		7,05,600

C ACCOUNT

	Rs.		Rs.
To Bank A/c	2,55,024	By Joint Venture A/c :	
-Amount remitted		-Purchases	2,00,000
		-Transportation Cost	10,000
		-Share of Profit	45,024
	2,55,024		2,55,024

BANNERJEE'S ACCOUNT

	Rs.		Rs.
To Joint Venture A/c -Sales	6,48,000	By Joint Venture A/c-Commission	64,800
To Joint Venture A/c -Goods taken	57,600	By Bank A,/c-Final Payment	6,40,800
	7,05,600		7,05,600

WHERE SEPARATE ARE MAINTAINED

PROBLEM 23 : Arjun and Krishan agree to import timber. In 1st July 1998 they opened a joint bank account with Rs. 25,000 towards which Arjun contributed Rs. 15,000 and Krishna Rs. 10,000. They agreed to share profits and losses in proportion to their cash contributions.

They remitted to their agent Rs.20,000 to pay for timber purchased and later Rs. 2,100 in settlement of account. Freight insurance and dock charge amounted to Rs. 3,900. On December 31st 1998 the sales amounted to Rs. 28,740, which enabled them to replay themselves with cost originally advanced (on account to be taken of interest). They then decided to close the venture and krishan agreed to takeover the timber unsold for Rs. 1,260, which is to be deducted from his share of profit.

Prepare the necessary accounts showing the amount of cash available for division by way of profits and how the same is divisible between Arjun and Krishna.

SOLUTION

JOTNT VENTURE ACCOUNT

		Rs.		Rs.
To Joint Bank A/c:	Rs.		By joint Bank A/c (Sales)	28,740
Purchase of Timber	20,000		By Krishna's A/c	1,260
Commission of Agent	2,100			
Freight and Insurance	3,900			
To Profit transferred to :		26,000		
Arjun	2,400			
Krishna	1,600			
		4,000		
		30,000		30,000

CO-ADVENTURES' ACCOUNTS

	Arjun Rs.	Krishna Rs.		Arjun Rs.	Krishna Rs.
To Joint Venture A/c	---	1,260	By Joint Bank A/c	15,000	10,000
To Joint Bank A/c	17,400	10,340	By Joint Venture (Profit)	2,400	1,600
	17,400	11,600		17,400	11,600

JOINT BANK ACCOUNT

	Rs.		Rs.
To Arjun's A/c	15,000	By Joint Venture A/c	26,000
To Krishna's A/c	10,000	By Arjun's A/c	17,400
To Joint Venture A/c	28,740	By Krishna's A/c	10,340
	53,740		53,740

PROBLEM 24 : Dass and Krishnan entered into a Joint Venture sharing profits as 3 : 2. They opened a Bank Account by depositing Rs.40,000 eash.

Dass purchased 800 kgs. of an item @ Rs.60 and his expenses were Rs. 13,000.

Krishnan purchased a second item of 10,000 kgs. @ Rs.2.10 and his expenses were Rs. 11,000. Expenses were met from private sources and purchases were paid from Bank Account.

Krishnan sold 600 kgs. of the first item @ Rs. 100 and his selling expenses were Rs. 5,500. Dass sold 8,000 kgs. of the second item @ Rs. 5.00 and his selling expenses were Rs. 6,000. All the sale proceeds were deposited in Bank Account and expenses were met from private sources.

Write up necessary accounts in the books of the Venture. Also prepare a Balance Sheet of the Venture.

SOLUTION

JOINT VENTURE ACCOUNT

	Rs.	Rs.		Rs.
			By Joint Bank A/c	
To Joint Bank A/c			600kgs.@Rs.100	60,000
(cost of 800 kgs. @ Rs. 60)		48,000	8,000kgs.@Rs.5	40,000
To Dass:			By Stock on Joint Venture	
Purchase Expenses	13,000			
			First item-200 kgs. @ 76.25	15,250
Selling Expenses	6,000		Second item 2,000 kgs. @ 3.20	6,400
		19,000	Note. Stock has been valued at	
To Joint Bank A/c		21,000	cost plus purchase expenses	
(cost of 10,000 kgs. @ Rs.2.10)				

JOINT BANK ACCOUNT

	Rs.		Rs.
To Dass	40,000	By Joint Venture A/c	
" Krishnan	40,000	(Purchases)	
" Joint Venture A/c		(Rs.48,000+Rs.21,000)	69,000
		" Balance c/d	1,11,000
(Sales Rs. 60,000 + Rs 40,000)	1,00,000		
	1,80,000		1,80,000

To Krishnan :				
Purchase Expenses	11,000			
Selling Expenses	5,500			
		16,500		
To Profit to :				
Dass 3/5	10,290			
Krishnan 2/5	6,860			
		17,150		
		1,21,650		1,21,650

CO-ADVENTU RERS' ACCOUNTS

Particulars	Dass	Krishnan	Particulars	Dass	Krishnan
	Rs.	Rs.		Rs.	Rs.
To Balance C/d	69,290	63,360	By Joint Bank A/c	40,000	40,000
			By Joint Venture A/c	19,000	16,500
			By Joint Venture A/c (Profit)	10,290	6,860
	69,290	63,360		69,290	63,360

BALANCE SHEET

Liabilities	Rs.	Assets	Rs.
Dass's A/c	69,290	Joint Bank A/c	1,11,000
Krishnan's A/c	63,360	Stock at Cost	21,650
	1,32,650		1,32,650

PROBLEM 25 : Rajeev and Rekha enter into a joint venture as Dealers in land and opened a Joint Banking Account with T 60,000 towards which Rajeev contributed Rs. 40,000. They agree to share profits and losses in proportion to their cash contributions. They purchased a plot of land measuring 5,000 square yards for Rs. 50,000. it was decided to sell the land in smaller plots and a plan was got prepared at the cost of Rs. 1,200. In the said plan 1/5 of the total area of the land was left over for public roads and the remaining Land was divided into 8 plots of equal size. Out of 8 plots 3 plots were sold @ Rs. 15 Per square yard and the remaining 5 plots were sold @ Rs. 14 per square yard.

Expenses in connection with plots were : Registration expenses Rs. 4,000, stamp Rs. 400 end other expenses Rs. 1,000. Allow 2% on the sale proceeds as commission to Rajeev. Prepare Joint Venture Account and Joint Bank Account and Co-adventurers Accounts.

SOLUTION

JOINT VENTURE ACCOUNT

	Rs.		Rs.	Rs.
To Joint Bank A/c	50,000	By Joint Bank A/c		
To Joint Bank A/c (Plan Expenses)	1,200	3x500xRs. 15	=22,500	
		. 5x500xRs.14	=35,000	
To Joint Bank A/c (Expenses)	5,400	By Loss on Joint Venture		
To Rajeev		transferred to :		57,500
(Commission @ 2%on Rs. 57,500)	1 ,150			
		Rajeev	167	
		Rekha	83	
				250
	57,750			57,750

JOINT BANK ACCOUNT

	Rs.		Rs.
To Rajeev	40,000	By Joint Venture A/c	
To Rekha	20,000	[Rs.50,000 + Rs. 1,200 + Rs.5,400]	56,600
To Joint Venture A/c	57,000	By Rajeev	40,983
		By Rekha	19,917
	1,17,500		1,17,500

CO-ADVENTURERS ACCOUNTS

	Rajeev	Rekha		Rajeev	Rekha
	Rs.	Rs.		Rs.	Rs.
To Joint Venture A/c	167	83	By Joint Bank A/c	40,000	20,000
To Joint Bank A/c	40,983	19,917	By Joint Venture A/c	1,150	
	41,150	20,000		41 ,1 50	20,000

PROBLEM 26 : Ram and Shyam undertake jointly to building for a construct a building contract price of Rs. 25,00,000 payable as to Rs. 20,00,000 by installments in cash and Rs.5,00,000 in fully paid shares of the company. A Banking Account is opened in their Joint names, Ram paying Rs 6,25,000 and Shyam Rs.3,75,000. They share profit or loss in the proportion of 2/3 and l/3 respectively. Their transactions were as under :

	Rs.		Rs.
Paid Wages	**7,50,000**	**Materials supplied by Shyam**	**49,500**
Bought Materials	**15,00,000**	**Architect's fees paid by Ram**	**50,000**
Materials supplied by Ram	**1,00,000**		

The contract was completed and the price duly received. The joint venture was closed by Ram taking up all the shares of the company at an agreed valuation of Rs. 4,25,000 and shyam taking up stock of materials at an agreed valuation of Rs. 42,500. Prepare necessary accounts.

SOLUTION

JOINT VENTURE ACCOUNT

	Rs.	Rs.		Rs.
To Joint Bank A/c			By Joint Bank A/c	20,00,000
Materials	15,00,000		By Shares A/c	5,00,000
Wages	7,50,000		By Shyam (materials taken over)	42,500
		22,50,000		
To Ram :				
Material Supplies	1,00,000			
Architect's Fees	50,000			
		1,50,000		
To Shyam (Material Supplies)		49,500		
To Shares A/c (Loss)		75,000		
To Profit on Joint Ventures				
transferred to :				
Ram	12,000			
Shyam	6,000			
		18,000		
		25,42,500		25,42,500

JOINT BANK ACCOUNT

	Rs.		Rs.
To Ram	6,25,000	By Joint Venture A/c	22,50,000
To Shyam	3,75,000	By Ram's A/c	3,62,000
To Joint Venture A/c	20,00,000	By Shyam's A/c	3,88,000
	30,00,000		30,00,000

CO. ADVENTU RERS' ACCOUNTS

	Ram	Shyam		Ram	Shyam
	Rs.	Rs.		Rs.	Rs.
To Shares	4,25,000	---	By Joint Bank A/c	6,25,000	3,75,000
To Joint Venture A/c	---	42,500	By Joint Venture A/c	1,50,000	49,500
To Joint Bank A/c	3,62,000	3,88,000	By Joint Venture A/c	12,000	6,000
	7,87,000	4,30,500		7,87,000	4,30,500

SHARES ACCOUNT

	Rs.		Rs.
To Joint Venture A/c	5,00,000	By Ram's A/c	4,25,000
		By Joint Venture A/c (Loss)	75,000
	5,00,000		5,00,000

MEMORANDUM JOINT VENTURE

PROBLEM 27 : B of Banglore and C of Chennai enter into a joint adventure to consign scrap iron to A of Agra, to be sold on their risk. They share profits or losses equally. A is entitled to a commission of 10% of the net proceeds after charging such commission.

B sends 50 tonnes Costing Rs. 4,300 per tonne and pays freight and other expenses of Rs.30,000. C sends 70 tonnes costing Rs.5,000 per tonne and pays freight and other expenses of Rs.40,000.

All the scraps are sold by A @ Rs. 10,000 per tones and he pays selling expenses of Rs. 12,000. He remits Rs,5,00,000 to B and the balance of the net proceeds to C by bank draft.

You are required (a) to show the Account in the books of B and C to record their own transactions and (b) to prepare a memorandum joint Venture Account.

SOLUTION

In the Books of B and C

MEMORANDUM JOINT VENTURE A/C

	Rs.	Rs.		Rs.
To B:			By B-(Sale proceeds	
Purchase of 50 tonnes @			received from A)	5,00,000
Rs. 4,300 per tonne	2,15,000		By C (Sales proceeds	
Expenses	30,000		received from A) (1)	5,80,000
		2,45,000		
To C:				
Purchase of 70 tonnes @				
Rs. 5,000 per tonne	3,50,000			
Expenses	40,000			
		3,90,000		
To Net Profit to				
B	2,22,500			
C	2,22,500			
		4,45,000		
		10,80,000		10,80,000

In the Books of B

JOINT VENTURE WITH C ACCOUNT

	Rs.		Rs.
To Bank (Purchases)	2,15,000	By Bank A/c (Sales	
To Bank (Expenses)	30,000	proceeds received	
To P & L A/c (Share of Profit)	2,22,500	from A)	5,00,000
To Bank (Final settlement)	32,000		
	5,00,000		5,00.000

In the Books of C

JOINT VENTURE WITH B ACCOUNT

	Rs.		Rs.
To Bank (Purchases)	3,50,000	By Bank (Sale proceeds	
To Bank (Expenses)	40,000	secured from A)	5,80,000
To P & L A/c (Share of Profit)	2,22,500	By Bank (received in	
		full settlement)	32,500
	6,12,500		6,12,500

Working Note :

(1) Net Sale Proceeds of Goods Sold by A	**Rs.**
120 tonnes sold @ Rs.10,000 per tone	12,00,000
Less: Selling Expenses	12,000
	11,88,000
Less : A's commission, (10/110 x 11,88,000)	1,08,000
(i.e., 10% of Rs.	
	10,80,000)
Net Sales Proceeds	10,80,000
Less: Remittance to B	5,00,000
Remittance to C	5,80,000

PROBLEM 28 : M and N decided to work in partnership and agree to share profits in the ratio of 3 : 1 respectively.

They guaranteed the subscription at par of 10,00,000 shares of Rs. 1 each in S Ltd. and to pay all expenses up to allotment in consideration of S Ltd. Issuing to them 50,000 other shares Rs. 1 fully paid.

M and N introduced cash as follows :

M-Stamp charges etc Rs.4,000 ; Advertising charges Rs. 3,000; Printing charges etc: Rs. 3,000 ; N-Rent R.2,000 ; Solicitor's charges Rs. 3,000;

Applications fell short by 30,000 shares and N introduced Rs.30,000 for the purchase of those shares.

The guarantee having been fulfilled S Ltd. handed over to the ventures 50,000 shares. All their holdings were subsequently sold by the venture's N receiving Rs. 18,000 and M Rs. 50,000.

Write up necessary accounts in the books of both the parties on the presumption that Memorandum Joint venture A/c is opened for the purpose.

SOLUTION

MEMORANUM JOINT VENTURE ACCOUNT

	Rs.	Rs.		Rs.
To M:			By M (Sale proceeds received by M)	18,000
Stamp Charges	4,000		By N (Sale proceeds received by N)	50,000
Advertising Charges	3,000			
Printing Charges	3,000			
		10,000		
To N:				
Rent	2,000			
Solicitor's Charges	3,000			
Purchase of Shares	30,000			
		35,000		
To Profit:				
M	17,250			
N	5,750			
		23,000		
		68,000		68,000

In the Books of M

JOINT VENTURE WITH N

	Rs.		Rs.
To Bank (Expenses)	10,000	By Bank A/c	
To P & L A/c (3/4 Share of		(Sale of Shares)	50,000
Profit on Joint Venture)	17,250		
To Bank A/c	22,750		
	50,000		50,000

In the Books of N

JOINT VENTURE WITH M

	Rs.		Rs.
To Bank (Expenses and		By Bank (Sale of Shares)	18,000
Purchase of Shares)	35,000	By Bank A/c	22,750
To P & L A/c (1/4 Share of Profit)	5,750		
	40,750		40,750

PROBLEM 29 : (Purchase and Development of Land and Real Estate). Hari, an architect and Ram, a real estate dealer enter into an agreement for the purpose of purchasing a large land and converting it into plots. The purchase price (Rs. 1,60,000 and the legal expenses (Rs. 11,100) are paid by Hari who borrowed the money from the bank.

Ram provides the material costing Rs. 58,000 for leveling of land and the development of plots. 10 plots of 200 sq. mts. each and 5 plots of 400 sq. mts. each are sold respectively @ Rs. 75 per sq. mt. and Rs. 70 per sq. mt. The sales proceeds of 5 plots of 200 sq. mts. each are received by Ram. The balance is received by Hari, who paid Rs. 15,000 for selling expenses. hari repaid the loan and interest thereon amounting to Rs. 9,600.

The agreement provides that after crediting Hari with interest charged on borrowed funds and allowing 15% on the cost of levelling to cover overhead expenses, Hari is to receive two-third of the profits and Ram one third.

Each party's ledger contains record of his own receipts and payments on the Joint Account. You are required to prepare :

(a) Statement showing the result of the venture, and

(b) The Account of Venturer in each party's ledger as it will finally appear.

SOLUTION

MEMORANDUM JOINT VENTURE ACCOUNT

		Rs.			Rs.
To Hari :			By Ram		75,000
-Cost of Land		1,60,000	-Sale proceeds of 5 plots of		
-Legal Expenses		11,100	200 sq. mt. @ Rs.75 per sq. mt.		
To Ram:			By Hari :		
-Levelling and Development			-Sale Proceeds of 5 Plots	Rs.	
Expenses		58,000	of 200 sq. mt. @ Rs. 75		
-Overhead Expenses		8,700	per sq. mt.	75,000	
(15% on Rs. 58,000)			-Sale Proceeds of 5		
To Hari-interest		9,600	Plots of 400 sq. mts.		
-Selling Expenses		15,000	@ Rs.70 per sq. mt.	1,40,000	
To Net Profit on Venture	Rs.				2,15,000
-Hari 2/3	18,400				
-Ram 1/3	9,200				
		27,600			
		2,90,000			2,90,000

HARI'S LEDGER

JOINT VENTURE WITH RAM ACCOUNT

	Rs.		Rs.
To Bank A/c -Purchase of Land	1,60,000	By Bank A/c : Rs	
-Legal Expenses	11,100	-Sale Proceeds of	
-Selling Expenses	15,000	5 Plots of 200 sq. mts. 75,000	
-interest	9,600	5 Plots of 400 sq. mts. 1,40,000	
To Profit and Loss A/c Profit 2/3	18,400		2,15,000
To Bank A/c -Final Settlement	900		
	2,15,000		2,15,000

RAM'S LEDGER

JOINT VENTURE WITH HARIACCOUNT

	Rs.		Rs.
To Bank A/c -Levelling Charges	58,000	By Bank A/c-Sale Proceeds	
-Overhead Expenses	8,700	-5 Plots of 200 sq. mts.	75,000
To Profit and Loss A/c (1/3 of Rs. 27,600)	9,200	By Bank A/c-Final Settlement	900
	75,900		75,900

PROBLEM 30 : Ravi and Suresh entered into a joint venture for purchase and sale of electronic goods, sharing profit and loss in the ratio of 3 :

2. They also agreed to receive 5 per cent commission on their individual sales and the following information was extracted from the records :

July 1, 2014 : Ravi purchased goods worth Rs. 1,90,000 financed to the extent of 90 per cent out of his funds and balance by loan from his uncle Shyam.

August l, 2014: Ravi sent goods costing Rs. 1,70,000 to suresh and paid Rs. 1,410 as freight. Suresh paid Rs. 13,410 to Ravi.

October l,2014: **Suresh sold all the goods sent to him. Ravi repaid the loan taken from his uncle, including interest of Rs. 350.**

All sales, by either party, were made at an uniform profit of 40 per cent above cost. On November 30, 2014, they decided to close the venture by transferring the balance of goods unsold, lying with Ravi at cost of Rs. 9,000, to a wholesale dealer. You are required to prepare Memorandum Joint Venture Account, Personal A/c of the Partners as they would appear in the books of Ravi and of Suresh. They further disclosed that goods worth Rs. 4,000 were taken personally by Ravi at an agreed price of Rs. 5,000.

SOLUTION

MEMORANDUM JOINT VENTURE ACCOUNT

	Rs.	Rs.		RSs
To Ravi			By Suresh :	
Purchase of goods	1,90,000		Sales (2)	2,38,000
Freight	1,410		By Ravi:	
Interest paid	350		Sales (1)	9,800
Commission	490		Stock taken	5,000
		1,92,250	By Stock-sent to Wholesaler	9,000
To Suresh :				
Commission		11,900		
To Share of Profit :				
Ravi (3/5)	34,590			
Suresh (2/5)	23,060			
		57,650		
		2,61,800		2,61,800

In the Books of Ravi

JOINT VENTURE WITH SUBESH ACCOUNT

	Rs.		Rs.
To Bank (Purchases)	1,90,000	By Bank (Suresh)	13,4.10
To Bank (Freight)	1,410	By Bank (Sales)	9,800
To Interest	350	By Stock taken	5,000
To Commission	490	By Bank-Stock sent to wholesaler	9,000
To Profit	34,590	By Bank-received from Suresh	1,89,630
	2,26,840		2,26,840

In the Books of Suresh

JOINT VENTUHE WITH RAVI ACCOUNT

	Rs.		Rs.
To Bank (Amount paid to Ravi)	13,410	By Bank (Sales)	2,38,000
To Commission	11,900		
To Profit	23,060		
To Bank (Ravi)	1,89,630		
	2,38,000		2.38,000

Working notes

(1) Sales by Ravi	**Rs.**
Purchases.	1,90,000
Less : Sent to Suresh	1,70,000
	20,000
Less : Transferred to a wholesaler	9,000
	11,000
Less: Taken by self	4,000
	7,000

Add: 40% Profit	2,800
Sale price	9,800

(2) Sales by Suresh

Goods received from Ravi	1,70,000
Add : 40% profit	68,000
Sales made by Suresh	2,38,000

PROBLEM 31 : A and B decided to trade together in imported watches. Profits and Losses were to be shared, A 2/3 and B 1/3.

On July 1, 2014 A purchased goods at a cost Rs. 14,400 and half of the goods were handed to B. On July 12, he brought another lot of watches for Rs.4,800 and incurred expenses of Rs. 480.

On July 12, 2014 B purchased goods at a cost of Rs. 9,000 and on the same day sent to A a part of these goods costing Rs. 3,600 and paid Rs. 220 as carriage and freight. On July 15, A remitted sum of Rs, 4,000 to B.

All the goods were sold by both the parties at a uniform price of $33^{1/3}$ per cent above cost, excluding expenses. Each of them collected cash proceeds on sales, except a sum of Rs. 800 owing to A which was ultimately treated as a business loss.

On September 20, the unsold goods valued at Rs. 3,000 at cost were in A's possession; of these, goods costing a Rs.1,200 were taken by him and the remainder sold for Rs. 2,000. B disposed of all the goods except some damaged watches costing Rs.600 which were written off as unsalable.

On September 30, both the parties decided to close the business and to have a full settlement. you are required to prepare : (a) Joint Venture Account as it would appear in the books of A recording his transactions in regard thereto (b) A Memorandum Account for the Joint Venture showing the profit.

SOLUTION

JOINT VENTURE WITH B ACCOUNT

2014		Rs.	2014		Rs.
July 1	To Bank		?	By Bank	
	(Purchases)	14,400	?	(Sales) (1)	16,000
"12	To Bank A/c			By Bank A/c	
	(Purchases)	4,800		(Sales)	2,000
July 12	To Bank A/c		Sept. 20	By Goods A/c	1,200
	(Expenses)	480	"30	By Bank A/c	8,680
' 15	To Bank A/c				
	(Remittance)	4,000			
Sept.30	Profit and Loss A/c-				
	2/3 Share of profit	4,200			
		27,880			27,880

MEMORANDUM JOINT VENTURE ACCOUNT

		Rs.			Rs.
To A:	Rs.		By A :	Rs.	
Purchases	14,400		Sales	16,800	
Purchases	4,800		Less : Bad Debts	800	
Expenses	480		(1)	16,000	
		19,680	Sales	2,000	
To B:			Goods retained by An	1,200	
Purchases	9,000				19,200
Carriage & Freight	220		By B: Sales (1)		16,000
		9,220			
To Profit :					
A-2/3	4,200				
B-1/3	2,100				
		6,300			
		35,200			35,200

Workind Note :

(1) Sales effected by A and B at a uniform profit of 33 1/3% are ascertained as follows:

	Watches in A's Possession Rs.	watches in B's possession Rs.
Out of A's purchases on July 1	7,200	7,200
Out of A's purchases on July 12	4,800	—
Out of B's purchases on July 12	3,600	5,400
	15,600	12,600
Less : Unsold watches in A's possession on September 20	3,000	—
	12,600	12,600
Less : Damaged watches unsalable written off	—	600
Cost of watches sold	12,600	12,000
Profit 33-1/3 per cent on cost	42,000	4,000
	16,800	16,000
Less: Amount written off as a business loss	800	—
Net sales	16,000	16,000

PROBLEM 32 : A and B entered into a joint venture of plucking and selling apples. They bought all the fruits in the 2014 season in the High Orchard at Kotgarh, paying a Rs.30,000 to the owner on August 1, 2014. Labour was engaged to pluck and pack the fruit for which a sum of Rs. 5,000 was paid spread over a period of 2 months. A paid for the fruit as well as labour expenses.

The fruit was despatched to B in Delhi who sold it for { 60'000' TlLe sale proceedswere theperiodof2months.Attheendoftheseason some fruit was A for T 3'000'

Settlement of accounts was made on October 3L,2014- After (o) reckoning intere st @ l27o p’”’ 1"1 moneys invested as well as received, (b) allowing Sqo co,,’,nission to i on Sales made by hin’ and (c) salary of T lrO0O p.m. to lro-” the season, the balance was to be divided equally.

Prepare Memorandum Joint Venture Account and Joint Venture Account

SOLUTION

Payment for fruit

Labour charges

Salary for 2 months

lnterest (1)

B (Commission 57"

on sales { 60,000)

Profit transferred to :

A

B

MEMORANDUM JOINT VENTURE ACCOUNT

Payment for fruit	37,970	By B (Sales)	60,000
Labour charges	3,000	" A (Local Sales)	3,000
Salary ior 2 months	23,230	" B (lnteres$ (2)	1,200
lnterest (1)	64,200		
B (Commission 57"			
on sales { 60,000)			
Profit transferred to :			

In The Books of A

JOINT VENTURE ACCOUNT WITH

2014 Aug. 1 Aug. 1 to Sept.30 Oct.31 "31 "31	To Bank Account To Bank Account (Labour) To Salary Account " Interest Account " Profit & Loss Account (Share of Profit)	30,000 5,000 2,000	20M I sept. so I Oct.31	By By Bank Account Bank Account

In The Books of B

JOINT VENTURE ACCOUNT WITH A

2014 Oct.31 "31 31	To Commission Account " Profit and Loss Account (Share	3,000 1 1 ,615 46,58s	2014 Aug.1 to Sept.30 Oct.31	By Bank Account (Sales) " Interest Account	60,000 1,200 61,200 61,200

Working Notes:

(1) lnterest payable to A is calculated as follows :

Amount paid for purchase of fruits is invested for 3 months i.e-, ‘ oor#’*) August 1 to October 31,2014 (f SO,O Amount paid to labour is spread during 2 months (i.e., August ‘l to September 30)-the period of seasoning. Therefore, on an ayerage amount is invested for 1 month (-f*; ort’rn the period of seasoning. Full month {October is also to be taken because the amorlnt was settled on October 31.

Therefore, interest is calculated for 2 months on labour r.e., t 5,000 “&”1= Less ; lnterest on amount received back on account of local sales on

(2) lnterest payable by B is calculated as follows :

of Profit)

' Bank Account

Amount collected by B on account of salds during the period of seasoning of 2 months. The period of 2 months of seasoning is to be treated as one month on an average because all the amount is not received on the first day of the seasoning but it is received throughout the period of seasoning. One month of October is to be taken. Therefore, interest for 2 months is calculated r.e. T 6o,ooo “k”Ln

900

100

1,000

1,200

September ao, zol4for 1 month from october ‘t to october 31 r.e. T 3,000 x # “ # 30

970

(Conoersion of ConsiSlnment utith Jsittt Venture\ Si Menon sent goods to Sri Gupta to be sold on consignment basis @ 590 commission. Goods costing T 4,00,000 were sent and { 40,000 expenses were incurred. Sri Gupta had to incur T 10,000 cxpenses for landing and 75?o of t}ae goods were sold out for { 4,80'000. Sri Gupta sent the amount due from him with the Account SaIe, but wanted to return the balance goods as he was not agreeable to carry on as a Commission Agent. fle was, however, persuaded to continue on Joint Venture basis for onc-third profit. T 2'00,000 worth of goods were further despatched by Sri Menon. All the goods (except { 20'000 which were taken over by Sri Gupta for the same amount) were sold out for { 5,00,000. Sri Menon incurred { 20,000 expenses and expenscs of Sri Gupta amounted to T 17,000. show the necessary accounts in the books ofboth the parties.

SOLUTION

ln the Books of Sri Menon

CONSIGNMENT ACCOUNT

To Goods sentoh Consignment fuc To Cash (Expenses) To Gupta's fuc : Commission 57" Landing Expenses To Profit & Loss A,/c	4,00,000 40,000 34,000 1,18,500 5,92,500	By By Gupta (Sales) Closing Stock transferred to Joint Venture A,/c (t 4,50,000 x 1/4)	4,80,000 1 ,1 2,500 5,92,500

JOINT VENTURE ACCOUNT

To Consignment A,/c To Menon (Goods supplied) To Cash (Expenses) To Gupta (Expenses) T To Profit & Loss A,/c 1,13,667 To Gupta's A,/c	,12,500 2,00,000 20,000 17,000 't,70,500 5,20,000	By Gupta (Sales) By Gupta (Goods taken)	5,00,000 20,000 5,20,000

GUPTA'S ACCOUNT

To Consignment A,/c Joint Venture (Sales) Joint Venture A,/c (Goods ta.ken over)		By By By By By Consignment fuc Bank Joint Venture A,/c (Expenses) Joint Venture (Profit)	34,000 4,46,000 4,80,000 56,833 4,46,167 5,20,000

In the Books of Sri Gupta

MENON'S ACCOUNT

To Cash (Landing Expenses) " Commission " Bank To Bank		By Joint Venture fuc : Stock Goods Supplied Expenses " Joint Venture (Prolit)	4,80,000 4,80,000 1 ,12,500 2,00,000 20,000 1.13,667 4,46,167

JOINT VENTURE ACCOUNT

To Menon Stock, Goods supplied & Expenses To Bank (Expenses) " Profit and Loss A"/c 56,833 " Menon's A,/c 1 ,13,667		Bank (Sales) Goods taken over	5,00,000 20,000 s,20,000

5.2 SUMMARY

The shipment of goods by a manufacturer or wholesale dealer to an agent to be sold by him on commission basis on the risk and account of fhte former is known as consignment. The person who sends the goods to the agent to be sold by him on Commission basis is known as Consigner. The person to when the goods are sent for sale on commission basis is called consignee. In Consignment, the legal possession is transfewred from the Consigner to the Consignee but ownership is transfered when goods are sold.

A Joint venture is usually a temporary pentnership without the use fa firm name, limited to carrying out a particular business plan in which the persons concerned agree to constribute capital and to share profits or losses. It is adopted by Joint Consignment of goods, special shares, construction of a building, Sale and Purchase of Properties.

5.3 IMPORTANT PRACTICE QUESTIONS

WHERE ONE OF THE CO-VENTURER MANAGES THE VENTURE

1. A and B enter into a joint speculation and purchase an old house with extensive grounds for ₹ 8,000, each contributing ₹ 4,000. For an agreed fee of ₹ 500, A is to manage the disposal of the property. Sales of internal fittings, windows, etc., amount to ₹ 1,700. A pays ₹ 300 for demolishing the house, material of which realised ₹ 200. Sundry expenses paid by A were ₹100 and the whole of the land is eventually sold for ₹ 9,000. A and B share the net profits equally. A paying B his share by cheque.

   Record these transactions in A's Journal and show Joint Venture A/c and B's A/c in his ledger.

WHERE NO SEPARATE BOOKS ARE MAINTAINED

2. A and B were participants in a joint venture, sharing profits and losses in the proportion of 10 : 9 respectively. Each party maintains a complete record in his own books. A supplies goods to the value of ₹ 25,000 and incurs an expenditure of ₹ 500 on them; and B supplies goods to the extent of ₹ 21,000 and his expenses thereon amounted to ₹ 1,000. A sells all the goods for ₹ 70,000 for which he is entitled to receive a commission at 5 per cent. Accounts are settled by bank draft. Give journal entries and prepare necessary accounts in the books of both the parties.

3. A and B enter into a joint venture to sell a consignment of timber sharing profits and losses equally. A provides timber from his stock at a mutually agreed value of ₹ 5,000. He pays expenses amounting to ₹ 250. B incurs expenses on cartage, storage, etc., amounting to ₹ 650 and receives cash for sales ₹ 3,000. He also takes over goods to the value of ₹ 1,000 for his use in his own business. At the date of close A takes over the balance of stock in hand which is valued at ₹ 1,100. Prepare 'Joint Venture Account' and Co-sharer's Account in the books of A.

4. Hemant of Hubli bought goods of the value of ₹ 27,000 and consigned them to Brijesh of Bangalore to be sold by him on joint venture, profit being divided in the ratio of 2 : 1. He also paid freight ₹ 600 and insurance ₹ 400 and drew a bill on Brijesh for ₹ 10,000. The bill was discounted by Hemant for ₹ 9,800. Brijesh paid ₹ 100 for carriage and ₹ 250 for godown rent. Brijesh sold all the goods for ₹ 40,000 incurring sales expenses of ₹ 450 on the joint venture. Brijesh sent a cheque for the balance due to Hemant after charging his commission at 5% on the gross sales.

   Write up the Necessary Accounts in the books of both the parties.

5. A and B entered into a joint venture to construct a building. The contract price was ₹ 2,00,000. The profits of the joint venture were to be shared by them in the ratio of 3 : 2.

   Following were the expenses incurred by them towards the same:

	A	*B*
Iron Materials	40,000	21,000
Wages	30,000	17,000
Cement	19,000	11,000
Architect's Fees	5,000	–
Plant	–	20,000
Sundry Materials	–	7,000

The contract price was duly received by A. The plant was taken back by B subject to 50% depreciation.

Write up Joint Venture Account and B's Account in the books of A.

6. Sudhir of Bijapur purchases cotton goods and sends them to Subhas of Hubli for sale on joint venture basis. Profits and losses are divided equally.

Sudhir purchased goods worth ₹ 10,000 and sent them to Hubli, the freight paid ₹ 1,000. Sudhir drew on Subhas a bill for ₹ 8,000 payable after 6 months, and the same is accepted. Sudhir discounted the bill for ₹ 7,800. On 31st December Subhas informed Sudhir that he incurred expenses of ₹ 1,200 and the entire lot had been sold for ₹ 18,000. Subhas remitted the balance payable to Sudhir.

Show Necessary Accounts in the books of Sudhir.

7. A and B enter into a joint venture. They agreed to share the profits and losses as A 75% and B 25%. A sends ₹ 50,000 to B. The latter purchases several varieties of silk goods and sends them to A. The particulars of such purchases are given below:

1,000 ladies garments at ₹ 10 each ₹ 10,000 ; 2,000 silk shirts at ₹ 15 each ₹ 30,000 ; 500 silk panjabies at ₹ 20 each ₹ 10,000.

The expenses incurred by B amounted to ₹ 500.

A sells the first two varieties at double the price but in respect of the panjabies he made a profit of ₹ 5,000. A incurred the expenses amounting to ₹ 2,000.

Prepare Joint Venture Account and B's Account in the books of A.

8. Singh Sons bought goods of the value of ₹ 7,500 and consigned them to Rahim Sons to be sold by them on a joint venture, profits being divided equally. Singh sons paid ₹ 550 for freight and insurance. Singh Sons drew on Rahim Sons bill for ₹ 3,000. The bill was discounted for ₹ 2,900. Rahim Sons paid f 300 for warehousing, cartage, etc. Goods were sold for ₹ 12,500 and sales expenses paid by Rahim Sons amounted to ₹ 250. Rahim Sons

sent Demand Draft for balance amount after deducting 5% commission on the gross sale proceeds. Write Ledger Accounts in the books of both the parties.

9. A and B enter into joint venture sharing profit 3/5ths and 215ths. A is to purchase timber in Madhya Pradesh and forward it to B in Delhi. A purchases timber worth ₹ 10,000 and pays ₹ 1,000 as expenses. B received the consignment and immediately accepted A's draft for ₹ 8,000. A got it discounted for ₹ 7,850. B sold the timber for ₹ 16,000. He had to spend ₹ 350 for fire insurance and ₹ 300 for rent. Under the agreement he is entitled to a commission of 5% on Sales.

   Give Journal Entries and Ledger Accounts in the books of A and B.

10. On 1st October, 2013 Hiren bought a parcel of precious stones for ₹ 85,000. He consigned it to Dhiren who agreed to share with him equally the profit and loss in the venture. Hiren paid ₹ 900 on account of carriage and insurance. He drew on Dhiren at 3 months for ₹ 40,000 on account, discounting the bill on 4th October, 2013 for ₹ 39,600. Discount is borne by the parties equally.

    On receipt of the stones on 3rd October, Dhiren paid for insurance ₹ 300 and ₹ 800 for cutting and polishing. On 28th February, 2014, Dhiren sold the stones for ₹ 1,05,000, his expenses being ₹ 900. On 31st March, he sent to Hiren an Account Sales along with a bank draft for the amount due to him. Write up the accounts as they would appear in the books of Hiren and Dhiren respectively.

11. A and B enter into a joint venture to ship goods abroad. A sends goods to the Value of ₹ 1,000, pays freight ₹ 100 and sundry expenses ₹ 150. These transactions take place on 1st January, 2014. B sends goods valued at ₹ 750 on February 1st and pays freight and insurance ₹ 80 and sundry expenses ₹ 50. B advances to A on March 1st ₹ 450 on account of the venture. A receives account sales and remittance and net proceeds for whole of the goods amounting to ₹ 2,500 on 1st April. Final settlement between A and B is

made on 30th April, 2014. Show these transactions of the venture in the books of A calculating interest at 5% p.a. in months.

12. Ajay and Vijay entered into a joint venture in timber business. Vijay is allowed a commission on sales at 10% and profits are to be shared in the ratio of Ajay 2/3 and Vijay 1/3. Ajay provides timber from stock for ₹ 10,000 and incurs expenses amounting to ₹ 1,000. Vijay pays ₹ 1,000 for unloading and other non-recurring expenses. Ajay drew on Vijay for ₹ 6,000. The draft was accepted and Ajay got it discounted for ₹ 5,760.

Vijay sold 90% of the timber for ₹ 15,000 and took over the remaining timber at cost plus 20%, and settles his account by bank draft.

Write Joint Venture Account in the books of Ajay. Also show the valuation of stock taken over by Vijay.

13. A and B entered into a joint venture agreeing to devide the profits or losses in the ratio of 2 : 1. A contributed ₹ 20,000 and B ₹ 10,000 and deposited the same in a joint bank account. They purchased goods worth ₹ 40,000 from C paying ₹ 25,000 and accepting a bill drawn by him for the balance. They paid for carriage ₹ 2,500, godown rent ₹ 500 and sales expenses ₹ 1,000. All the goods were sold for ₹ 56,000. They also met their bill payable on the due date.

Show the Ledger Accounts in the common books maintained, assuming that the final settlement between the venturers was made.

14. Mahesh and Naresh jointly agreed to underwrite the subscription at par of 1,00,000 shares of ₹ 10 each in Mona Ltd. and to pay all expenses upto allotment., The consideration in return for the guarantee was 5,000 other shares of ₹ 10 each fully paid to be issued to them. They were to share profits in the ratio of 3 : 1. Mahesh provided the funds to meet the following expenses: Registration Fees ₹ 4,850 ; Advertising Charges ₹ 2,850 ; Printing Charges ₹ 2,300.

Naresh contributed towards the payment of the following expenses:

Rent ₹ 5,000 ; Solicitor's Charges ₹ 3,000.

Applications fell short of the full issue by 10,000 shares. Naresh took over on joint-account and paid for the same in full. The guarantee having been fulfilled, Mona Ltd. handed over 5,000 shares to Mahesh and Naresh. They sold all their shares at ₹ 15 per share. The proceeds were shared by Mahesh for 4,000 shares and by Naresh for the balance.

Prepare Joint Venture Accounts and Co-venturer's Account in the books of both the parties.

WHERE SEPARATE BOOKS ARE MAINTAINED

15. A and B enter into Joint Venture and share profits equally. A agrees to bring in cash as capital. Accordingly a Joint Bank Account was opened by A for ₹ 80,000. B buys goods worth ₹ 50,000 as part of his capital. Further, goods worth ₹ 1,18,000 were purchased from C paying ₹ 60,000 and balance by a Promissory Note signed by A and B.

    The goods were sent to Davangeri for sale. Expenses totalling ₹ 5,000 were incurred in sending the goods. Part of the goods were damaged in transit and a sum of ₹ 25,000 were recovered from the insurance company. The remaining goods were sold for ₹ 2,20,000.

    Pass Journal Entries and prepare Joint Venture Account, Joint Bank Account and the Accounts of A and B assuming that the Promissory Note was duly honoured.

16. Ram and Sham entered into a joint venture sharing profits and losses in the ratio of 3 : 2. They opened a joint bank account by depositing ₹ 40,000 each.

    Ram purchased 800 kgs of A grade tea at ₹ 60 per kg. and his expenses were ₹ 13,000. Sham purchased 400 kgs of B grade tea at ₹ 55 per kg. and his expenses were ₹ 11,000. Expenses were met from private sources and purchases were met from joint bank account.

    Sham sold 600 kgs. of A grade tea at ₹ 100 per kg. and his selling expenses were ₹ 5,500. Ram sold 300 kgs. of B grade tea at ₹ 110 per kg. and his selling expenses were ₹ 6,000. All the proceeds were deposited in the joint bank account and expenses were met by private sources.

Write up Joint Venture Account and Joint Bank Account, assuming that the stock with the respective venturers was purchased by them at cost plus expenses thereon.

17. A and B enter into a joint venture for guaranteeing the subscription of 10,00,000 shares of ₹ 1 each in Salem Lamps Ltd. They agree to share profits and losses equally. The terms with the company are that A and B have to pay all expenses upto allotment in consideration of the Salem Lamps Ltd. issuing to them 1,50,000 other shares of ₹ 1 each fully paid.

A introduced cash into the business to meet the following expenses:

Rent	3,000	Advertising Charges	2,500
Solicitor's Charges	5,000	Printing Charges of	
B incurred the following expenses:		Memorandum of Association	
		and Articles of	
Stamps Charges & Registration Fees	3,000	Association etc.	3,500

The applications fell short of 10,00,000 shares by 30,000 shares. A introduced cash in joint account for these shares. The amount was utilised to subscribe to these shares and paid to the company. The guarantee having been fulfilled, Salem Lamps Ltd. handed over to A and B 1,50,000 shares.

The eo-adventurers sold all the shares. A received the sales proceeds of 1,20,000 shares amounting to ₹ 1,10,000 and B of the remaining 60,000 shares amounting to ₹ 55,000.

Prepare a Joint Venture Account and the separate accounts of A and B showing the adjustment of final balance between them.

18. A, Band C enter into a Joint venture to divide profits equally. They bought goods from D for ₹ 12,500 and from A for ₹ 2,500. A contributed ₹ 3,000; B ₹ 4,000 and C ₹ 9,000 which amounts were banked in a Joint Account. They settled their account with D by cheque and paid for carriage and other expenses ₹ 750. They sold goods for cash ₹ 6,500 and to X/on credit for ₹ 14,000 who accepted a draft for the amount. The acceptance was cashed and realised ₹ 13,700. A was allowed 5% commission on sales for effecting the transactions.

Open Necessary Accounts assuming that final settlement between the parties was made by cheques.

19. Me and You entered into joint venture contributing ₹ 45,000 each into the Joint Bank A/c with an understanding to share the profit or loss equally. It was also agreed to pay commission @ 5% on the sale made by the venturers. With the following details prepare:

1. Joint Venture A/c ; 2. Joint Bank A/c ; 3. Venturer's Capital A/c Goods worth ₹ 52,000 were purchased and 50% of the same were sold for ₹ 35,000 by "Me". ₹ 4,500 was spent on transportation. 25% of goods bought were sold by "You" for ₹ 17,500. Unsold goods were taken over at cost price by both the venturers in the profit sharing ratio and balance due to the venturers was paid from joint Bank A/c.

20. X and Y of Mumbai agreed, to import cotton to India on a Joint venture. On 1st May, 2013 they opened a Bank Account. X contributed ₹ 1,50,000 and Y ₹ 1,00,000 and agree to share profits and losses according to their cash contribution. They remitted ₹ 1,80,000 to their agent in Carlo to pay for cotton purchased and later on sent further ₹ 10,000 in full settlement of his account. Freight insurance and dock charges were all paid in at Mumbai amounted to ₹ 10,000. On 31st Dec., 2013 the sales realised ₹ 2,40,000 net which enable them to repay themselves. The venture is closed by X taking over cotton unsold for ₹ 38,000. You are required to prepare Ledger Accounts.

21. Das, Bose and Gupta undertake to erect a five storeyed mansion for National Housing Trust Ltd. The contract price is agreed at ₹ 25,00,000, to be paid in cash ₹ 22,00,000 by four equal instalments and the balance amount in 8% Debentures of the Company. They agree to share equally the profit or loss.

They opened a joint banking account with cash contributed as stated below:

Das ₹ 3,00,000 ; Bose ₹ 3,75,000 and Gupta ₹ 2,00,000.

Das arranges the preparation of building plans etc. and pays ₹ 32,000 as architect's fees. Bose brings a concrete mixer and other implements valued at ₹ 80,000 and Gupta brings a motor lorry valued at ₹ 75,000.

They paid in cash for the following :

Materials ₹ 12,26,800; Wages ₹ 7,32,200; Sundry Expenses ₹ 20,000; Plant ₹ 60,000. On completion of the venture concrete mixer is sold for ₹ 50,000 and plant and other implements are sold as scrap for ₹ 10,000. Gupta takes back the motor lorry at ₹ 40,000.

Subsequently Das took over the Debentures issued by the Company at a valuation of ₹ 2,80,000.

Show necessary Ledger Accounts for the joint venture.

22. A & B enter into a joint venture to purchase and develop certain lands as industrial estate. For that purpose a Joint Bank A/c was opened where in A deposited ₹ 60,000 and B deposited ₹ 40,000. A piece of land measuring 18,000 sq. yards was purchased at ₹ 3 per sq. yard and the following expenses were paid from the Joint Bank A/c.

Cost of earth filling to level land ₹14,000; Compensation paid to a hutment dweller for vacating possession ₹ 5,000 ; Municipal taxes ₹ 2,000 ; Cost of barbed wire fence ₹ 3,000 ; Architect's fees for plans ₹ 1,000 ; Stamp duty & Solicitor's fees ₹ 6,000 ; General expenses ₹ 2,000 ; Income from Sale of Timber ₹ 2,000.

It was decided to sell land in smaller plots of 500 sq. yards each. One-sixth of the area was left over for public roads. 10 plots were sold at ₹ 12 per sq. yard through the brokers, who were paid 2% brokerage on the sale price of land. A retained one plot of land for his personal use at an agreed price of ₹ 5,000. The remaining plots were sold at a consolidated price of ₹ 76,200 directly. A & B shared profits and losses of the joint venture in the proportion of the amounts invested by them. All transactions have been effected through the bank. 'Prepare Joint Venture A/c, Joint Bank A/c & Accounts of A & B assuming that all accounts are settled.

23. On 1st March, 2014 B. Bose and K Kar started a joint venture business to build a house and agreed to share profits and losses in the ratio of 2 : 1. The total contract price was settled at ₹ 2,30,000 and it was decided to receive it by cash ₹ 2,00,000 and by shares ₹ 30,000. Shares are to be divided between B. Bose and K Kar in their profit sharing ratio.

B. Bose and K. Kar contributed capitals off 75,000 and ₹ 45,000 respectively and they opened a Joint Bank Account with these amounts. Also B. Bose contributed materials to the business, worth ₹ 25,000 from his personal resources. K Kar also paid personally ₹ 5,000 as fees for an expert for the contract. Following are the expenses met from the Joint Bank Account.

Materials ₹ 85,000 ; wages ₹ 25,000 ; and other expenses ₹ 10,000. Material remaining unused at the end of the contract was valued at ₹ 10,000 and was taken over by B. Bose.

Show Joint Venture A/c, Venturers' A/c and Joint Bank A/c in the books of Joint Venture recording the above transactions assuming that final payments were made to venturers after completion of the venture after 6 months.

24. Band C of Kolkata undertake a joint venture in Burma timber. On 1st July, 2014, they opened a joint banking account with ₹ 25,000, towards which B contributed ₹ 15,000 and C ₹ 10,000. They agreed to share profits and losses in proportion to their cash contributions. They remitted to their agent in Burma

₹ 22,100 to pay for timber purchased. Freight, insurance and other charges amounting to ₹ 3,900 were paid in Kolkata.

On 1st December, 2014, the sales amounted to ₹ 28,740, which enabled them to repay themselves the cash originally advanced, no account being taken of interest. They then decided to close the venture and C agreed to take over the balance of timber unsold for ₹ 1,260 which is to be deducted from his share of profit.

Prepare Accounts showing the amount of cash available for division by way of profit and how the same is divisible between Band C.

25. A and B jointly underwrite 25,000 shares of ₹ 20 each issued by XYZ Ltd. It was agreed with the company that they would be allotted 1,000 shares as fully paid up towards their commission. Their profit sharing ratio is 3 : 2. Applications were received from the pubic only for 22,500 shares. A paid ₹ 4,000 for postage and advertisement in addition to 60 percent of the amount required to take up the short subscription. B financed the balance amount. All the shares including those allotted as commission were sold. A sold 1,500 shares for f 35,000 and B sold the balance of shares @ ₹ 24 per share. B incurred expenses ₹ 2,000. Sale proceeds were retained individually.

Prepare: *(i)* Joint Venture A/c*; (ii)* Joint Bank A/c ; *tiii)* A's A/c *(iu)* B's A/c.

26. Black and white entered into a joint venture paying ₹ 30,000 and ₹ 50,000 respectively in *joint bank account* and sharing profits and losses in the ratio of 3 : 2. It was agreed that the joint bank account is to be used for purchases and sales, while each partner is to meet his joint venture expenses out of his private funds. Each partner is to charge commission@ 5% on sales made by him. The transactions for the year ended 31-3-2014 were as follows;

Black purchased 80 tons of wheat @ ₹ 600 per ton and his expenses were ₹ 3,000. White sold 60 tons of wheat @ ₹ 750 per ton and his expenses were ₹ 2,000. White purchased 10 tons of sugar for ₹ 7,000 and his expenses were ₹ 1,000. Black sold 8 tons of that sugar for ₹ 8,000 and his expenses were ₹ 500.

Write up Joint Venture Account, Joint Bank Account and the Personal Accounts of the Co-venturers and Balance Sheet as on 31-3-2014.

MEMORANDUM JOINT VENTURE ACCOUNT

27. Das and Roy entered into a joint venture involving the buying and selling of old railway material. The profit or loss was to be shared equally. The cost of the material purchased was ₹ 42,500 which was paid by Das who drew a bill on Roy at 2 months' demand for ₹ 30,000. The bill was discounted by Das at a cost of ₹ 240.

    The transactions relating to the venture were (a) Das paid ₹ 300 for carriage, ₹ 500 for commission on sales and ₹ 200 travelling expenses; (b) Roy paid ₹ 100 travelling expenses and ₹ 150 sundry expenses; (c) Sales made by Das amounted to ₹ 20,000 and (d) Sales made by Roy were ₹ 30,000.

    Goods costing ₹ 1,000 and ₹ 1,500 (being unsold stock) were retained by Das and Roy respectively and these were charged to them at prices to show the same rate of gross profit as that made on the total sales (excluding these sales). Das was credited with a sum of ₹ 400 to cover the cost of warehousing and insurance. The expenses in connection with the bill were to be treated as a charge against the venture.

    You are required *(a)* to show the Account in the books of each party to record his own transactions and *(b)* to prepare Memorandum Joint Venture Account.

28. Aman and Chaman agreed for purchasing and selling of old cars in a joint venture; their profit sharing ratio being 3 : 2 respectively. Aman purchased ten old cars @ ₹ 60,000 per car. He sent these cars to Chaman for sale after spending ₹ 5,000 per car on repairs and cartage. He drew a bill of ₹ 3,00,000 on Chaman and this bill was discounted at the discount of ₹ 10,000 after the acceptance. Chaman incurred further expenses of ₹ 1,60,000 on these cars before sale. He sold all the old cars @ ₹ 90,000 per car, giving 5% commission to the broker.

    Prepare Joint Venture with Chamani:ount in the books of Aman. Also show Memorandum Joint Venture Account.

Unit-II **Chapter 5- 8**

Course No. 201 **Semester- II**

BRANCH ACCOUNTING

BRANCH ACCOUNTING

6.1 Introduction

In order to increase the sales, business houses are required to market their products over a large territory and may generally split their business into certain divisions or parts. If the various parts or divisions are located in different parts of the same city as chandni chowk, karol bagh, Gandhi nagar, or in different cities of the same country or in different countries in the world, these are known as branches. Head office controls the activities of various branches.

6.2 Objectives or purposes of branch accounting

Main object of keeping branch accounts is dependent on the nature of the business and specific need of a particular branch. The objective of keeping the branch accounts acceptable to all businesses are :

1. To know the profit or loss of each branch separately.
2. To ascertain the financial position of each branch on a particular date.
3. To know the cash and goods requirements of the various branches.
4. To evaluate the progress and performance of each branch
5. To calculate commission for payment to the managers, if based on profits of branch.
6. To know the profitability of each branch and type of business for expansion of the business.
7. To give concrete suggestions for the improvement in the working of the various branches.
8. To meet the requirements of specific enactments as all the branches of a company must keep the accounts for audit purposes.

6.3 Types of branches

1. Branch not keeping full system of accounting or dependent branches.

2. Branch keeping full system of accounting or independent branches

3. Foreign branches .

6.4 Features of dependent branches

1. Such branches sell only those goods which are received from the head office and are not usually allowed to make purchases in the open market except with the express permission of the head office.

2. Goods are supplied by the head office to such branches either at cost price or at invoice price.

3. All expenses of the branch such as rent, salary of the staff, advertisement ,etc are paid by the head office.

4. Petty expenses such as cartage, entertainments, freights ,etc are paid by the branch manager out of the petty cash book balance. Such book is maintained at the branch either at simple petty cash book or on imprest system.

5. The amount received from cash sales or cash received from the debtors is either remitted to the head office daily or deposited in the amount of the head office at some local bank.

6. The branch manager is normally expected to sell the goods for cash only but he may be authorised to sell goods on credit in certain cases.

7. Such branches do not maintain their own books of account. all records are maintained by head office.

6.5 Accounting records for branch

In order of supply the requisite accounting information to the head office at regular interval, each branch keeps some memorandum records, such as the stock register, the cash book and the petty cash book. The stock register is maintained with a view to keep a record of all the goods received from the head office , or returns made to head office during that period, sales made at the branch during the period, breakages and losses of goods and balance of stock available in hand at the close of the accounting period. The cash book is maintained to keep record of cash transactions such as cash sales, receipts from branch debtors and cash remitted to head office from time to time. The purpose of maintaining the petty cash book is to record small payment of expenses such as carriage, postage, conveyance and entertainment ,etc. If, however, the branch is authorised to make credit sales, a sales day book and a debtors ledgers will also be required to be maintained.

6.6 Accounting records for head office or system of accounting for branch

Branches not keeping full system of accounting do not keep proper accounts but accounts are maintained in the head office books only. Thus, the system of accounting for branch to be adopted by the head office depends on the size of the branch, the degree of control sought to be excercised, the nature and volume of business transactions and the special circumstances under which the branch is operating ,etc. Following are the main ways in which the head office may keep the branch accounts in its books:

1. Debtors system or synthetic method
2. Final account system
3. Stock and debtors system or analytical method
4. Wholesale branch system.

7.1 Debtors system

This system also called synthetic method is adopted generally in those branches which are fairly small in size. Under this system, the head office opens a separate account for each branch in order to record all the transactions relating to the branch. This account is a nominal account in nature and is prepared to calculate profit and loss for each branch. The goods supplied by the head office to the branch may be either at cost price or at cost plus profit . Following are the journal entries which are passed in the books of the head office to record branch transactions.

Transactions	Debit	Credit
1. When goods are sent to branch	Branch a/c	Goods sent to branch a/c
2. For return of goods to H.O	Goods sent to branch a/c	Branch a/c
3. For transferring the balance of goods sent to branch account	Goods sent to branch a/c	Purchases a/c
4. When cheque or draft is received for branch expenses	Branch a/c	Bank a/c
5. When cheque or draft is received for remmitance	Bank a/c	Branch a/c
6. When goods are supplied by the branch to another branch under instructions of head office.	Goods sent to branch a/c	Branch a/c
7. When goods are supplied by head office but not received by the branch	Goods in transit a/c	Branch a/c
8. When remittances are sent by the branch but not received by the head office	Cash in transit a/c	Branch a/c
9. For closing balances of assets	Branch assets a/c	Branch a/c
10. For beginning balances of assets	Branch a/c	Branch assets a/c
11. For closing balances of liabilities	Branch a/c	Branch liabilities a/c
12. For opening balances of liabilities – next year	Branch liabilities a/c	Branch a/c
13. For branch profit	Branch a/c	General P/la/c
14. For branch loss	General P/La/c	branch a/c

In short , branch account is debited with the opening balance of branch assets, goods sent to branch account less returns, cheque sent for expenses of the branch and branch liabilities at the end and credited by branch liabilities at the beginning , cheque received for remittance and closing balances of branch assets. The difference between the two sides will be profit or loss of the branch.

Branch account in the books of head office will appear as under after posting of the entries.

Branch account

(in H.O books)

To branch cash in hand		By branch liabilities a/c	
To branch stock		By bank a/c	
To branch debtors		- Cash sales	
To branch furniture		- Cash received from debtors	
To branch prepaid		- Cash directly paid to H.O	
To goods sent to branch a/c		By branch cash in hand	
Less: return to H.O		By branch stock	
To goods sent by other branches		By branch debtors	
To bank (expenses paid by H.O)		By branch furniture	
To branch liabilities a/c		By branch prepaid rent	
To general profit and loss a/c		By general p/l a/c (loss)	
(profit)			

7.2 Treatment of certain branch transactions

1. **Branch expenses paid by the branch out of petty cash:** If the petty cash book is not maintained on imprest system then such expenses will be deducted from the branch cash and at the close reduced balance of cash will be shown on the credit side of the branch account. such expenses need not be shown in the branch account. if such expenses are re-imbursed by the head office to the branch then these must be debited to the branch account. however, same opening and closing balances of petty cash will be shown on the debit side and credit side respectively of the branch account.

2. **Depreciation of fixed assets:** This is not shown in the branch account . But closing balance of the fixed assets will be shown on the credit side of the branch account after deduction of the amount of depreciation.

3. **Credit sales, bad debts, sales return, allowances, and discount allowed pertaining to branch:** These items are pertaining to the debtors account and will not be shown in the branch account. however, these items will be taken into consideration while ascertaining the amount of opening or closing balance of debtors or amount received from debtors which are shown in the branch account. if the branch has received a bill of exchange it will be sent to the head office. The entry will then be debit bills of exchange and credit branch account.

4. **Goods in transit:** Goods in transit is the difference between goods sent by the head office and received by the branch. Such goods will be shown either on the both sides of the branch account or will be ignored totally while preparing the branch account.

5. **Purchases of fixed assets by the branch:** If the branch has purchased any fixed assets, then on one hand branch account will be credited by the head office and on the other the remittances from the branch will be reduced by the amount. if branch has purchased the assets on credit basis and liability

arising from such purchases will be shown on the debit side of the branch account.

6. **Sale of fixed assets :** If the sale is for cash, cash remittances will increases from the branch but asset will reduce in value to be shown on the credit side of the branch account. loss or profit arising from such sale of fixed asset will not be shown in the branch account as this is automatically adjusted.

7. **Losses:** Losses due to pilferage, wastage and other losses of stock due to normal or abnormal reasons are also completely ignored while preparing branch account under this method.

8. **Amount received from insurance company:** When the branch has received any compensation from the insurance company for loss of stock or for any other asset damaged at the branch , such amount will be remitted to the head office. As a result, the amount so received will be added to the amount to be remitted to the head office. If the amount is not yet received from the insurance company till the end of accounting period, the claim due from the insurance company will be taken as an asset and shown on the credit side of the branch account.

9. **Preparation of debtors account:** if cash received from debtors or opening or closing balance of debtors is missing. Branch debtors account should be prepared to find out the missing figure.

10. **Bills receivable received from branch debtors:** if a bill is received from debtors at branch, then bills receivable account is debited and debtors account is credited. Further, if bill is discounted by the branch, the branch cash account is debited and bills receivable account is credited with the net amount. discount on bills receivable discounted is automatically adjusted in the amount remitted to head office and is never debited to branch account.

The main defect of this method is that it does not provide full information for analysis of branch profit and loss. To overcome, this problem a separate branch trading and profit and loss account has to be prepared, which is , of course, a memorandum account not forming part of the full system of accounting.

8.1 Invoice price method:

When the goods are sent by the head office to the branch at invoice price, i.e. , cost plus some percentage of profit, the branch manager is required to sell the goods at invoice price only. Goods are marked on invoice price to achieve the following objectives:

1. In order to keep secret from the branch manager the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern.
2. In order to have effective control on stock i.e., stock at any time must be equal to opening stock plus goods received from head office minus sales made at the branch.

8.2 Accounting adjustments required in head office books:

The branch records are not in any way affected due to invoicing of goods at cost plus profit. But , in order to calculate the profit or loss made by the branch, some accounting adjustments, as stated below, are required to be passed in the books of the H.O for eliminating the profit element included in branch opening stock, goods sent to branch less returns made by branch to head office and branch closing stock.

For adjusting of excess of the opening stock or in transit at branch

Stock reserve a/c Dr

To branch a/c

For adjusting of excess price of the closing stock of unsold goods at branch

Branch a/c Dr

To Stock reserve a/c

For adjusting of excess price of goods sent to branch less returns to head office

Goods sent to branch a/c

To branch a/c

Closing stock should always be valued at cost or net realisable value, whichever is lower. This is based on the principle of conservatism i.,e no profit should be anticipated and all losses should be provided. Moreover, the unsold stock lying in the branch will not earn any profit unless sold. Therefore, it is necessary to make provision for the profit element included in the unsold stock.

9.1 Calculation of mark up or load

For calculating loading or excess price the following procedure is adopted:

Suppose goods are invoiced at cost plus 25 % . if the cost is Rs 100 , profit is Rs 25 selling price therefore, is Rs 125. The ratio of profit to selling price is 25/125 OR 1/5 . adjustments for the difference or excess price in value between the invoice price and the cost price, therefore, will be made on the basis of 1/5 of the invoice price. If the percentage is given on sale price as 25 % on sale price, then suppose the sale price is Rs 100 , the profit will be Rs 25 . Therefore, cost will be Rs 75 . so , the percentage on cost will be 25/75 x 100 = 1/3

10.1 Practical Problems

Problem 1

A firm is having its head office at delhi and branch at Chandigarh. Following are the transactions of the head office with branch for the year ended 31st December, 2015.

Petty cash at branch 1-1-2015	12,500	stock at branch 1-1-2015	750,000
Furniture at branch 1-1-2015	450,000	goods supplied to branch	37,75,000
Goods returned by branch	25,000	cash sales at branch	52,50,000

Depreciate furniture @ 10 % p.a

salary outstanding 31-12-2015 25,000

Petty expenses incurred by branch 67,500

stock at branch 31-12-2015 10,00,000

Cheque sent to branch for :

Establishment expenses 250,000

Petty cash 75,000

Prepare branch account after passing journal entries and also show the relevant items of the branch in the balance sheet in the books of the head office.

Solution 1:

Journal entries In the books of head office

2015 jan 1	Chandigarh branch a/c Dr To branch stock a/c To branch petty cash a/c To branch furniture a/c (being branch opening assets transferred to branch a/c)		12,12,000	 750,000 12,500 450,000
jan 1 to dec 31	Chandigarh branch a/c Dr To goods sent to branch a/c (Being goods sent to branch)		37,75,000	37,75,000
"	Chandigarh branch a/c Dr To bank a/c (Being cheque sent to branch for establishment expenses and petty expenses)		325,000	325,000
"	Goods sent to branch a/c Dr To Chandigarh branch a/c (Being goods returned by branch)		25,000	25,000
"	Bank a/c Dr To Chandigarh branch a/c (Being sale proceeds received from branch)		52,50,000	52,50,000
"	Chandigarh branch a/c Dr To branch outstanding salary a/c (Being adjustment entry for branch closing liability)		25,000	25,000

Chandigarh branch account

Jan 1 2015	To branch stock a/c	750,000	Jan 1 to dec 31	By bank a/c(sales)	52,50,000
"	To branch petty cash a/c	12,500		By branch stock a/c	10,00,000
"	To branch furniture a/c	450,000		By branch petty cash a/c (12,500 + 75,000 – 67,500)	20,000
Jan 1 – 31 dec	To goods sent to branch a/c 37,75,000 Less: returned to H.O 25,000	37,50,000	Dec 31	By branch furniture a/c (450,000 – 45,000)	405,000
Dec 31	To bank a/c: - Establishment expenses - Petty cash	250,000 75,000			
"	To branch outstanding a/c	25,000			
"	To p/l a/c (profit)	13,62,500			
		66,75,000			66,75,000

Balance sheet of ....

As at 31st December, 2015

Chandigarh branch (o/s)	25,000	Chandigarh branch stock	10,00,000
Profit and loss a/c (profit)	13,62,500	Chandigarh branch petty cash	20,000
		Chandigarh branch Furniture 450,000 Less: depreciation 45,000	405,000

Problem 2:

Sincere brothers of Delhi opened a branch at Kanpur on jan 1, 2014 . From the following figures prepare Kanpur branch accounts in the books of sincere brothers for the year ending December 31, 2014 and 2015.

Particulars	2014	2015
Goods sent to Kanpur branch	100,000	120,000
Expenses paid by head office:		
Rent	1,200	1,200
Salaries	6,000	6,000
Advertisement	600	800
Cash sales at branch	120,000	165,000
Remittance received from the branch	-	160,500
Remittance made on December 30, still in transit	-	4,000
Expenses paid by the branch:		
Carriage	200	250
Petty expenses	300	400
Stock on December,31	20,000	30,000
Petty cash in hand	200	-

Solution 2:

In the books of sincere brothers

Kanpur branch account

particulars	2014	2015	particulars	2014	2015
To opening stock a/c	-	20,000	By cash a/c	119,300	160,500
To branch petty cash a/c	-	200	(remitted by branch)		
To goods sent to branch a/c	100,000	120,000	By branch stock a/c	20,000	30,000
To bank a/c			By branch petty cash a/c	200	50
Rent	1,200	1,200	By cash in transit a/c	-	4,000
Salaries	6,000	6,000			
Advertisement	600	800			
To general P/L a/c (profit)	31,700	46,350			
	139,500	194,550		139,500	194,550

Working notes:

Cash account in branch books

particulars	2014	2015	particulars	2014	2015
To balance b/d	-	200	By expenses a/c	500	650
To sales	120,000	165,000	By head office a/c	119,300	160,500
			(bal. Fig. For 2014)		
			By cash in transit a/c	-	4,000
			By petty cash in hand a/c	200	50
			(bal. Fig. For 2015)		
	120,000	165,200		120,000	165,200

Problem 3:

Manju traders , Delhi , have a branch at Bombay. From the following particulars relating to the branch for the year ending 31-3- 2016, prepare branch account in the head office books:

Balances on 1-4- 2015:		discount allowed to debtors	100
Stock at branch	10,000	cash sent to branch for	
Branch debtors	4,000	rent	2,100
Petty cash	500	salaries	2,400
Furniture	2,000	petty cash	1,000
Prepaid insurance	150	insurance (annual upto 30 – 06 – 2016)	600
Salaries outstanding	200	goods returned by branch	1,000
Goods sent to branch	80,000	goods returned by debtors	2,000
Cash sales	130,000	stock on 31- 03 – 2016	5,000
Credit sales	40,000	petty expenses paid by branch	690
Cash received from debtors	35,000	sale of furniture on 1-10-2015	
Cash paid by debtors direct To head office	2,000	(book value of furniture on 1-10-2015 was Rs 475)	400

Provide depreciation on furniture @ 10 % p.a. goods costing Rs 2,500 were damaged in transit and a sum of Rs 2,000 was recoverable from the insurance company in full settlement of the claim

The branch manager is entitled to a commission of 10 % of branch profit after charging such commission.

Solution 3:

In the books of manju traders

Bombay branch account

To branch stock a/c	10,000	By branch salaries (o/s)	200
To branch debtors a/c	4,000	By cash sales	130,000
To branch petty cash a/c	500	By cash received from debtors	35,000
To branch furniture a/c	2,000	By cash paid by branch	
To branch prepaid insurance a/c	150	debtors directly paid to H.O	2,000
To goods sent to branch a/c 80,000		By sale of furniture	400
Less: returns 1,000	79,000	By branch stock	5,000
To bank:		By branch petty cash	810
- Rent 2,100		(500 + 1,000 – 690)	
- Salaries 2,400 - Petty cash 1,000		By branch debtors	4,900
- Insurance 600		By branch furniture	1,350
To salaries outstanding	6,100	By branch prepaid insurance	150
To outstanding	200	By insurance claim	2,000
To general p/l a/c (profit)	7,260		
	<u>72,600</u>		
	<u>181,810</u>		<u>181,810</u>

Working notes:

Calculation of debtors at the end

To balance b/d	4,000	By cash received from debtors	35,000
To sales credit	40,000	By cash paid by debtors directly	2,000
		By sales returns	2,000
		By discount	100
		By balance c/d	4,900
	44,000		44,000

Calculation of furniture sold on (1-10- 2015) on 1-4-2015 is Rs 475 x 100 /95 = 500. The remaining value of furniture is Rs 1500 and used for the whole year. So , after charging depreciation @ 10 % p.a. , its value after depreciation on 31 – 03- 2016 is Rs 1,350. Loss on sale of furniture is Rs 100 will not be taken into account. while preparing branch account. Rs 400 received from sale of furniture will be added to cash received from branch.

Problem 4:

A firm has a branch at Cuttack. Goods are invoiced to the branch at 25 % above cost. Branch is instructed to deposit cash everyday in head office account in the bank. All expenses are paid by cheques except petty cash expenses which are paid by the branch manager. From the following information , prepare branch account in the books of the head office:

Stock at branch on 1-1-2015	15,000	furniture purchased	8,000
Stock at branch on 31-12-2015	20,000	cash sent to branch	10,000
Branch debtors on 31-12-2015	11,000	goods invoiced from head office	115,000
Cash sales by the branch	70,000	expenses paid by H.0	10,000
Credit sales by the branch	40,000	expenses paid by branch	5,500
Cash remitted to head office	90,000	goods returned to H.O	5,000
Liability for petty expenses	500		
Cash received from debtors	38,000		

Solution 4:

In the books of head office

Cuttak branch account

To branch stock a/c	15,000	By stock reserve a/c	3,000
To branch debtors a/c	9,000	(15,000 x 25/125)	
To goods sent to branch 115,000		By bank a/c	90,000
Less: returns 5,000	110,000	By branch stock a/c	20,000
To bank a/c- expenses	10,000	By branch debtors a/c	11,000
To bank a/c- sale	10,000	By branch furniture a/c	8,000
To stock reserve a/c (20,000 x 25/125)	4,000	By branch sale a/c	10,000
To liability for petty expenses a/c	500	By branch cash a/c	4,500
To general p/l a/c	10,000	By goods sent to branch a/c	22,000
		(110,000 x 25 /125)	
	168,500		168,500

Working notes:

Calculation of cash received from debtors

Debtors a/c

To balance b/d	9,000	By cash a/c	38,000
To credit sales	40,000	By balance c/d	11,000
	49,000		49,000

Calculation of branch cash a/c

To cash sales	70,000	By head office	90,000
To debtors a/c	38,000	By branch furniture	8,000
		By branch expenses	5,500
		By balance c/d	4,500
	108,000		108,000

Problem 5:

Unique shoe stores has an old established branch at Kanpur. Goods are invoiced to the branch at 20 % profit on invoice price , the branch having been instructed to send all cash daily to the head office. All expenses are paid by the head office except expenses which are met by the branch manager. Form the following particulars , you are required to draw up branch account in the books of head office , i.e, unique shoe stores: -

Stock on Jan 1, 2015(Invoice price)	15,000	Credit sales	30,000
Sundry debtors on Jan 1,2015	9,000	Discount allowed	300
Cash in hand on jan 1, 2015	400	Expenses paid by H.O	
Office furniture on Jan 1,2015	1,200	- Rent	1,200
Goods supplied by H.O (Invoice price)	80,000	- Salary - Stationery	2,400
Goods returned to head office	1,000	Petty expenses paid by branch	300
Goods returned by debtors	480	Stock as on 31 dec, 2015(invoice price)	280
Cash sales	50,000		14,000
Provide depreciation @ 10 % p.a		Cash received from debtors	
			30,000

Solution 5:

In the books of unique shoe stores

Branch account

To branch stock a/c	15,000	By cash sales	50,000
To branch debtors a/c	9,000	By cash received from debtors	30,000
To branch cash in hand a/c	400	By branch stock a/c	14,000
To branch office furniture a/c	1,200	By branch debtors a/c	8,220
To goods sent to branch a/c 80,000		By branch furniture a/c	1,080
Less: Returns 1,000	79,000	(Rs 1,200 – Rs 120)	
To bank a/c		By stock reserve a/c	3,000
- Rent 1,200		(15,000 x 20 /120)	
- Salary 2,400		By goods sent to branch a/c	15,800
- Stationery 300	3,900	(79,000 x 20 /120)	
To stock reserve a/c	2,800	By cash in hand a/c (Rs 400 – Rs 280)	120
(14,000 x 20 /120)			
To general p /l a/c (profit)	10,920		
	122,220		122,220

Working note :

Calculation of closing debtors

Debtors account

To balance b/d	9,000	By sales returns a/c	480
To sales a/c (credit)	30,000	By cash a/c	30,000
		By discount a/c	300
		By balance c/d (bal. Fig.)	8,220
	39,000		39,000

Problem 6:

Ajay of Ahmadabad has a branch at Mumbai . Goods are invoice to the branch at cost plus 25% . Branch is instructed to deposit cash every day in the head office account with the bank. All the expenses are paid through cheques by the head office except petty cash expenses which are paid by the branch out of its cash receipts. Prepare branch account in the books of head office, taking into account the following:

	On 1st april, 2015	On 31st march, 2015
Stock at invoice price	82,000	96,000
Debtors	31,700	42,150
Furniture	23,400	?

Transactions during the year were: -

Cash sales Rs 401,300; credit sales Rs 372,100; goods received to branch Rs 628,000; expenses paid by the head office Rs 132,000; petty expenses paid by branch Rs 10,450; furniture purchased by branch Rs 2,500 on 1st October, 2015, payment having been made by branch out of its cash collections. Depreciation is provided @10 p.a on diminishing balance method .

Solution 6:

In the books of head office

Branch Account

To branch stock a/c	82,000	By cash (2)	750,000
To branch debtors a/c	31,700	By branch stock a/c	96,000
To branch furniture a/c	23,400	By branch debtors a/c	42,150
To goods sent to branch a/c	628,000	By branch furniture a/c	23,435
To bank a/c (expenses)	132,000	By stock reserve a/c	16,400
To stock reserve a/c		(82,000 x 25 /125)	
(96,000 x 25/125)	19,200	By goods sent to branch a/c	125,600
To general p /l a/c (profit)		(628,000 x 25 /125)	
	1053,585		10,53,585

Working note:

Branch debtors account

To balance b/d	31,700	By cash a/c	361,650
To sales a/c (credit)	372,100	By balance c/d (bal. Fig.)	42,150
	403,800		403,800

Branch cash account

To cash sales	401,300	By furniture a/c	2,500
To branch debtors a/c	361,650	By petty cash a/c	10,450
		By balance sent to H.O	75,000
	762,950		762,950

Furniture a/c

To balance b/d	23,400	By depreciation a/c	
To purchase a/c	2,500	(23,400 x 10 /100)	2,340
		(2,500 x 10/ 100 x 6/12)	125
		By balance c/d	23,435
	25,900		25,900

Problem 7 :

From the

Opening stock at the branch	150,000	Expenses:	
Goods sent to branch	450,000	- Salaries	50,000
Cash sales	600,000	- Other expenses	20,000

Closing stock could not be ascertained , but it is known that the branch usually sells at cost plus at 20 %. The branch manager is entitled to a commission of 5 % on the profit of the branch before charging such commission.

Solution 7 :

Branch Account

To branch stock a/c	150,000	By cash sales a/c	600,000
To goods sent to branch a/c	450,000	By branch stock a/c	100,000
To cash a/c			
- Salaries	50,000		
- Other expenses	20,000		
To manager's commission a/c	1,500		
(30,000 x 5/ 100)			
To branch p /l a/c (profit)	28,500		
	700,000		700,000

Working notes :

Calculation of closing stock at branch

Opening stock at branch	150,000	
Add: goods sent to branch	450,000	
		600,000
Less: cost of goods sold		500,000
(600,000 x 100 /120)		
Closing stock at branch	100,000	

Problem 8 :

Moti traders opened a branch at Chennai on 1st july, 2015. Goods are sent from the head office at cost plus at 25 % . The branch is advised to deposit cash every day in bank in head office account. From the following particulars prepare branch account in the books of head office for the period ending December 31, 2015. Petty cash at the branch is maintained on imprest system.

Cash sent to branch for meeting petty expenses Furniture purchased for the branch Goods sent to branch at invoice price Expenses paid by head office: - Rent - Advertisement - Salaries - Insurance (Annual up to 30 -06- 2016) Cash sales Credit sales during 6 months	440 8,000 120,000 1,200 800 4,000 300 61,500 26,000	Cash received from debtors Discount allowed Goods returned by debtors (invoice price) Bad debts Petty expenses paid by branch Stock at cost (closing stock – excluding stock received from debtors) Provide depreciation on furniture @ 10 p.a	20,000 200 600 50 650 26,000

Solution 8 :

In the books of moti traders

Branch account

To branch petty cash a/c	440	By cash sales 61,500	
To branch furniture a/c	8,000	By cash received 20,000 from debtors less: petty expenses 650	80,850
To goods sent to branch a/c	120,000	by branch stock a/c (26,000 + 25 % of 26,000 + 600)	33,100
To bank a/c - Rent - Advertisement - Salaries - Insurance	1,200 800 4,000		5,150
To stock reserve a/c	300	By branch debtors a/c	7,600

Working notes :

Calculation of debtors at the end

Debtors a/c

To sales a/c	26,000	By cash a/c	20,000
		By discount allowed a/c	200
		By sales returns a/c	600
		By bad debts a/c	50
		By balance c/d (bal . fig.)	5,150
	26,000		26,000

(33,100 x 25 /125)	6,620	By branch debtors a/c	
To branch p/l a/c (profit)	9,930	By branch furniture a/c (8,000 – 400 as depreciation for ½ year)	150
		By branch prepaid insurance a/c (300 x ½) (6 months)	440
		By branch petty cash a/c	24,000
		By goods sent to branch a/c (120,000 x 25 /125)	
	151,290		151,290

Problem 9 :

Bata ltd. has a head office and many retail branches which are supplied goods from the head office at 20 % profit on sales price. Account 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 balances of Rs 2,300 on imprest system. From the following branches as shown by the books, prepare branch account.

Balances on 1-4-2015		Credit purchases	99,800
Petty cash in hand at branch	2,300	Payments made by the head office:	
Stock in hand at branch at sales price	50,000		
Sundry debtors at branch	24,000	Rent for one year (paid on 1st july, 2015)	2,800
Sundry creditors at branch	11,200	Salaries	
Furniture at branch	28,000		12,000
Rent prepaid (upto 30th june, 2015)	1,300	Insurance paid for the year ending 30-6-2016	
Transactions for the year ended 31 -3-2016 were as follows:		Payments made by the branch:	960
		Petty expenses	
Goods sent to branch less returns	404,000	Balances on 31-3-2016	480
Cash sales at branch	580,000	Stock at sales price	
Credit sales at branch	95,000	Creditors at the end	37,500
Allowances to debtors	1,500	Write off depreciation @ 10 p.a	23,000
Cash received from customers	80,000		
Bad debts to be written off	1,200		
Cash purchases by the branch on permission from head office	40,500		

Solution 9 :

In the books of head office

Branch account

To branch petty cash a/c	2,300	By branch creditors a/c	11,200
To branch stock a/c	50,000	By cash remitted a/c	531,500
To branch debtors a/c	24,000	By branch stock a/c	37,500
To branch furniture a/c	28,000	By branch debtors a/c	36,300
To branch rent prepaid a/c	1,300	By branch petty cash a/c	2,300
To goods sent to branch a/c	404,000	By branch furniture a/c	25,200
To bank – expenses		By branch rent prepaid a/c	700
- Rent	2,800	By branch insurance prepaid a/c	240
- Salaries	12,000	By stock reserve (20 % of 50,000)	10,000
- Insurance	960		
To bank a/c (petty expenses)	480	By goods sent to branch a/c	80,800
To branch creditors a/c	23,000		
To stock reserve a/c (20 % of 37,500)	7,500		
To branch p/l a/c (profit)	179,400		
	735,740		735,740

Working notes :

Debtors account

To balances b/d	24,000	By allowances a/c	1,500
To sales (credit)	95,000	By bad debts a/c	1,200
		By cash a/c	80,000
		By balance c/d (bal. Fig.)	36,300
	119,000		119,000

Creditors account

To cash (bal. Fig.)	88,000	By balance b/d	11,200
To balance c/d	23,000	By purchases (credit)	99,800
	111,000		111,000

Cash account

To cash sales	580,000	By purchases a/c	40,500
To debtors a/c	80,000	By creditors a/c	88,000
		By cash remitted a/c (bal . fig)	531,500
	660,000		660,000

Petty cash account

To balance b/d	2,300	By cash a/c (petty expenses)	480
To cash a/c	480	By balance c/d	2,300
(Reimbursement of expenses)			
	2,760		2,760

9.2 Final account system

According to this system, the profit or loss made by the branch is determined by preparing branch trading and profit and loss account at the cost price. It should be carefully noted that all expenses whether paid by the head office or by the branch are debited to the trading and profit and loss account prepared for the branch. The profit and loss as disclosed by this account is exactly same as that of the branch account prepared according to the debtors/synthetic system. It should be further noted that the branch trading and profit and loss account is only a memorandum account not forming part of the full accounting system. If the branch account is also prepared, in addition to the branch trading and profit and loss account, then such a branch account will be treated as a personal account and not considered in the nature of the nominal account under the debtors system. Then, branch account under such circumstances , will show a debit balance which will be equal to net worth or net assets available at branch at the end of the accounting period.

Problem 10:

A Delhi merchant has a branch at Chennai to which he charges the goods at cost plus @ 25 % . The chennai branch keeps its own sales ledger and remits all cash received to the head office every day. All expenses are paid from the head office. The transactions for the branch during the year 2015 were as follows:

Stock as on 1-1-2015 at I.P	11,000	Returns inwards	500
Debtors 1-1-2015	100	Cheques sent to branch	
Petty cash 1-1- 2015	100	- Rent	600
Cash sales	2,650	- Wages	200
Credit sales	23,950	- Salary	900
Goods sent to branch at I.P	20,000	Stock as on 31-12-2015 at I.P	13,000
Collection to ledger accounts	21,000	Debtors	2,000
Goods returned to H.O at I.P	300	Petty cash 31 -12-2015 including miscellaneous income Rs 25, not remitted	125
Bad debts	300		
Allowances to customers	250		

Prepare branch trading and profit and loss account and branch account for the year ending 31-12-2015

Solution 10:

Branch trading and profit and loss account

For the year ending 31-12-2015

To opening stock		By sales	
(11,000 – 2,200)	8,800	Cash 2,650	
To goods sent to branch a/c		Credit 23,950	
(20,000- 4,000) 16,000		26,600	
Less: returns to H.O		Less: returns 500	26,100
(300 – 60)	15,760	By closing stock	
240	200	(13,000 -2,600)	10,400
To wages	11,740		
To gross profit c/d	36,500		36,500
	300		
To bad debts	250	By gross profit b/d	11,740
To allowances	600	By accrued income	25
To rent	900		
To salaries	9,715		
To net profit c/d	11,765		11,765

Branch account

To opening balances:		By cash a/c – remittances	23,650
Stock	8,800	(2,650 + 21,000)	
Debtors	100	By balance c/d (stock 10,400 + debtors 2,000 + petty cash 125)	12,525
Petty cash	100		
To goods sent to branch 16,000			
Less: returns 240	15,760		
To bank a/c (expenses)	1,700		
To profit	9,715		
	36,175		36,175

9.3 Stock and debtors system

It is an elaborate method of keeping branch accounts and is considered very useful where the branch turnover is sufficiently large and where a greater degree of control is sought to the excercised by the head office over the branch. According to this sytem, instead of opening

9.4 Branch keeping full system of accounting

Branches keeping full system of accounting or independent branches are those branches which also purchases goods from the market besides getting the goods from the head office. They can also supply goods to the head office, pay expenses from the cash realised and deposit cash in their own account. in other words, those branches operate as an independent unit for all practical purposes but their only link with the head office is that they are owned by the head office and whatever their profit or loss will be, that belongs to the head office.

Such branches keep complete set of double entry books and prepare their own trial balance, trading and profit and loss account and balance sheet. Such branches open head office account in their books. This account is debited by cash sent to the head office , goods supplied to head office, payment made by the branch for purchases of assets and loss to be borne by the head office and credited by cash received from the head office, goods received from the head office, depreciation of branch fixed assets, charge made by the head office for rendering services and profit earned by the branch. Similarly, the head office will also maintain a branch account for each branch. This account will have the same entries but on the reverse sides.

1. Purchase of branch fixed assets

According to the debtors system, instead of opening one branch account , as is done in case of debtors system, separate accounts are opened for various transaction at branch. According to this system, a separate ledger for each branch will have to be maintained at head head office for keeping accounts, such as branch stock, branch debtors, goods sent to branch, branch expenses, and branch assets,etc. branch cash or petty cash account may sometimes be required to be maintained if the branch is permitted to use the available cash for making certain payments.

The stock and debtors system is particularly considered very useful and appropriate where goods are invoiced to the branch at selling price.

2. Branch stock account :

This account is similar to that of the branch trading account where items like goods received from head office , goods sold by branch and goods returned by customers to the branch etc. are dealt with. This account is debited with opening stock at branch, goods sent to the branch and goods returned to the branch by customers. This account is credited with cash sales, credit sales made by the branch, the goods returned by branch to the head office and closing stock at branch. The balance of this account represents gross profit or gross loss and the same is transferred to branch profit an loss account. this account is prepared at invoice price. This method of accounting clearly brings into focus the shortage or surplus in stock at branch. The balance of this account, after posting all the relevant entries should be equal to the stock in hand available at branch, unless there is any surplus or shortage. The profit or the load included in such surplus or shortage should be transferred to branch adjustment account while the cost of such surplus or shortage should be adjusted to branch p/l a/c.

3. Branch debtors account:

This account is prepared to ascertain the missing figures of opening balance and closing balance, credit sales, cash received from debtors. The account is debited with opening balance, credit sales and credited by cash received from debtors , sales returns and branch expenses (bad debts, discount allowed,etc.) and closing balance of debtors.

4. Branch expenses account:

This account is debited with expenses done in cash, branch expenses related to debtors and credited by branch adjustment account and branch p/l a/c .

5. Branch adjustment account:

This account is prepared for ascertaining the amount of gross profit earned by the branch. This is done by eliminating the profit element or the loading included in the value of opening and closing stock at branch, goods sent to the branch, less returns made by branch to head office and in surplus or shortage in branch stock,etc. The balance of the account represents the gross trading profit or loss which is then transferred to the branch p/l a/c.

6. Branch profit and loss account:

This account is prepared to ascertain the net profit or loss at the branch. The branch gross profit or loss as shown by the branch adjustment account is transferred to the branch p/l a/c . The branch expenses, shortage of stock at cost value and losses of stock, etc. are debited to the account. This account is further credited with incomes and gains, if any, at branch and cost value of surplus in branch stock, etc. The balance of the account represents net profit or loss made by the branch during the accounting period, which is finally transferred to general p/l a/c.

7. Goods sent to branch account:

The purpose of preparing this account is to ascertain the exact value of the goods sent to the branch during the accounting period. This account is credited with the value of goods sent to the branch at selling price and is debited with the value of goods returned by the branch at the same invoice value. After adjusting the loading, i.e., the profit included in such goods , the balance of this account is transferred to purchases account or trading account.

8. Stock reserve/ suspense account:

This account is prepared to adjust the loads included in the value of opening and closing stock at branch. This account is credited with the load included in the closing stock at branch and its balance is carried forward to the next accounting period.

9. Branch cash account:

This account is maintained for recording all cash transactions relating to the branch. This account is considered quite essential where the branch is permitted to purchases goods locally and to incur expenses at branch out of cash available with the branch.

10. Branch petty cash account:

This account is maintained where the branch makes some petty cash payments. This account is debited with the balance of petty cash available in hand at the beginning of the accounting year and with cash sent to the branch by the head office for petty cash and is credited with all petty cash expenses incurred by the branch. The balance of this petty cash account reperesents petty cash available in hand at the end of the accounting period.

Journal entries – under this method

Particulars	Debit	Credit
When goods are sent to branch Note: reverse entry will be passed for goods returned by branch to head office	Branch Stock	Goods sent to the branch a/c
When sales are made by the branch a) Cash sales b) Credit sales	 Cash a/c Branch debtor a/c	 Branch Stock a/c Branch Stock a/c
a) When cash or bills is received from debtors b) When bill of exchange is discounted from the bank by head office.	Cash or bills receivable a/c Bank a/c Branch expenses a/c	Branch debtors Bills receivable a/c
For discount allowed, allowances and bad debts	Branch expenses a/c	Branch debtors a/c
For agreed allowances to customers off selling price already taken into account while invoicing.	Branch adjustment a/c	Branch stock a/c

Particulars	Debit	Credit
When goods are retuned by branch debtors	Branch Stock a/c	Branch debtors a/c
When goods are returned by branch debtors direct to the head office	Goods sent to branch a/c Branch adjustment a/c	Branch debtors a/c
For in transit items a) For goods in transit b) For cash in transit	Goods in transit a/c Cash in transit a/c	Branch stock a/c Branch cash a/c
For normal loss of stock	Branch adjustment a/c	Branch stock a/c
For abnormal loss, waste or leakage or shortage of stock	Branch adjustment a/c Branch p/l a/c	Branch stock a/c

Note : reverse entry for surplus in stock.

Due to loss of goods in transit or theft and pilferages at branch, abnormal losses may arise. In such cases, branch stock account must be credited with such abnormal losses. This is necessary to find out stock discrepancies for other reasons. The loading of abnormal losses is to be debited to branch adjustment account and the cost of goods to p/l a/c.

When goods are transferred from one branch to another branch a) Transferor branch b) Transferee branch	Goods sent to branch a/c Branch adjustment a/c Branch stock a/c	Branch stock a/c Goods sent to branch a/c Branch adjustment a/c
For apparent profit over the invoice price	Branch stock a/c	Branch adjustment a/c
For branch expenses paid in cash	Branch expenses a/c	Cash a/c
For closing branch expenses account excluding cash in hand at the end	Branch adjustment a/c Branch p/l a/c	Branch expenses a/c
For adjustment of excess price of the opening stock	Stock reserve a/c	Branch adjustment a/c
For adjustment of excess price of the closing stock	Branch adjustment a/c	Stock reserve a/c
For adjustment of excess price of goods sent to branch	Good sent to branch a/c	Branch adjustment a/c
For insurance claim recoverable	Insurance claim a/c	Branch p/l a/c
For transfer of balance of branch adjustment a/c	Branch adjustment a/c	Branch p/l a/c
For transfer of profit or loss to general p/l a/c a) profit b) loss	Branch p/l a/c General p/l a/c	General p/l a/c Branch p/l a/c
For closing the goods sent to branch account	Good sent to branch a/c	Purchasing or trading a/c

Problem 11:

M/s eastern trader, delhi, opened a branch at jaipur on 1-7-2015. The goods were sent by the head office to the branch invoiced at selling price of the branch which was 125 % of the cost price of the head office.

Following are the particulars relating to the transactions of jaipur branch :

Goods sent to branch at cost to H.O	280,800	Cash sent to branch for :	
Cash sales	125,000	- salaries	3,000
		- freight outward	11,000
Credit sales	175,000	- other expenses	6,000
Cash collected from debtors	156,000	stock on 30th june, 2016	55,500
Discount allowed	4,000	at invoice price	
Spoiled cloth in bales w/o at invoice price	500		
Goods returned by debtors to branch	5,000		

Ascertain the profit or loss for the jaipur branch for the year ended 30-6-2016. Preparing accounts under stock and debtors method.

Solution 11:

Branch stock account

To goods sent to branch account	251,000	By cash a/c (sales)	125,000
(280,800 + 70,200)		By branch debtors a/c (credit sales)	175,000
To branch debtors a/c (returns)	5,000		
		By branch adjustment a/c (loading of abnormal loss)	100
		By branch p/l a/c	400
		(cost of abnormal loss)	
		By balance c/d	55,500
	356,000		356,000

Goods sent to branch account

To branch adjustment a/c (351,000 @ 20 %)	70,200	By branch stock a/c	351,000
To purchases a/c	280,800		
	351,000		351,000

Branch debtors account

To branch stock a/c	175,000	By cash a/c	156,000
		By branch stock a/c (sales returns)	5,000
		By branch expenses :	
		By discount allowed	4,000
		By balance c/d	10,000
	175,000		175,000

Branch expenses account

To cash account:		By branch p/l a/c	24,000
- salaries	3,000		
- freight outward	11,000		
- other expenses	6,000		
to branch debtors a/c (discount)	4,000		
	24,000		24,000

Branch adjustment account

To branch stock a/c (loading on spoilage)	100	By goods sent to branch account (loading)	70,200
To stock reserve a/c (55,500 x 20 %)	11,100		
To branch p/l a/c (gross profit)	59,000		
	70,200		70,200

Stock reserve account

To balance c/d	11,100	By branch adjustment a/c	11,100
	11,100	(25,000 x 25/125)	11,100

Branch p/l a/c

To branch expenses a/c	24,000	By branch adjustment a/c	59,000
To branch stock a/c (cost of spoilage)	400	(gross profit)	
	34,600		
To net profit	59,000		59,000

Problem 12:

Crown industries Mumbai has a branch at Madurai to which goods are invoiced at cost plus 25 % . the branch makes sales both for cash and on credit . Branch expenses are paid direct from head office and the branch remits all cash to head office.

From the following details, prepare the necessary ledger accounts in head office books to calculate branch profits as per the stock and debtors system.

Goods received from head office at I.P	60,000	Bad debts in the year	400
Returns to head office at I.P	1,200	Goods returned by debtors to branch	800
Branch stock on 1-1-2015 at I.P	6,000	Rent, rates and taxes at branch	1,800
Cash sales	20,000	Branch office expenses	600
Credit sales	36,000	Surplus, stock at IP on 31-12-2015	12,000
Branch debtors on 1-1-2015	7,200		
Cash collected from debtors	32,000		
Discount allowed to debtors	600		

The difference in branch stock account is to be treated as surplus

Solution 12:

In the books of crown industries, Mumbai

Branch stock account

To balance b/d	6,000	By cash a/c	20,000
To goods sent to branch 60,000		By branch debtors a/c	36,000
Less: returns 1,200	58,800	By balance c/d (bal. Fig.)	12,000
To branch debtors a/c (sales returns)	800		
To branch adjustment a/c (2,400 x 25 /125)	480		
To branch p/l a/c (profit)	1,920		
	68,000		68,000

Branch debtors account

To balance b/d	7,200	By cash a/c	32,000
To branch stock a/c (credit sales)	36,000	By discount allowed	600
		By bad debts a/c	400
		By branch stock ac (sales return)	800
		By balance c/d	9,400
	43,200		43,200

Branch expenses account

To cash a/c	2,400	By branch p/l a/c	3,400
To branch debtors a/c	1,000		
	3,400		3,400

Stock reserve account

To branch adjustment a/c	1,200	By balance b/d (6,000 x 25 /125)	1,200
To balance c/d	2,400	By branch adjustment a/c (12,000 x 25 /125)	2,400

Branch adjustment a/c

To stock reserve a/c	2,400	By stock reserve a/c	1,200
By branch p/l a/c (gross profit)	11,040	By goods sent to branch a/c	11,760
		By branch stock a/c	480
	13,440		13,440

Branch profit and loss account

To branch expenses a/c	3,400	By branch adjustment a/c	11,040
To general p/l a/c (net profit)	9,560	By branch stock a/c	1,920
	12,960		12,960

Problem 13:

Subhash electrical has its branches at Chandigarh and Gwalior to whom goods are invoiced at cost plus 25 % . Following information is available of the transactions at Chandigarh branch for the year ending 31st march , 2016

Opening balance:		Closing balance :	
Stock at invoice price	40,000	Stock at invoice price	?
Debtors	12,000	Debtors	11,000
Petty cash	150	Petty cash	250
Transactions during 2015 -2016		Cash sales	105,000
Goods sent to branch at I.P	420,000	Credit sales	180,000
Goods returned to head office at	15,000	Cash sent for petty expenses	32,000
I.P	350	Bad debts at chandhigarh branch	400
Normal loss at invoice price	3,000	Goods transferred to Gwalior	12,000
Goods pilfered at invoice price	4,000	branch	
Goods lost in fire at invoice price		Under instructions from head	
Insurance company paid to head	3,000	office at invoice price	
office for loss by fire at chandigarh		Insurance charges paid by head	200
		office	
		Goods returned by debtors	500

Prepare branch stock account, branch adjustment a/c, branch p/l a/c and stock reserve a/c

Solution 13:

Branch stock account

To balance c/d	40,000	By cash sales	105,000
To goods sent to branch 420,000		By debtors a/c (credit sales)	180,000
Less: returns 15,000	05,000	By branch adjustment a/c (normal loss)	350
To branch debtors a/c (sales returns)	800	By branch adjustment a/c (loading of abnormal loss)	1,400
		By branch p/l a/c (cost of abnormal loss)	5,600
		By branch adjustment a/c (loading of transfer)	2,400
		By goods sent to branch a/c (cost of transfer)	9,600
		By balance c/d	141,150
	445,500		445,500

Branch adjustment account

To branch stock a/c	350	By stock reserve a/c	8,000
To branch stock a/c	1,400	By goods sent to the branch a/c	81,000
To branch stock a/c	2,400		
To stock reserve a/c	28,230		
To branch p/l a/c (gross profit)	56,620		
	89,000		89,000

Branch profit and loss account

To branch petty expens es	31,900	By branch adjustment a/c (gross profit)	56,620
To branch stock a/c	5,600	By insurance claim	3,000
To bad debts a/c	400		
To insurance charges a/c	200		
To branch p/l a/c (net profit)	21,520		
	59,620		59,620

Stock reserve account

To branch adjustment a/c	8,000	By balance b/d	8,000
To balance c/d	28,230	By branch adjustment a/c	28,230

Branch debtors account

To balance b/d	12,000	By cash a/c (bal. Fig.)	180,100
To branch stock a/c	180,000	Byh branch expenses (bad debts)	400
		By branch stock a/c (sales return)	500
		By balance c/d	11,000
	192,000		192,000

Petty cash account

To balance b/d	150	By branch p/l a/c (bal.fig.)	150
To cash a/c	32,000	By balance c/d	32,000
	32,150		32,150

Goods sent to branch at invoice price but sold at selling price i.e., more than invoice price.

Goods supplied by the head office to the branch may be invoiced at cost plus a fixed percentage of profit on cost. Here too, the load included in the value of opening stock, closing stock and goods sent to branch minus the returns from branch to the head office is treated in the same way as in the case of a branch, where the goods are supplied by the head office at selling price. It should be carefully noted that under this method, the branch stock account does not balance because the sales made by the branch are credited to the branch stock account at their selling price which is usually higher than the invoice price of the goods. Except, sales, all the other items in this account are debited and credited at the price at which they are invoiced by the head office. Therefore, branch stock account will always , under the above method, show a credit balance and the same is taken to be apparent profit on goods sold. This profit is transferred to branch adjustment account. The drawback of this method is that it does not disclose the shortage or surplus in the branch stock account.

Problem 14:

A company with its head office at Calcutta has branches at Bombay and Delhi. Goods are invoiced to the branch at cost plus 33 1/3% which is the selling price. Following information is given in respect of Delhi branch for the year ended 31st march , 2016:

Goods sent to branch at I.P	480,000	Stock – closing at I.P	48,000
Stock at branch at I.P – opening	24,000	Branch debtors – closing	36,500
Cash sales	176,000	Collection from debtors	266,000
Returns from customers	6,000	Branch debtors cheques returned	5,000
		dishonoured	
Branch adjustment a/c (cr.)	6,000	Transfer from delhi branch to	
(stock reserve on opening			4,000
		Bombay branch	
stock)	54,500	Agreed allowances to customer	
Branch expenses of which non -		off selling price already adjusted	300
recurring Rs 1,000 paid by H.O	700	while invoicing	
Normal loss at I.P	10,000		
Goods lost in transit at I.P	9000		
Claim recoverable from the			
insurance co for loss in transit	4,000		
Goods returned by branch			
debtors direct to H.O	38,000		
Branch debtors – opening	1,000		
Discount allowed	1,500		
Bad debts			

You are required to prepare the necessary accounts under stock and debtors system to reveal the profit of the branch for the year 2015-16

Solution 14:

Branch stock account

To balance b/d	24,000	By cash sales a/c	176,000
To goods sent to branch a/c	480,000	By debtors a/c (credit sales)	280,000
To branch debtors a/c (sales returns)	6,000	By branch adjustment a/c (normal loss)	700
To branch adjustment a/c (apparent profit) (bal. Fig.)	9,000	By branch adjustment a/c (agreed allowances)	300
		By branch adjustment a/c (loading of abnormal loss)	2,500
		By branch p/l a/c (cost of abnormal loss)	7,500
		By branch adjustment a/c (loading of transfer)	1,000
		By goods sent to branch a/c (cost of transfer)	3,000
		By balance c/d	48,000
	519,000		519,000

Branch debtor's account

To balance b/d	30,000	By goods sent to branch (cost of goods returned direct to H.O)	3,000
To bank (cheque dishonoured)	5,000	By branch adjustment a/c (loading of goods returned direct to H.O)	1,000
To branch stock a/c (bal. Fig.)	280,000	By branch stock a/c(sales returns)	6,000
		By discount allowed	1,000
		By bad debts a/c	1,500
		By cash a/c	266,000
		By balance cd	36,500
	315,000		315,000

Branch expenses account

To cash a/c	54,500	By branch adjustment a/c (non-recurrring)	1,000
To branch debtors a/c	2,500	By branch p/l a/c (recurring)	56,000
	57,000		57,000

Branch adjustment a/c

To stock reserve a/c	12,000	By balance b/d (stock reserve)	6,000
To branch stock a/c (normal loss)	700	By goods sent to branch	120,000
To branch stock a/c (agreed allowance)	300	By branch stock a/c (apparent profit)	9,000
To branch stock a/c (loading of abnormal loss)	2,500		
To branch debtors a/c	1,000		
To branch expenses a/c (non- recurring)	1,000		
To branch stock a/c (transfer)	1,000		
To branch p/l a/c (gross profit)	116,500		
	135,000		135,000

Branch profit and loss account

To branch expenses a/c	56,000	By branch adjustment a/c	116,500
To branch stock a/c (cost of abnormal loss)	7,500	By insurance co. (insurance claim recoverable)	9,000
To general p/l a/c (net profit)	62,000		
	125,500		125,500

Goods sent to branch account

To branch adjustment a/c (loading)	120,000	By branch stock a/c	480,000
To branch debtors a/c (cost of goods returned to H.O)	3,000		
To branch stock a/c(transfer)	3,000		
To trading a/c	354,000		
	480,000		480,000

Problem 15:

Sellwell ltd. has two branches, in cochin and Bangalore. During the year ended 31st March, 2015 goods have been invoiced to the cochin branch at 20 % above cost and to the Bangalore branch at 25 % above cost. The branches do not maintain complete books of accounts but the following figures are available for the year ended 31st March, 2016.

	Cochin	Bangalore
Opening stock at invoice price	10,000	10,000
Goods sent to branch at cost	50,000	40,000
Amount remitted by branch	80,000	80,000
Amount remitted by head office	15,000	15,000
Goods returned by branch at invoice price	3,000	-
Cash as on 1-4-2015	2,000	1,000
Cash as on 31-3-2016	1,000	500
Goods returned by customers at branch at selling price	5,000	4,000
Expenses at branch in cash	5,000	3,000

All sales at the branches are for cash. During the year, cochin branch purchased fixed assets worth Rs 4,000 and this amount is included in the figure of branch expenses. Cochin branch transferred to the Bangalore branch stock costing Rs 5,000 during the year. Bangalore branch remitted Rs 2,000 to cochin branch also during the year. There was a closing stock of Rs 24,000 valued at invoice price at the cochin branch. There was no closing stock at the Bangalore branch. Branch stock adjustment account in the head office books showed the following position as on 1st April, 2015. For cochin – Rs 2,500 (Cr.) ; for Bangalore Rs 2,000 (Cr.).

Prepare branch stock account, branch adjustment account, goods sent to branch account, branch cash account and branch profit and loss account in the head office books ignoring depreciation.

Solution 15:

In the books of Sellwell ltd.

Branch stock account

	Bangalore	Cochin		Bangalore	Cochin
To opening stock	10,000	10,000	By branch cash a/c	76,000	73,500
To goods sent to branch a/c (invoice bill)	60,000	50,000	By goods sent to branch (Returns)	3,000	-
To branch cash a/c (goods returned)	5,000	4,000	By goods sent to branch transfer (5,000 + 20 % of 5,000)	6,000	-
To goods sent to branch transfer (5,000 + 25 % of 5,000)	-	6,250			
To branch adjustment a/c (apparent profit over invoice price) (bal. Fig.)	34,000	3,250	By closing stock a/c	24,000	-
	109,000	73,500		109,000	73,500

Branch adjustment account

To goods sent to branch (loading on returns) (1,000 on transfer + 500 on returns to H.O)	1,500	-	By balance b/d (reserve)	2,500	2,000
To branch p/l a/c (profit)	41,000	16,500	By goods sent to branch a/c (loading) (1/6 of 60,000) (1/5 of 50,000 + 1,250 on transfer)	10,000	11,250
To balance c/d (1/6 of Rs 24,000)	4,000	-	By branch stock a/c	-	3,250
	46,500	16,500		46,500	16,500

Goods sent to branch account

To branch stock a/c (returns)	3,000	-	By branch stock a/c	60,000	50,000
To branch stock a/c (transfer)	6,000	-	By branch stock a/c (transfer)	-	6,250
To branch adjustment a/c	10,000	11,250			
To purchases(bal. Fig.)	42,500	45,000	By branch adjustment a/c	1,500	-
	61,500	56,250		61,500	56,250

Problem 16 :

Premier company has two branch retail shops X and Y, with a separate manager. The ratio of gross profit to selling price is constant at each shop at 25 % throughout the year to 31st march, 2016.

Each branch manager is entitled to a commission of 10 % of the net profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 15 % of any ascertained deficiency of the branch stock. All goods are supplied by the head office to these branches. From information given below, calculate the commission due to each manager for the year 2015-16.

	Branch X	Branch Y
Stock at 1-4-2015 cost	18,684	12,484
Goods to branches at cost	72,420	43,480
Sales	90,320	58,560
Drawing of commission a/c by manager	500	300
Miscellaneous expenses	12,280	9,020
Stock at 31-3-2016 at cost	20,832	10,952

Solution 16:

In the books of premier co.

Branch trading account

	Branch X	Branch Y		Branch X	Branch Y
To opening stock	18,684	12,484	By sales	90,320	58,560
To goods sent to branches a/c	72,420	43,480	By closing stock	20,832	10,952
To gross profit c/d (25 % of sales)	22,580	14,640	By branch p/l a/c	2,532	1,092
	113,684	70,604		113,684	70,604

Branch P/l a/c

To miscellaneous expenses	12,280	9,020	By gross profit b/d	22,580	14,640
To trading a/c	2,532	1,092			
To net profit c/d	7,768	4,528			
	22,580	14,640		22,580	14,640

Computation of manager's commission due

	Branch X	Branch Y
Commission @ 10 % of net profit	777	453
Less: penalty 15 % for shortage of stock	380	164
	397	289
Less: drawing of commission	500	300
Commission overdrawn	103	11

9.5 Distinction between wholesale and retail profit at branch

Sometimes head office also sells goods at retail or list price besides sending the goods to branches at wholesale prices. The difference between the retail price and wholesale price will be the profit made by the branch. Suppose, if an article costs to head office Rs 100 and it is supplied to the branches at Rs 160 at wholesale price but both head office and branches sell goods at Rs 200, then, profit made by the branch will be Rs 40 (200 – 160) and not Rs 100 (200- 100)

The goods are sent by the head office to the branches at wholesale prices and if all the goods are sold there is no problem but if some goods remain unsold at the end of the accounting year, these unsold goods at the branches must be reduced to cost price by making a stock reserve for unrealised profit for the difference between the wholesale and cost price and will be debited to the head office and p/l a/c ,a s previously the head office must have earned profit while sending goods to the branches .

Problem 17:

Following is the information of the Jammu branch of best ltd. , New Delhi for the year ending 31st march, 2016 from the following:

1. goods are invoiced to the branch at cost plus at 20%
2. the sales price is cost plus 50 %
3. other information: stock as on 1-4-2015 at I P Rs 220,000 ; goods sent during the year at IP Rs 11,00,000 ; sales during the year Rs 12,00,000 expenses incurred at the branch Rs 45,000

Ascertain the profit earned by the branch during the year and prepare the branch stock reserve in respect of unrealised profit.

Solution 17:

Calculation of profit earned by the branch

In the books of Jammu branch

Trading account

To opening stock	220,000	By sales	12,00,000
To goods received from H.O	11,00,000	By closing stock	360,000
To expenses	45,000		
To gross profit	195,000		
	15,60,000		15,60,000

Stock reserve in respect of the unrealised profit

= Rs 360,000 x 20 /120 = Rs 60,000

Working note:

Cost price	100
Invoice price	120
Sales price	150

Calculation of closing stock at invoice price

Opening stock at invoice price	220,000	
Goods received during the year	11,00,000	
		13,20,000

Less: cost of goods sold	960,000
Closing stock	360,000

Problem 18:

A head office sends goods to its branch and dealers at 20 % less than the list price. Goods are sold to customers at cost plus 100 %. From the following particulars ascertain the profit made at the head office and branch on the wholesale basis:

	Head office	Branch
Opening stock at cost (at wholesale price in case of branch)	40,000	32,000
Purchases	200,000	-
Goods sent to branch (wholesale price)	96,000	-
Goods sold to dealers	50,000	-
Sales	170,000	80,000
Sundry expenses	14,000	8,000

Solution 18:

Let cost price be Rs 100

List price be Rs 200

Wholesales price be Rs 160

Trading and profit and loss account

	H.0	Branch		H.0	Branch
To opening stock	40,000	32,000	By sales	170,000	80,000
To purchases	200,000	-	By goods sent to branch a/c	96,000	-
To goods from H.O	-	96,000			
			By goods sold to dealers	50,000	-
To gross profit c/d	131,000	16,000	By closing stock a/c	55,000	64,000
	371,000	144,000		371,000	144,000
To sundry expenses	14,000	8,000	By gross profit b/d	131,000	16,000
To stock reserve			By stock reserve a/c	12,000	-
closing branch stock a/c	24,000	-	(32,000 x 60 /160)		
(64,000 x 60 /160)					
To net profit c/d	105,000	8,000			
	143,000	16,000		143,000	16,000

Working notes:

Calculation of closing stock	H.O	Branch
Opening stock at cost	40,000	32,000
Purchases at cost	200,000	-
Goods from H.O (Whole sales price)	-	96,000
	240,000	128,000
Less: cost of goods sent to branch (96,000 x 100 /160)	60,000	-

	180,000	128,000
Less: cost of sales to outsiders		
(wholesale price in case of branch)		
100/200 of Rs 170,000 85,000		
160/200 of Rs 50,000 40,000	125,000	64,000
Closing stock	55,000	64,000

Problem 19 :

A head office sends goods to its branch at cost plus 10 %. On other sales the head office makes a uniform profit of 33 1/3 %.

The branch sells goods at a uniform profit of 25 % . Following transactions took place during the year ended 31st march, 2016.

1. Head office purchases amounted to Rs 732,000 and purchases returns were Rs 30,825 and discounts allowed by suppliers amounted to Rs 15,045.
2. Sales by head office amounted to Rs 540,000. Goods sent by head office e to branch at invoice price amounted to Rs 272,250. Discounts allowed to customers were Rs 4,950.
3. Goods sent to branch on 31st march, 2016 amounting to Rs 33,000 were in transit.
4. Goods purchased by the branch locally were of Rs 91,312.
5. Establishment and other expenses at head office were of Rs 140,130 and at the branch of Rs 40,238.
6. Sales by the branch amounted to Rs 360,000 ; discount allowed to customers was Rs 2,820 and cost of goods lost in transit was Rs 4,005.
7. Stock of goods at the branch as on 31st march, 2016 included goods received from head office for Rs 57,750.

Prepare a columnar trading and profit and loss account for head office and branch for the year ended 31st march, 2016 .

Solution 19 :

Trading and profit and loss account

For the year ended 31st march, 2016

	H.O	Branch		H.0	Branch
To purchases	701,175	91,312	By sales	540,000	360,000
To goods from H.O	-	239,250	By goods sent to branch	239,250	-
			By branch p/l a/c	-	4,005
To gross profit c/d	201,750	90,000	By closing stock	123,675	56,557
	902,925	420,562		902,925	420,562
To expenses	140,130	40,238	By gross profit b/d	201,750	90,000
To discount allowed	4,950	2,820	By discount received	15,045	-
To branch trading a/c	-	4,005			
To stock reserve a/c	5,250	-			
To net profit c/d	66,465	42,937			
	216,795	90,000		216,795	90,000

Working notes:

Calculation of closing stock at H.O

Purchases	732,000	
Less: Returns	30,825	701,175

Cost of sales :

H.O (540,000 x 2/3)	360,000	
Branch (239,250 x 10 /11)	217,500	577,500
Value of closing stock		123,675

Calculation of closing stock at branch

Branch purchases	91,312	
Goods purchases from H.O	239,250	
Cost of sales of branch sales (360 ,000 – 90,000)		270,000
Goods lost in transit	4,005	
	56,557	

Goods in transit can be included in branch stock also and the adjustments should be made accordingly.

10.2 SUMMARY

With the technological innovations, cut throat competition and modern era, every organisation wants to increase sales for survival and for expansion of the business. In order to increase sales, business houses are required to market their products overa large tentory and may generally split their business into certain divisions or parts. In branch accounting, different branches are opened to increase sales but under the control of head office. There are three types of branches viz; dependent branches, independent branches and foreign branches.

DEBTORS SYSTEM (AT COST PRICE)

1. India Traders, Mumbai opened a branch at Kolkata on 1st January information is available in respect of the branch for the year 2014 :

	₹		₹
Goods sent to branch	65,000	Cash remittance to branch towards petty cash	6,000
Cash sales at the branch	50,000	Petty Cash at branch on 31-12-2014	500
Credit sales at the branch	60,000	Debtors at branch on 31-12-2014	5,000
Salaries of the branch staff paid by head office	15,000	Stock at the branch on 31-12-2014	17,000
Office expenses of the branch paid by the head office	12,000	Cash received from Debtors	55,000
		Goods sent from head office remaining n transit on closing date	10, 000

Prepare Branch Account to show the profit/loss from the branch for the year 2014 :

2. The Mumbai Textiles Ltd. opened a branch at Delhi on 1st January, 2013.From the following particulars, prepare Branch Accounts for 2013 and2014 in books of head office.

	2013	2014
	₹	₹
Goods sent to Delhi	45,000	1,35,000
Cash sent to Branch for :		
Rent	6,000	6,000
Salaries	4,800	6,800
Other expenses	2,000	3,000
Cash received from Branch	70,000	1,60,000
Stock on 31st December	7,000	26,000
	120	260

3. Jain Bros. operate at retail branch at Delhi. All purchases are made by the head office at Chennai; goods being charged out to the branch at cost price. All cash received by the branch is remitted to Chennai. Branch petty expenses are paid out of an *imprest* which is reimbursed by the head office from time to time. From the following particulars relating to Delhi Branch, you are required to prepare Branch Account (for calculating profit) in the books of head office.

	₹		₹
Jan. 1, 2014		Petty expenses paid by the branch out of imprest	700
Stock at cost	8,000	Cash sales during the year	70,000
Petty cash	800	Sales of the Plant on July 1, 2014 (book value of the plant on the date of sale ₹900)	800
Plant	10,000	Expenses paid by the head office	5,000
Dec, 31, 2014 :			
Stock at cost	7,000		
Goods sent to branch	50,000		

It is required to write off the plant at 20% p.a.

4. From the following particulars relating to Patiala branch for the Years ending December 31,2014 prepare Branch Account in the books of Head Office:

		₹		₹
Balances on 1-1-2014 :				
Stock at branch		40,000	Goods sent to branch during the year	2,80,000
Branch debtors		14,000	Cash sales during the year	3,30,000
Petty cash at branch		1,500	Credit sales during the year	1,83,000
Furniture at branch		12,000	Cash received from debtors	1,35,000
Prepaid fire insurance		1,150	Cash paid by the branch debtors direct to Head Office	22,000
Salaries outstanding at branch		2,100	Goods returned by the branch	4,000
Discount allowed to debtors		1,100	Goods returned by the debtors	7,000
Cash sent to branch for expenses :	₹		Stock on December 31	38,000
Rent	12,000		Petty expenses by the branch	2,850
Salaries	5,400		Provide depreciation on furniture at 10% p.a.	
Petty cash	4,000			
Annual Insurance up to March 31, 2015	1,600	23,000		

5. A Patiala head office has a branch in New Delhi. The particulars of the branch for the year ending 31st December, 2014 are given below :

	₹		₹
Opening Stock	10,000	Closing Stock	15,000
Total Sales	1,70,000	Closing Balance of Debtors	20,000
Cash Sales	1,20,000	Opening Balance of Petty. Cash	300
Goods Supplied to Branch	1,00,000	Closing Balance of Petty Cash	100
Returns Outwards (Goods returned by Branch)	5,000	Amount sent by Head Office for Petty Expenses	50
Cheques sent to Branch :		Bad Debts	1,000
Salaries	3,750	Discount	2,000
Rent	2,000	Allowances	3,000
Postage and Stationary	1,000	Goods returned by Customers	4,000
		Cash Collected from Debtors	30,000

6. From the following details relating to Delhi branch for the year ending March 31, 2014, prepare Branch Account in the books of Head office. Show your workings clearly.

Balances as on 1-4-2013:	₹			₹
Stock	25,000	Goods returned by Debtors		1,000
Debtors	10,000	Cash sent to Branch for		
Furniture	6,000	Expenses:	₹	
Petty cash	1,000	Rent (₹ 800 p.m.)	9,600	
Insurance pre-paid	300	Salary		
Salaries outstanding	4,000	(₹ 4,000 p.m.)	48,000	

Goods sent to Branch during the year	2,00,000	Petty cash	2,00	
Cash Sales during the year	2,70,000	Insurance (upto June 2014)	1,200	
Total Sales	3,50,000			60,800
Cash received from Debtors	65,000	Petty Cash Expenses		2,200
Cash paid by Debtors direct to H.O.	5,000	Discount Allowed to Debtors		500
Goods returned by Branch 2,000	2,000	Stock on 31-3-2014		15,000

Depreciation on Furniture at 10% p.a. Goods costing ₹ 2,500 were damaged in transit and a sum of ₹ 2,000 was recovered from the insurance company in full settlement of the claim **The manager is entitled to a commission of 5% of profit at branch after charging such commission.**

7. A Company with its Head Office at Mumbai has a Branch at Kolkata. The Branch receives all goods from Head Office who also remits cash for all expenses. Sales are made by the branch on credit as well as for cash.

Total sales by the Branch for the year ended 31st March, 2014 amounted to ₹ 5,60,000 out of which 20% is cash sales. Following further information is relevant.

	1-4-2013	31-3-2014
	₹	₹
Stock in trade	25,000	36,000
Debtors	60,000	48,000
Petty Cash	120	180

Expenses actually incurred by the Branch during the year were :

Salaries ₹ 36,000 ; Rent f 12,000 ; Petty expenses ₹ 5,600:

All sales are made by the Branch at cost plus 25%.

You are required to prepare Kolkata Branch Account in the Books of Head Office for the year ended 31st March, 2014.

Hints. Goods sent to branch = Total Sales - Loading + Closing Stock — Opening Stock = ₹ 4,59,000; Collection from Debtors₹ 4,60,000; Cash remitted for branch petty expenses ₹ 5,660.

8. T of Kolkata has a branch at Dibrugarh. The branch does not maintain separate books of accounts. The branch has the following assets and liabilities on 31st August, 2014 and 30th September. 2014 :

	31st August, 2014	30th September, 2014
	₹	₹
Stock of tea	1,80,000	1,50,000
Advance to Suppliers	5,00,000	4,50,000
Bank Balance	75,000	1,00,000
Prepaid Expenses	10,000	12,000
Outstanding Expenses	13,000	11,000
Creditors for Purchases	3,00,000	to be ascertained

During the month, Dibrugarh branch :

(a) received by electronic mail transfer 10,00,000 from Kolkata head office;

(b) purchased tea worth 12,00,000;

(c) sent tea costing 12,30,000 to Kolkata, freight of 80,000 being payable at the destination by the receiver;

(d) spent ₹ 25,000 on office expenses;

(e) paid ₹ 3,00,000 as advance to suppliers;

(f) paid ₹ 6,50,000 to suppliers in settlement of outstanding dues.

In addition. T informs you that the Kolkata office had directly paid 3,50,000 to Dibrugarh suppliers by cheques drawn on bank accounts in Kolkata during the month. T informs you that for the purpose of accounting, Dibrugarh branch is not treated as an outsider. He wants you to write the following accounts relating to the transactions of the Dibrugarh branch as would appear in the books of Kolkata head office. Dibrugarh Tea Stock Account ; (ii) Advance to Dibrugarh Suppliers' Account ; (iii) Dibrugarh Suppliers' Account ; (iv) Dibrugarh Bank Account ; (v) Dibrugarh Branch Expenses Account.

DEBTORS SYSTEM (AT INVOICE PRICE)

9. Mr. Almustfa has a branch in Chandigarh where goods are sent with loading of 20% on cost. HO keeps all records, show Chandigarh Branch A/c in the books of Head office with following information :

	₹		₹
Opening Stock (at IP)	12,000	Debtors (Closing)	4,580
Closing Stock (at IP)	9,000	Goods received from H.O.	15,000
Credit Sales 20,500	20,500	Goods in Transit (Clossing)	1,800
Cash Sales	8,750	Expenses paid by H.O.	5,200
Receipts from Debtors	18,950		

Hint : Debtors (opening) ₹ 3,030]

10. X company has its branch at Lucknow. Goods are invoiced to this branch at cost plus 25%. From the following details, prepare Branch Account in the books of head office showing branch profit.

	₹		₹
Credit Sales	11,200	Rent (paid by Head Office)	1,800
Goods supplied to Branch	38,000	Discount allowed to Customers	400
Cash Sales	24,800	Goods Spoiled	100
Cash received from Debtors	10,000	Sundry Expenses (paid by Branch)	200
Wages (paid by Head Office)	1,520	Goods returned by Customers	200

11. Han & Co. sends goods to branch at cost plus 40%. Goods are sold to customers at invoice Price. Following particulars are available for the year 2014 :

	1-1-2014 ₹	31-12-2014 ₹		31-12-2014
Branch Stock	50,000	18,000	Credit Sales	1,71,000
Branch Debtor	18,000	25,000	Cash for Expenses	18,000
Branch Furniture	6,000		Goods returned by Debtors	20,000
Outstanding Expenses	2,000	-----	to Branch	
Prepaid Insurance	--------	1,000	Goods returned by Branch	20,000
During 2014	--------		to H.O.	
Goods sent to Branch	--------	1,60,000	Bad Debts	1,000
Goods received by Branch	--------	1,50,000	Depreciation on Branch Furniture	2,000

Prepare Branch Account in the books of Head Office

Hint. Cash Received from Debtors ₹ 1,43,000; Goods in Transit ₹ 10,000

12. C Ltd. of Kolkata has a branch at Delhi. The goods are invoiced to the branch at selling price which is cost plus 33 From the following particulars, make out Branch A/c to show the profit or loss of the branch :

		₹		₹
Stock on 1st January, 2014			Cash received from debtors	40,000
(Invoice Price)		15,000	Bad debts written off	250
Debtors on 1st January, 2014		11,400	Discount allowed to customers	300
Goods invoiced to branch during			Expenses at branch	6,700
the year (Invoice Price)		67,000	Stock on 31st December, 2014	
Sales at Branch			(Invoice Price)	13,400
Cash	31,000			
Credit	37,400	68,400		

13. Ram and Rahim have a branch at Chennai. Goods are invoiced at 25% above cost to branch. From the following transactions prepare Branch Account in the Head Office books

	₹		₹
Stock at branch at invoice price		Bad debts at Branch	1,800
on 1-1-2014	7,600	Branch expenses remitted by	
Debtors at branch on 31-12-2014	4,800	Head Office	
Goods sent to branch at invoice price	58,000	Salaries	2,000
Cash sales (cash remitted to		Rent	5,000
Head Office)	24,000	Trade expenses	2,500

Credit sales	46,000	Goods returned to Head Office	4,500
Cash received from branch debtors		Stock at branch at invoice price	
remitted to Head Office	43,000	on 31-12-2014	3,600
Discount to debtors	2,600		

14. Head Office of a company invoices goods to its Delhi Branch at cost plus 20%. The Delhi Branch also purchases independently from local parties goods for which payments are made by the Head Office. All the cash collected by the Branch is banked on the same day to the credit of the Head Office and all expenses are directly paid by the Head Office except for a petty cash account maintained by the branch for which periodical transfer are made from the Head Office.

From the following particulars show Branch Account as maintained in the Head Office books, reflecting the branch profit for the year ended 31-12-2014 :

Petty Cash Balances :			
1-1-2014 2,000	2,000	Sundry Debtors on 31-12-2014	24,000
31-12-2014 1,850	1,850	Goods sent to Branch from	
Cash received from Debtors	1,25,000	H.O. at invoice price	60,000
Stock on 1-1-2014:		Transfer from H.O. for petty	
Transfer from H.O.		cash expenses	2,500
at invoice price	24,000	Bad Debts	1,000
Directly purchased		Discounts to customers	2,000
Branch	16,000	Branch expenses	30,000
Cash Sales	45,000	Stock on 31-12-2014:	
Credit Sales	1,30,000	Transferred from H.O.	
Direct Purchases	45,000	at invoice price	18,000
Returns from Customers	3,000	Directly purchased by	
		Branch	12,000

15. XYZ Company is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office.

All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars prepare Branch Account in the books of Head Office :

	₹		₹
Stock on 1st April 2013 (Invoice price)	30,000	Discount allowed to Debtors	160
		Expenses paid by Head Office :	
Sundry Debtors on 1st April 2013	18,000	Rent	1,800
Cash in hand as on 1st April, 2013	800	Salary Stationery & Printing	3,200
Office Furniture on 1st April, 2013	3,000	Petty Expenses paid by the Branch	800
Goods (invoiced from the Head Offic Invoice Price)	1,60,000	Depreciation to be Provided on Branch Furniture at 10% p.a.	600
Goods return to Head Office (I.P.)	2,000	Stock on 31st March, 2014 (at Invoice Price)	28,000
Goods return by Debtors	960		
Cash received from Debtors	60,000		
Cash Sales	1,00,000		
Credit Sales	60,000		

16. Rama Traders opened a branch at Chennai on 1st July, 2014. Goods are sent from the head office at cost plus 25%. The branch is advised to deposit cash every day in the bank in head office account. From the following particulars prepare Branch Account in the books of Head Office for the period ending December 31, 2014. Petty cash at branch is maintained on imprest system.

	₹		₹
Cash sent to branch for meeting petty expenses	1,500	Cash sales by the branch	80,000
		Credit sales during 6 months	30,000
Furniture purchased for the branch	12,000	Cash received from the debtors	22,000
		Discount allowed to debtors	400
Goods sent to branch at invoice price	1,60,000	Goods returned by debtors (at invoice price)	800
Expenses paid by the head office :		Bad debts written off	100
		Petty expenses paid by the branch	1,000
Rent	2,200	Stock at cost on December 31 (excluding stock received from debtors)	32,000
Advertisement	800		
Salaries	4,600		
Insurance (Annual paid up to June 30, 2015)	400	Provided depreciation on furniture at 10% p.a.	

17. Bauxite Industries, Mumbai has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from Head Office and the Branch has to remit all cash received into the Head Office Bank Account at Cochin. From

the following details relating to year 2013-14, prepare Branch Account in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account but sends weekly returns to the Head Office

	₹		₹
Goods received from Head Office at invoice price	6,00,000	Cash received from Debtors	3,20,000
Returns to Head Office at invoice price	12,000	Discount allowed to Debtors	6,000
Stock at Cochin as on 1-4-2013	60,000	Bad Debts in the year	4,000
Sales in the year (Cash)	2,00,000	Sales Returns at Cochin Branch	8,000
—do— (Credit)	3,60,000	Rent, Rates, Taxes at Branch	18,000
Sundry Debtors at Cochin as on 1-4-2013	72,000	Salaries, Wages, Bonus at Branch	60,000
		Office Expenses	6,000
		Stock at Branch on 31st March, 2014 at invoice price	1,20,000

18. A company with its Head Office at Kolkata has a Branch at Chennai. The Branch receives all goods from Head Office who remits cash for all expenses. Total Sales by Branch for year ended 31-3-2014 amounted to 6,50,000 out of which 75% on credit. Other details for Chennai Branch were as under :

Particulars	1-4-2013	30-3-2014
Stock	4,000	30,000
Debtor	45,000	30,000
Petty Cash	250	

Petty Cash sent by Head Office f 3,000 but 2,500 is spent for Petty Expenses. Expenses of 45,000 are actually spent by Branch. All sales are made by the Branch Cost plus 25%. You are required to prepare the Chennai Branch A/c in the Books of Head Office for the year ended 31-3-2014.

19. Pawan & Co. of Delhi has a branch at Jaipur. Goods are invoiced to the branch at cost pitlf 25%. The branch is instructed to deposit the receipts everyday in the Head Office Account with the bank. All the expenses are paid through cheques by the head office except petty cash expenses which are paid by the Branch.

From the following information, you are required to prepare Branch Account in the of Head Office :

Stock at Invoice Price on 1-4-13	1,64,000	Goods Invoiced to Branch by Head Office	12,56,000
Stock at Invoice Price on 31-3-14	1,92,000	Expenses paid by Head Office	2,64,000
Debtors as on 1-4-13	63,400	Petty Expenses paid by the Branch	20,900
Debtors as on 31-3-14	84,300	Furniture acquired by the Branch on 1-10-13 (Payment was made by the branch from cash sales and collection from debtors)	5,000
Furniture & Fixtures as on 1-4-13	46,800		
Cash Sales	8,02,600		
Credit Sales	7,44,200		

Depreciation to be provided on branch furniture and fixtures @ 10% p.a. on WDV basis.

20. X Ltd., Mumbai, started on 1st April, 2013, has two branches at Kanpur and Lucknow. goods sold at the Branches are received from the Head Office invoiced at cost plus 25%. expenses relating to Branches are paid by the Head Office. Each Branch has its own Ledger and sends weekly statements. All cash collections are remitted daily to Head Office by the Branches. Following particulars relating to the year ended 31st March, 2014 have been extracted from the weekly statements sent by the Branches :

	Kanpur ₹	*Lucknow* ₹
Credit Sales	1,25,200	1,10,000
Cash Sales	78,600	85,200
Sales Returns	2,300	1,200
SundryDebtors	34,500	23,600
Rent and Rates	3,200	4,500
Bad Debts	6,000	-------
		1,
Salaries		18,000
General Expenses		1,500
Goods received from H.O.		1,25,000
Advertisement		5,200
Stock on 31st March, 2014		35,000

You are required to prepare Branch Accounts as they would appear in the books of Head Office, showing the Profit or Loss for the period.

21. S.P. who carried on a retail business opened a beanch X on 1-1-2014 where all sales wereon credit basis. All goods required by the breanch were supplied

from the Head Office and were invoiced to the branch at 10% above cost. Following were the transactions during 1-1-2014 to 31-3-2014.

	Jan ₹	Feb ₹	March ₹
Goods sent to Branch (Purchase price)		50,000	60,000
Sales as shown by the branch monthly reports		42,000	55,000
Cash received from Debtors and remitted to H.O.		51,000	35,000
Returns to H.O. (Invoice Price to Branch)		800	2,400

The stock of goods held by the branch on March 31, 2014 amounted to 53,900 at invoice price to branch. Record these transactions in the Head Office books, showing balances as on 31st March, 2014 and the branch gross profit for the three months ended on that date. All workings should form part of your answer.

22. A business has three branches at Coimbatore, Trivandrum and Bangalore. The Head Office at Chennai purchases goods and sends them to branches, to be sold at a uniform percentage of profit on cost. Following particulars are made available to you to enable you to prepare a combined Trading Account for the year ended 31st March, 2014 :

POSITION
as on 31st March, 2014

	Chennai ₹	Coimbatore ₹	Trivandrum ₹	Bangalore ₹
Stock on 1st April, 2013	54,000	16,000	12,5000	10,000
Purchases during the year	2,74,000			
Sales	-------	1,80,000	1,20,000	1,00,000
Stock on 31st March, 2014	28,000	6,000	5,000	2,500
Branch Accounts :				
Coimbatore	15,000			
Trivandrum	32,000			
Bangalore	4,000			
Remittances from branches	3,20,000	1,50,000	1,00,000	70,000

Chennai Office invoices goods to the branches at fixed sales prices but maintains branch accounts in its ledgers at cost price. Show Branch Accounts in Chennai Head Office Books.

23. Jaico Limited invoices goods to its Kanpur Branch at cost plus 25% thereon. Both Cash and Credit Sales are effected by the branch. The branch expenses are paid direct from the H.O. The details of transactions available for the year ending 31st March, 2014 are :

	₹		₹
Goods received at Kanpur from Head Office at invoice price	40,000	Cash received from Debtors	29,500
Returns to Head Office at invoice price	800	Discounts allowed to customers	300
Stock at Kanpur on 1st April, 2013 at invoice price	8,000	Returns from customers at selling price	700
Credit Sales for the year	30,000	Rent, Rates etc.	60
Cash Sales	18,700	Salaries and Wages	1,200
Debtors as on Ist April, 2013	5,200	Sundry Expensesz	300
Bad Debts	500	Stock as on 31st March, 2014 at invoice price	6,000

Record the above transactions in the Branch Account in the Head Office Ledger and cisme the accounts as on 31st March, 2014 and show how the relevant items will appear in de Head Office's Balance Sheet on that date.

FINAL ACCOUNTS SYSTEM

24. Mamta Co. of Hyderabad has a Branch at Karnool. Goods are invoiced to Branches at cat plus 20%. The expenses of the branch are paid from Hyderabad. From the information supplied by the Branch, prepare Trading and P. & L. A/c of the Branch for the year ending 31-3-2014 and show the account of the Branch as it would appear in the books of the Heed Office :

	₹		₹
Opening Stock (Invoice price)	24,000	Goods in transit from H.O. as on 31-3-2014	3,500
Closing Stock (Invoice price)	18,000	Expenses paid by the H.O. for the branch	10,000
Credit sales	41,000	Cash received from Debtors	35,000
Cash sales	17,5000		
Sundry Debtors on 31-3-2014	8,500		
Goods received from Head Office	34,000		

STOCK AND DEBTORS SYSTEM

25. X Ltd. of Mumbai has a branch in Delhi. The Head Office sends goods to the branch at coat plus 50%. From the following data, prepare the necessary accounts in the books of Head Office under Stock and Debtors' system :

	₹		₹
Goods sent from Head Office (at invoice price)	50,000	Credit Sales	8,000
Return to Head Office	1,000	Stock at the beginning of the Year	10,000
	35,500	Stock at the close if the year	11,000

26. Record the following transactions concerning the Delhi Branch for the yea' ended December, 31, 2014 in the Head Office books. The head-office uses the 'Stock and Debt-m-s system for recording transactions with and at the branch.

	₹		₹
Stock at Branch (1-1-2014)	20,000	Cash remitted to the Branch for expenses	8,000
Debtors at Branch (1-1-2014)	9,000	Cash collected from debtors	57,000
Goods sent to the Branch during the year	1,10,000	Discount allowed to them	1,100
	30,000	Stock at Branch (31-12-2014)	38,000
Cash Sales at the Branch	10,900	Petty Cash at Branch at the end of the year	100
Debtors at the end			

The Branch remits all the cash collected to the head-office and has instructions to sell the goods at the invoice price , i.e., cost plus 25%. Opening and closing stocks and goods sent to the Branch are all at invoice price.

27. From the following figures for a year relating to the Delhi Branch of a H.O. which invoices goods to its branch at cost plus 100%, prepare :

(i) Branch Account; (ii) Branch Stock Account; (iii) Branch Debtors Account; and (iv) Branch Adjustment and (v) Profit & Loss Account.

Transactions during the year :

	₹		₹
Goods Invoiced to Branch	1,00,000	Discount Allowed to Branch Debtors	5,000
Goods Received by Branch	1,10,000		
Cash sent for Expenses	25,000	Goods Returned by Branch Debtors Direct to H.O.	20,000
Actual Expenses at Branch	28,000		
Cash Expenses at Branch	27,000	Closing Balances :	
Sales (at Invoice Price)	1,40,000	Branch Stock	30,000
Cash Received form, Debtors	1,25,000	Branch Debtors	20,000

28. X Ltd. has a retail branch at Allahabad. Goods are sent by the head office to the branch marked a selling price which is cost plus 25%. All the expenses of the branch are paid by the head office. All cash collected by branch (from customers and cash sales) is deposited to the credit of Head Office A/c. From the following particulars of the branch, prepare Branch Stock A/c,

From the following particulars of the branch, prepare Branch Stock a/c, Branch Debtors ale, Branch Expenses a/c and Branch Adjustments a/c in the books of the head office (all figures in rupees).

	₹		₹
Debtors on 1-1-2014	12,000	Gods Returned to H.O. at I.P.	5,000
Debtors on 31-12-2014	14,000	Salaries paid	6,000
Inventory with Branch		Rent paid	4,000
at I.P. on 1-1-2014	16,000	Discount allowed to Customers	2,000
Inventory with Branch		Bad Debts Written off	1,000
at I.P. on 31-12-2014	17,000	Spoilage at I.P.	2,000
Cash Sales during the year	60,000		
Amount deposited in the H.O.			
A/c during the year	1,27,000		

29. Calico Printers Ltd. opened a shop at Delhi on 1-4-2013. Goods were invoiced at selling price which was fixed by adding 25% to cost. From the following particulars relating to 2013-14,ascertain the profit or loss made in the year by the Stock and Debtors System.

	₹		₹
Goods sent to Branch	11,40,400	Cash remitted to Branch for :	12,000
Sales—Cash	7,50,000	—Rent	60,000
—Credit	2,70,000	—Salaries	7,800
Cash received from Debtors	2,22,400	Sundry Expenses	
Discount allowed	6,6000	Defective Cloth found in Bales	5,200
Goods allowed returned by Customers	7,000	Written off	
Stock at Branch on 31st March	1,22,200		

30. Alok Ltd. invoiced goods to its Coimbatore branch at selling price which is cost plus 25%. From the following particulars, prepare accounts as under Stock and Debtors System :

	₹		₹
Stock at Branch 1-4-2013	7,500	Allowances to Debtors	160
(invoice price)	13,100	Goods returned to Head Office	350
Branch Debtors 1-4-2013		Goods returned by Debtors	290
Goods from Head Office	50,400	Discount allowed	1,200
(invoice price)	16,750	Bad Debts	300
Cash Sales	50,750	Rent and Rates	900
Total Sales	16,550	Salaries and Wages	3,000
Branch Debtors 31-3-2014	6,950	Trade Expenses	650

31. A Ltd. has a retail branch at Kanpur. Goods are sold to customers at cost plus 100%. The wholesale price is cost plus 80%. Goods are invoiced to Kanpur at wholesale price. Fropm the following particulars find out the profit made at Head Office and Kanpur for the year 2014.

	H. O.	Kanpur
Stock on 1-1-2014	25,000	1,800
Purchases	1,50,000	
Goods sent to Branch at wholesale price	54,000	
Sales	1,53,000	50,000
Expenses	8,000	2,000

Sales at Head Office are made only on wholesale basis and that at Branch only to consumers. Stock at Branch is valued at wholesale price.

32. Beta Ltd. having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The brant at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. Plus 100%.

	H. O.	Branch
Opening Stock (as on 1-4-2013)	2,25,000	---
Purchases	25,50,000	---
Goods sent to Branch (Cost to H.O. Plus 80%)	9,54,000	---
Sales	27,81,000	9,50,000
Office Expenses	90,000	8,500
Selling Expenses	72,000	6,300
Staff Salary	65,000	12,000

You are required to prepare Trading and Profit and Loss Account of the Head Office and Branch for the year ended 31st March, 2014.

Unit-III	**Chapter 9- 12**
Course No. 201	**Semester- II**

DEPARTMENTAL ACCOUNTING

11.1. Departmental accounting meaning

11.2 Objectives of departmental accounting

11.3 Advantages of departmental accounting

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DEPARTMENTAL ACCOUNTING

11.1 Departmental accounting meaning

When a business sells different types of goods or carries on several activities under one roof. It is generally split up into a number of departments. This is generally done to have smooth and efficient running of a business. A departmental is generally a physical part of the rest of the business. It is not separated geographically from the other departments, though treated a separate profit entre. When a business is divided into several departments, internal information about operating results of the each department is required . This enables the management to take decisions relating to pricing, closure,etc

After taking into consideration the different rates of growth, profitability and degree of risk of different departments.

11.2 Objectives of departmental accounting

When all the divisions of a business are located under one roof and it is desired to ascertain the profit and loss of each department or class of goods separately, then, the departmental accounts are prepared. The main objective of preparing such accounts are:

1. To have comparison of the results of a particular departments with previous years to ascertain the trends.
2. To know the comparative results of the different departments in the same year.
3. To identify areas of weakness for the cost control and improvement of efficiency.
4. To assess the position of stock in each department.
5. To help the proprietor in formulating policy to expand the business on proper lines so as to optimise the profits of the concern.

6. To allow the departmental manager's commission on the basis of the profits of their departments.

7. To generate information which may be helpful for planning, control, evaluation of the performance of each department and for taking the various managerial decisions.

11.3 Advantages of departmental accounts.

1. The trading results of each department may help to evaluate the performance of the each department. The sales of that department which gives maximum profit may be pushed up by special efforts.

2. The profitability of each department may help the management for taking decision whether to drop a department or add a new one.

3. The growth potentials of a department can be evaluated by having comparison with the other departments.

4. The users of accounting information i.e, the shareholders, investors and creditors etc. can be provided with more detailed information.

5. The overall profits of the organisation can be increased by having friendly rivalries between different departments.

6. The departmental managers and staff can be suitably rewarded on the basis of the departmental results.

7. It helps the management to determine the justification of proper use of capital invested in each department.

8. It helps to have comparison of various examples of each department with the previous period or with other departments of the same concern.

9. It helps to know the efficiency of each department by calculating stock turnover ratio of each department to reveal the fast or slow movement of various items of stock.

10. The information provided by departmental accounts may be helpful to the management for future intelligent planning and control.

11.4 Methods of departmental accounts

The accounting system which is adopted for a departmental organisation depend upon the need to identify the different expenses and revenues of each department so that profits of each may be ascertained accurately. It must be designed in such a manner so that it may be provide maximum information and is simple to understand and operate.

1. Where the separate books of accounts are maintained for each department: This method of accounting is followed in very large organisations or where the maintenance of separate books for each department is compulsory as per some law of the land . For example, general insurance companies in India are required to have separate books of accounts for each type of business, i.e, fire , marine and accident, etc. under this method, each department is treated as a separate unit and accounts are kept independently . Trading results of each department are combined at the end of the year to get the trading results of the organisation as a whole. This method is costly in operation and is rarely used. This is generally employed in large organisation such as large general stores, insurance companies, etc.

2. Where accounts of all the departments are maintained together is columnar books: Under this method, the entire book keeping records are maintained by a central accounts department. This method is generally used in small concerns. A department generally does not maintain a full double entry book keeping system but records are kept in analytical or columnar books relating to purchases, sales, stock, return inwards, return outwards and direct expenses.

   Departments in a particular concern may be classified according to functions, e.g., purchasing selling , finance, production, subsidiary services (transport , packing, repairs, etc.) In order to ascertain the gross profit earned by different departments, departmental trading accounts is prepared in columnar form.

There is no difficulty in ascertaining the figures of opening stock, closing stock, purchases ,sales and direct expenses , if columnar form of books are maintained.

12.1 Departmental expenses

Departmental expenses are divided into two types:-

1. **Direct expenses:** Expenses relating to a particular department are called direct expenses. They are charged to respective department. For example, wages, staff salaries, packaging , material,etc.

2. **Indirect expenses:** Expenses relating to more than one department are called indirect expenses. They are further divided into (a) expenses which can be allocated. (b) expenses which cannot be allocated.

12.2 Allocation of departmental expenses:

1. There are certain expenses which can be specially incurred for a particular department. For example, salary paid to salesman in sales department , may be charged directly to the sales department.

2. There are certain expenses which can be precisely charged to the specific departments as these departments are benefited by these expenses such as lighting will be charged to the departments according to separate meters or on the basis of number of light points.

12.3 Apportionment of departmental expenses

Problems arise only in indirect expenses which are common for the concern as a whole and may be relating to sales, distribution, administration, finance and till these are distributed among the departments on some suitable basis, the net profits of different departments cannot be ascertained. Such expenses which cannot be directly related to a particular department or cannot have precise allocation, may be divided among the different departments as follows:-

1. **Selling expenses:** These expenses include discount allowed, bad debts , selling commission, carriage on sales and should be divided among the different departments on the basis of sales. It must be noted carefully that sales for this purpose also include transfers to other departments.

2. **Building expenses:** Rent and rates, insurance on building , repairs ,etc are expenses which are relating to building or premises and should be distributed among the different departments according to the space occupied by each departments. If any departments is enjoying any special benefit then charge for these expenses must be adjusted according to the special benefit enjoyed by a particular department. Departments having front location must bear more charges than the departments in rear part of the building.

3. **Heating and lighting :** if there are no separate metres, these may be apportioned among the different departments on the basis of points , lamps used, area or inversely to the number of windows.

4. **Power:** It should be apportioned on the basis of probable usage as determined by numbers and types of machines adjusted where necessary according to running hours in absence of separate metres for each department.

5. **Advertising:** It should be apportioned on the basis of advertising space used by the different departments or on the basis of advertisement for the benefit of all departments must be apportioned equally among the departments.

6. **Insurance premium:** It must be seen whether the insurance premium has been paid for stock, premises or loss of profit or workmen's compensation and should be apportioned on the basis of stock carried, proportion of premises occupied, profits earned in the preceding years and wages respectively but if there exists any abnormal features relating to any department, that may be considered while apportioning such expenses . For example, if a department is dealing in oil or its

employees job is more risky as compared to the other departments, then some more amount must be charged to such departments.

7. **Depreciation:** It should be allocated among the different departments on the basis of assets employed in each departments.

8. **Labour welfare expenses:** These should be apportioned among the different departments on the basis of number of employees working in each department.

13.1 Summary table for proper allocation of expenses

Expenses	Basis
1. Sales expenses as travelling salesman salary and commission , selling expenses, after sales service , discount allowed, bad debts, freight outwards, provision for discount on debtors, sales manager's salary and other benefits,etc.	1. sales of each department
2. All expenses relating to building as rent, rates, taxes , air conditioning expenses, heating , insurance of building ,etc.	2. area or value of floor space.
3. Lighting and heating	3. Consumption of energy by each department.
4. Insurance on stock	4. Average stock carried
5. Insurance on plant and machinery	5. Value of plant or machinery
6. Group insurance premium	6. Direct wages
7. Power	7. H.P or H.P X hours worked
8. Depreciation , renewals and repairs	8. Value of assets in each department otherwise on time basis

Expenses	Basis
9. Canteen expenses and labour welfare expenses	9. No. Of employees
10. Works managers salary	10. Time spent in each department
11. Carriage inwards	11. Purchases of each department
12. Interest on loan	12. Utilisation of loan amount in each department
13. Profit and losss on sale of investment	13. Value of investments sold in each department otherwise in combined p/l a/c
14. wages	14. Time devoted to each department

13.2 Difference between branch and department

Branch	Department
1. Branches are separated from the main organisation	1. Departments are attached with the main organisation organisation under a single roof.
2. Branches are outcome of tough competition and expansion of business.	2. Departments are the results of fast human life.
3. Branches are geographically separated	3. Departments are not separated rather existed under a same roof.
4. Branches are of different types such as dependent, independent and foreign branches.	4. There is no such classification in department because all are common under the same roof.
5. Allocation of expenses does not arise.	5. Allocation of departmental common excercises is a tough job.

Branch	Department
6. The reconciliation of different branch account is a main job in departmental accounting to find out the net profit of the organisation.	6. In departmental accounting, no reconciliation is necessary because there is a central account division.
7. Department are made to increase the efficiency of the business.	7. Branch is opened to increase the sale
8. The problem of conversion of foreign currency into home currency does not arise.	8. The problem of conversion of foreign branch figures may be may arise at the time of finalisation of accounts of head office.
9. Department are confined to local business and can grow vertically within the same roof.	9. Branches can be started anywhere in the world. So there can be local and foreign branches.
10. All the accounts are maintained by one place and departmental trading and profit and loss account is prepared accordingly.	10. In case of branch , all branch accounts are kept at head office except cash, customers and stock registers are maintained at branch. But in case of independent branch, all accounts are kept at branch and a branch prepares its own trading and profit and loss account.

13.3 Inter departmental transfers :

Sometimes, goods or employment of staff or performance of services are transferred from one department to another department. As each department is treated as a separate profit centre. So, it is necessary to have separate records for such inter-departmental transfers. Generally, a weekly or monthly departmental transfers analysis sheet is prepared to record all inter- departmental transfers.

13.4 Cost based transfer price:

Under this method, the prices may be based on actual cost or total cost or standard cost or marginal cost. Standard cost is prepared to actual cost as the inefficiency of one department is not allowed to pass to another department. When goods are transferred at full cost, then, fixed cost of supplying department becomes the variable cost of the receiving department.

14.1 Dual pricing:

In order to motivate the both departments the buying and selling departments may be debited and credited respectively with two different prices. For example, the buying department may be debited with cost price and the selling department with the market price.

14.2 Points to be remembered for stock reserve

1. Receiving department must ascertain the unrealised profit in stock. Such profit included in the closing stock must be debited and profit in opening stock must be credited to general profit and loss account as closing or opening stock reserve respectively.

2. Closing stock reserve must be reduced from the closing stock of the receiving department in the balance sheet.

3. Adjustment of stock reserve is made in the general profit and loss account of the receiving department being unrealised profit. Transferring department must have earned the profit on stock transferred.

4. If profit added by transferring department is not given separately, then closing stock reserve must be found on the basis of gross profit on sales and transfer of the transferring department.

5. Information about opening stock reserve may be given in the form of gross percentage to sales of the previous year. If this is not given then assume provision was not made in the previous year. If receiving

department stock includes some other stock purchased from outside, then stock reserve is to be made only on the transferred stock.

15.1 Practical problems

Problem 1:

Following figures for the year ended 31st march, 2016 were extracted from the books of ABC Ltd. having two departments Viz. Radios & Watches.

Stock on 01-04-2015 - Radios 45,000 watches 21,000

salaries 12,600 publicity expenses 8,900

Sales Radios 294,000 watche s 146,000

Purchases Radios 225,000 watches 115,000

Rent, rates & taxes 3,200 commission 10,600

Miscellaneous expenses 5,000 interest received 400

Provision for bad and doubtful debts 800

Prepare departmental trading and profit and loss account for the year ended 31st march, 2016 after taking into account the following:

(i) Stock as on 31st march, 2016 was Radios Rs 30,000 Watches Rs 24,000

(ii) An amount of Rs 1,200 out of sundry debtors of Rs 16,800 has to be written off as bad and the provision for doubtful debts has to be increased thereafter to 10 % of the debts outstanding.

(iii) Following expenses are outstanding as on march 31st, 2016 - Publicity Rs 1,300; Salaries Rs 1,200; Commission Rs 1,700.

(iv) Provide 10 % depreciation on furniture and fixtures of Rs 12,400

(v) Revenue items to be allocated in the ratios of 2 :1 as between Radios and Watches.

Solution 1:

Departmental Trading and Profit and Loss account

For the year ending 31st March, 2016

particulars	radios	watches	Particulars	Radios	Watches
To opening stock	45,000	21,000	By sales	294,000	146,000
To purchases	225,000	115,000	By closing stock	30,000	24,000
To gross profit c/d	54,000	34,000			
	324,000	170,000		324,000	170,000
To salaries	9,200	4,600	By gross profit b/d	54,000	34,000
To publicity	6,800	3,400	By interest (2:1)	267	133
To rent , rates and taxes	2,133	1,067			
To commission	8,200	4,100			
To miscellaneous expenses	3,333	1,667			
To depreciation on furniture	827	413			
To bad debts					
To provision on debtors	800	400			
(Rs 1,560 - Rs 800)	507	253			
To net profit					
	22,467	18,233			
	54,267	34,133		54,267	34,133

Problem 2:

Following is the profit and loss account of Hindustan electronics for the year ending 31st march , 2016

To purchases:		By Sales:	
- Transistors (X)	160,000	- Transistors (X)	175,000
- Tape recorders (Y)	125,000	- Tape recorders (Y)	140,000
- Instruments for repairs (Z)	80,000	- Instruments for repairs (Z)	35,000
To wages	48,000		
To rent	10,800	By Closing Stock:	
To sundry expenses	11,000	- Transistors (X)	60,100
		- Tape recorders (Y)	20,300
To profit	40,200	- Instruments for repairs (Z)	44,600
	475,000		475,000

Other particulars are given below:

a) Transistors and tape recorders have been sold in showroom and repairs ,etc. made in the factory.

b) Apportionment of wages is : showroom ¾ ; factory ¼ ; wages of showroom are to be divided in 1:2 ratio in X and Y departments.

c) Rent of factory is Rs 500 p.m . Rent of showroom is apportioned equally in X and Y departments.

d) Sundry expenses are divided in the sales ratio of the departments.

Prepare departmental trading and profit and loss account.

Solution 2:

Hindustan Electronics

Departmental Trading and Profit and Loss Account

For the year ended 31st march, 2016

Particulars	x	y	z	Particulars	x	y	z
To purchases	160,000	125,000	80,000	By sales	175,000	140,000	35,000
To wages	12,000	24,000	12,000	By closing stock	60,100	20,300	44,600
To gross profit c/d	63,100	11,300	-	By gross lossc/d	-	-	12,400
	235,100	160,300	92,000		235,100	160,300	92,000
To gross loss b/d	-	-	12,400	By gross profit b/d			
To rent	2,400	2,400	6,000		63,100	11,300	-
To sundry expenses	5,500	4,400	1,100	By net loss c/d	-	-	19,500
To net profit c/d	55,200	4,500	-				
	63,100	11,300	19,500		63,100	11,300	19,500

Working notes:

Allocation of wages 48,000

Shop 36,000 [48,000 x ¾] repairs (Z) 12,000[48,000 x ¼]

X 12,000[36,000 x 1/3] Y 24,000 [36,000 x 2/3]

Distribution of total rent

Total rent = Rs 10,800

Rent of Z = Rs 500 x 12 = Rs 6,000

Rent of X and Y = Rs 10,800 – Rs 6,000 = Rs 4,800

(x)Rs 2,400 [4,800 x ½]   (Y) Rs 2,400 [4,800 x ½]

Distribution of sundry expenses

Rs 11,000 to be distributed in the ratio of 5:4:1 among three departments.

Problem 3:

Following purchases were made by good luck & co. having three departments.

Departments A 1,500 units

Departments B 2,500 Units   at a total cost of Rs 118,000

Departments C 3,000 units

Stocks on 1st April, 2015

Departments A – 150 Units

Departments B – 200 Units

Departments C – 250 Units

Sales during 2015-16

Departments A – 1,400 Units @ Rs 18 each

Departments B – 200 Units @ Rs 24 each

Departments C – 250 Units @ Rs 30 each

The rate of gross profit is the same in each case. Other expenses were:-

Salaries	Rs 18,200	interest paid	Rs 2,730
Printing	Rs 4,555	Depreciation	Rs 3,640
Rent	Rs 2,000		

Allocate rent in the ratio of 2:2:1 and other expenses in the ratio of departmental gross profits.

Prepare departmental trading and profit and loss account.

Solution 3:

Departmental Trading and Profit and Loss Account

For the year ended 31st March, 2016

Calculation of purchases and purchases per unit

Dept.	Sales unit	Ratio of sales unit	Purchases unit	Assumed purchases	Actual purchases
A	18	3	1,500	4,500	18,000
B	24	4	2,500	10,000	40,000
C	30	5	3,000	15,000	60,000
				29,500	118,000

To interest	420	960	1,350				
To depreciation	560	1,280	1,800				
To net profit c/d	3,120	8,160	12,200				
	8,400	19,200	27,000		8,400	19,200	27,000

Purchases per unit

A = 18,000/1,500 = 12, B = 40,000/2,500 = 16, C = 60 ,000 / 3,000 = 20

Calculation of closing stock units = opening stock units + purchases units – sales units.

Problem 4:

A firm has two departments X and Y received goods from department X as its raw materials. Department X supplied the said goods to Y at cost price. From the following particulars , you are required to prepare a departmental trading and profit and loss account for the year ended 31st march, 2016

	X	Y
Opening stock as on 1-04-2015	250,000	75,000
Purchases from outside suppliers	10,00,000	20,000
Sales to outsiders customers	12,00,000	300,000
Closing stock as on 31-03-2016	150,000	50,000

Following information is to be taken into account.

1. Depreciation on buildings to be provided at 20 % p.a. The value of the building occupied by both the departments was Rs 105,000 (Department X occupying two – third portion and department Y occupying the rest).
2. Goods transferred from department X to Department Y Rs 250,000 at cost.
3. Manufacturing expenses of department Y amounted to Rs 10,000.
4. Selling expenses amounted to Rs 15,000 to be apportioned on the basis of sales of respective departments.
5. General expenses of the business as a whole amounted to Rs 58,000.

Solution 4 :

Departmental Trading and Profit and Loss account

For the year ended 31-3-2016

Particulars	**X**	**Y**	**Particulars**	**X**	**Y**
To opening stock	250,000	75,000	By sales	12,00,000	300,000
To purchases	10,00,000	20,000	By transfer (Y)	250,000	-
To X (Transfer)	-	250,000	BY Closing stock	150,000	50,000
To manufacturing expenses	-	10,000	By gross loss c/d	-	5,000
To gross profit C/d	350,000	-			
	16,00,000	355,000		16,00,000	355,000

General profit and loss account

Particulars	Amount	Particulars	Amount
To net loss b/d	15,000	By net profit b/d	324,000
To general expenses	58,000		
To net profit c/d	251,000		
	324,000		324,000

To gross loss b/d	-	5,000	By gross profit b/d	350,000	-
To selling expenses	12,000	3,000	By net loss c/d	-	15,000
To depreciation	14,000	7,000			
To net profit c/d	324,000	-			
	350,000	15,000		350,000	15,000

Problem 5 :

From the following particulars prepare trading and profit and loss account for the year ended 31st of march, 2016 and balance sheet

Particulars	A dept.	B dept.	C dept.
Opening stock	17,000	14,500	31,500
Purchases	35,400	30,200	65,600
Sales	60,800	51,250	112,050
wages	8,200	2,700	10,900

Rent, rates, taxes and insurance 9,390

Sundry expenses 3,600

Salaries 3,000

Lighting and heating 2,100

Discounts allowed	2,220
Discount received	650
Advertising	3,680
Carriage inwards	2,340
Furniture and fittings	3,000
Plant and machinery	21,000
Sundry debtors	6,060
Sundry creditors	18,600
Rama rao's capital	47,660
Rama rao's drawings	4,500
Cash at bank	9,900
Cash in hand	170

Following information is also provided:

1. Internal transfers of goods from A dept. to Dept. 420
2. The items - rent, rates, taxes and insurances, sundry expenses , lighting and heating, salaries and carriage inwards to be apportioned 2/3rd to A dept. and 1/3rd to Dept. B.
3. Advertisement to be apportioned equally.
4. Discount allowed and received are apportioned on the basis of departmental sales and purchases excluding transfers.
5. Depreciation at 10 % p.a. on furniture and fittings and on plant and machinery to be charged 3/4th to dept.A and 1/4th to dept. B.
6. Services rendered by B dept. to A dept. included in wages Rs 500.
7. Closing stock – A Dept.. Rs 16,740 and Dept. B Rs 12,050
8. There are no additions to or sales of plant or furniture.

Solution 5:

In the books of Rama Rao

Departmental Trading and P/L a/c

For the year ended 31st March, 2014

	A	B		A	B
To opening stock	17,000	14,500	By sales	60,800	51,250
To purchases	35,400	30,200	- Dept. B	420	-
To carriage in	1,560	780	Transfer of goods		
To wages	8,200	2,700	- Dept. A	-	500
To dept. A transfer	-	420	Transfer of wages		
To dept. B transfer	500	-			
To gross profit c/d	15,300	15,200	By closing stock	16,740	12,050
	77,960	63,800		77,960	63,800
To salaries	2,000	1,000	By gross profit c/d	15,300	15,200
To rent, rates,taxes and insurance	6,260	3,130	By discount received	351	299
			By net loss c/d	1,254	-
To lighting and heating	1,400	700			
To sundry expenses	2,400	1,200			
To discount allowed	1,205	1,015			
To advertising	1,840	1,840			
To depreciation	1,800	600			
To profit	-	6,014			
	16,905	15,499		16,905	15,499

Balance Sheet

As on 31st March, 2014

Capital as on 1-4-2013 47,660		Fixed assets:	
Add: profit 4,760		Plant & machinery 21,000	
		Less: depreciation 2,100	18,900
52,420	47,920	Furniture 3,000	
Less: drawings 4,500	18,600	Less: depreciation 300	2,700
Sundry creditors		Current assets:	
		Stock	28,790
		Sundry debtors	6,060
		Bank	9,900
		cash	170
	66,520		66,520

Market based Transfer Price

Sometimes goods or services are transferred from one department to another department at selling price and there are also unsold goods at the end of the period. A department cannot earn anything by selling the goods to another department. That is why this method does not give any advantage to either the selling or buying department, compared with trading with outsiders. So, unrealised profit in the unsold goods must be debited to the department who supplied the goods to another department in the form of stock reserve. Such reserves are to be made both for opening and closing stocks by passing following entries:-

For closing stock

General profit and loss a/c Dr

To provision for unrealised profit on stock or stock reserve a/c

A the beginning of the next year

Provision for unrealised profit on stock or stock reserve a/c Dr

To general profit and loss a/c

Problem 6:

Department R sells goods to department S at a profit of 25 % on cost and department T at 10 % profit on cost. Department S sells goods to R and T at a profit of 15 % and 20 % on sales respectively. Department T charges 20 % and 25 % profit on cost to department R and S respectively.

Department manages are entitled to 10 % commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging manager's commission , but before adjustment of unrealised profits, are as under:

Department R - 54,000 department S - 40,500 department T - 27,000

Stocks lying at different departments at the end of the year are as under:

	Dept . R	Dept. S	Dept. T
Transfer from dept. R	-	22,500	16,500
Transfer from dept. S	21,000	-	18,000
Transfers from dept. T	9,000	7,500	-

Find out the correct departmental profits after charging manager's commission

Solution 6:

	R	S	T
Profit	54,000	40,500	27,000
Add: managerial commission (1/9)	6,000	4,500	3,000
	60,000	45,000	30,000
Less: unrealised profit on stock	6,000	6,750	3,000
	54,000	38,250	27,000
Less: manager's commission @ 10%	5,400	3,825	2,700
	48,600	34,425	24,300

Working note:

Transfer by department R to S department	(22,500 x 25 /125)	4,500
Transfer by department R to T department	(16,500 x 10 / 110)	1,500
		6,000
Transfer by department S to R department	(21,000 x 15 / 100)	3,150
Transfer by department S to T department	(18,000 x 20 / 100)	3600
		6750
Transfer by department T to R department	(9,000 x 20 / 120)	1500
Transfer by department T to S department	(7500 x 25 / 125)	1500
		3000

Problem 7

From the following particulars prepare d Profit and Loss Account in Columnar form for the two departments and thereafter the combined Income Account of Jorhat Traders Limited for the year ended 31st March, 2014:

	Department A	*Department B*
	₹	₹
Stock 1-4-2013	30,000	5,000
Purchases from outside	2,05,000	20,000
Wages	10,000	1,000
Salaries	3,600	2,400
Transfer from Department A		50,000
Stock 31-3-2014	35,000	12,000
Sales to outsiders	2,00,000	70,000

The entire Closing Stock of Department *B* represent goods transferred from Department *A* at cost plus 20%. Administrative and selling expenses amount to to ₹ 14,000 which is to be allocated between the two departments in the ratio of 6 : 1. An amount of ₹ 3,000 is due for interest on debentures of the company.

SOLUTION

M/S Jorhat Traders Ltd.

DEPARTMENTAL TRADING & PROFIT AND LOSS ACCOUNT

for the year ended 31st March, 2014

	A	B		A	B
	₹	₹		₹	₹
To Opening Stock	30.000	5.000	By Sales	2.00.000	70.000
Purchases	2.05.000	20.000	" Inter-Departmental		
Transfer	--	50.000	Transfer	50.000	--
To Wages	10.000	1.000	"Closing Stock	35.000	12.000
Gross Profit cid	40.000	6.000			
	2.85.000	82.000		2.85.000	82.000
To Salaries	3.600	2,400	By Gross Profit bid	40.000	6.000
Adm. & Selling Exp.	12.000	2.000			
Net Profit transferred					
to General Profit &					
Loss A/c	24,400	1.600			
	40.000	6.000		40.000	6.000

GENERAL PROFIT & LOSS ACCOUNT
for the year ended 31 st March, 2014

	₹			₹
To Debenture Interest	3,000	By Departmental N/P Trans-	24,000	
" Provision againt		ferred from Deptt. P/L A/c	₹	
Unrealised Profit Stock	2,000	A	23,400	
(1/6 x ₹ 12,000)		B	1,600	26,000

" Net Profit transferred &			
carried to Balance Sheet	21,000		
	26,000		26,000

PROBLEM : 8 : Lama Limited has two departments-Raja and Rani. From the following data prepare Trading and Profit & Loss Account and the Combined Income Account for the year ended 31-3-2014 :

	Departments	
	₹	₹
Stock as on 1-4-2013	45,000	15,000
Purchases	1,80,000	30,000
Direct Wages	20,000	10,000
Transfer of Goods from 'Raja'	---	40,000
Sales	2,10,000	90,000
Stock as on 31-3-2014	40,000	20,000

Department Rani's stock represents goods transferred from Department Raja. Goods were transferred from 'Raja' to 'Rani at 25% above cost Interest ₹ 4,000; salaries and wages ₹ 10,000; depreciation ₹ 6,000 and administrative and selling expenses amounting to ₹ 12,000 are to be allocated in the ratio of departemntal gross profit. Opening figure of reserve for unrealised profits on departmental stock was ₹ 1,000.

SOLUTION

M/s Lama Ltd.
Departmental Trading & Profit & Loss Account
for the year ended 31st March, 2014

	Raja	Rani		Raja	Rani
	₹	₹		₹	₹
To Opening Stock	45,000	15,000	By Sales	2,10,000	90,000
" Purchases	1,80,000	30,000	By Inter-departmental		

" Direct Wages	20,000	10,000	Transfer	40,000	---
"Inter-departmental			By Closing Stock	40,000	20,000
Transfer	---	40,000			
"Gross Profit c/d	45,000	15,000			
	2,90,000	**1,10,000**		**2,90,000**	**1,10,000**
To Interest	3,000	1,000	By Gross Profit b/d	45,000	15,000
" Salaries & Wages	7,500	2,500			
" Depreciation	4,500	1,500			
" Administrative & Selling Expenses	9,000	3,000			
" Net Profit transferred to General P/L A/c	21,000	7,000			
	45,000	**15,000**		**45,000**	**15,000**

GENERAL PROFIT & LOSS ACCOUNT
for the year ended 31st March 2014

	₹			₹
To Provision for Unrealised Profit on Stock (1)	3,000	By Departmental N/P Transferred from Deptt. P/L A/c		
" Net Profit Transferred to Balance Sheet	25,000	Departmental P/L A/c	₹	
		Raja	21,000	
		Rani	7,000	
				28,000
	28,000			28,000

Working Note :

(1) Calculation of Unrealised Profit :

'Rajni Department's entire Closing Stock of R 20,000 represents goods transferred from 'Raja' at cost plus 25%.

Therefore Profit included in the above closing stock $\frac{25}{125}$ x ₹ 20,000 = ₹ **4,000**

	₹
Therefore, Closing Provision for Unrealised Profit Required will be	4,000
Less : Opening Provision for Unrealised Profit	1,000
Therefore, Additional Provision Required	3,000

PROBLEM : 9 : Z Ltd. has three departments and submits the following information for the year ending on 31st March, 2014 :

	A	**B**	**C**	**Total (r)**
Purchases (Units)	6,000	12,000	14,400	
Purchases (Amount)				6,00,000
Sales (Units)	6,120	11,520	14,976	
Selling Price (per unit) r	40	45	50	
Closing Stock (Units)	600	960	36	

You are required to prepare Departmental Trading Account of Z Ltd., assuming that the rate of profit on sales is uniform in each case.

SOLUTION

DEPARTMENTAL TRADING ACCOUNT

for the ended on 31st March, 2014

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
To Opening				By Sales	2,44,800	5,18,400	7,48,800

Stock (4)	11,520	8,640	12,240	By Closing			
To Purchases (2)	96,000	2,16,000	2,88,000	Stock (4)	9,600	17,280	720
To Gross Profit							
60% of							
(Sales)	1,46,880	3,11,040	4,49,280				
	2,54,400	5,35,680	7,49,520		2,54,400	5,35,680	7,49,520

Working Notes :

(1) Profit Margin Ratio

Selling Price of Unit Purchased :

Department A 6,000 x R 40	2,40,000
Department B 12,000 x 45	5,40,000
Departement C 14,400 x 50	7,20,000
Total Selling Price	15,00,000
Less : Pruchase (Cost) Value	6,00,000
Gross Profit	9,00,000

$$\text{Profit Margin Ratio} = \frac{9{,}00{,}000}{15{,}00{,}000} \times 100 = 60\%$$

(2) Statement Showing Department-wise per Unit Cost and Purchase Cost

	A	**B**	**C**
Selling Pirce (per unit) (r)	40	45	50
Less : Porift Margin @ 60% (r)	24	27	30
Purcase Price per unit (r)	16	18	20
Number of unit purchased	6,000	12,000	14,400
(Purchase Cost per unit x Units purchased)	96,000	2,16,000	2,88,000

(3) Statement Showing Calculation of Department-wise Opening Stock (in Units)

	A	B	C
Sales (Units)	6,120	11,520	14,976
Add : Closing Stock (Units)	600	960	36
	6,720	12,480	15,012
Less : Purchase (Units)	6,000	12,000	14,400
Opening Stock (Units)	720	480	612

(4) Statement Showing Department-wise Cost of Opening Stock and Closing Stock

	A	B	C
Closing of Opening Stock (r)	720 x 16	480 x 18	612 x 20
	11,520	8,640	12,240
Cost of Closing Stock	600 x 16	960 x 18	36 x 20
	9,600	17,280	720

PROBLEM 10 : You are given the following particulars of a business having three departments.

	Purchases	Opening Stock	Closing Stock
Dept. A	1500 units	200 units	100 units
Dept. B	1000 units	300 units	160 units
Dept. C	2004 units	150 units	200 units

Additional Information :

(i) Purchases were made at a total cost of Rs. 92,000.

(ii) The percentage of gross profit on turnover is the same in each case.

(iii) Purchases and Sales prices are constant for the last 2 years.

(iv) Selling price per unit : Dept. A rs. 20; Dept. B Rs. 25; Dept. C Rs. 30

You are required to prepare Departmental Trading Accounts assuming that :

(i) there is no opening and closing stocks; and

(ii) all the units purchased are sold at their respective departmental prices.

SOLUTION

Working Notes :

(1) A Trading Account is prepared (assuming all units purchased are sold to ascertain the percentage of gros profit which is the same in each case.

TRADING ACCOUNT

	₹		₹
To Purchase	92,000	By Sales	
To Gross Profit	23,000	Dept. A 1,500 x Rs. 20	30,000
		Dept. B 1,000 x Rs. 25	25,000
		Dept. C 2,000 x Rs. 30	60,000
	1,15,000		1,15,000

$$\text{Percentage of Gross Profit on Sales} = \frac{\text{Rs. } 23{,}000}{\text{Rs. } 1{,}15{,}000} \times 100 = 20\%$$

(2) Units Sold

Opening Stock + Purchases - Closing Stock = Sales

Dept.	A	200	+	1,500	--	100	=	1,600
Dept.	B	300	+	1,000	--	160	=	1,140
Dept.	C	150	+	2,000	--	200	=	1,950

(3) Respective Cost Price (i.e. Sales Price less 20%)

Dept.	A	20	--	4	=	16
Dept.	B	25	--	5	=	20
Dept.	C	30	--	6	=	24

DEPARTMENTAL TRADING ACCOUNT

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹

To Opening Stock				By Sales			
A 200 x 16	3,200			A 1,600 x 20	32,000		
B 300 x 20		6,000		B 1,140 x 25		28500	
C 150 x 24			3,600	C 1,950 x 30			58,500
To Purchase				By Closing Stock			
A 1,500 x 16	24,000			A 100 x 16	1,600		
B 1,000 x 20		20,000		B 160 x 20		3,200	
To Gross Profit				C 200 x 24			4,800
(20% on turnover)	6,400	5,700	11,700				
	33,600	31,700	63,300		33,600	31,700	63,300

PROBLEM 11 : Messrs ABC carried on business as Drapers and Tailors in Jaipur. The partners, A, B and C were in charge of the Departments X, Y and Z respectively. The partners are entitled to remuneration equal to 50% of the profits (without taking the partners' remuneration into consideration) of the respective Department of which they are incharge and the balance of profits are to be divided among A, B and C in the ratio of 5 : 3 : 2. Following are the balances of the Revenue items in the books for the year 31st March, 2014.

		₹			₹
Openign Stock :			**Closing Stock :**		
Department	X	75,780	Department	X	90,160
Department	Y	48,000	Department	Y	34,960
Departemnt	Z	40,000	Department	Z	43,180
Purchases :			Salaries and Wages		96,000
Department	X	2,81,400	Advertising		4,500
Department	Y	1,61,200	Rent		21,600
Department	Z	88,800	Discount Allowed		2,700

Sales :			Discount Received	1,600
Department	X	3,60,000	Sundry Expenses	24,300
Department	Y	2,70,000	Depreciation on Furniture	
Department	Z	1,80,000	and Fittings	1,500

(i) Prepare Departmental Trading and Profit and Loss Account for each of three Departments in a columnar form, and

(ii) Show the distribution of Profit amongst the partners aftger taking into account the following :

(a) Goods having a transfer price of Rs. 21,400 and Rs. 1,200 were transferred from Departments X and Y respectively to Department Z. The inter-departmental transfers are made at 125% of the cost.

(b) Various items shall be apportioned amongst the three Departments int eh following proportion :

		Departments		
		X	Y	Z
(i)	Rent	2	2	5
(ii)	Salaries	1	1	1
(iii)	Depreciation	1	1	1
(iv)	Discount received	8	5	2

(v) All the other expenses : On the basis of the sales (excluding inter-departmental transfers) of each department.

(c) Opening Stock of Department Z does not include any goods transferred from other Departmetns, but Closing Stock includes Rs. 17,100 valued at the inter-departmental transfer prices.

SOLUTION

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT

for the year ended 31st March, 2014

	Depart	Depart	Depart		Depart	Depart	Depart

	ment X ₹	ment Y ₹	ment Z ₹		ment X ₹	ment Y ₹	ment Z ₹
To Opening Stock	75,780	48,000	40,000	By Sales	3,60,000	2,70,000	1,80,000
To Purchases	2,81,400	1,61,200	88,800	By Transfer to Other Departments	21,400	1,200	---
To Transfers from Others Departments	--	--	22,600	By Closing Stock	90,160	34,960	41,180
To Gross Profit c/d	1,14,380	96,960	71,780				
	4,71,560	**3,06,160**	**2,23,180**		**4,71,560**	**3,06,160**	**2,23,180**
To Salaries	32,000	32,000	32,000	By Gross Profit b/d	1,14380	96,960	71,780
To Rent	4,800	4,800	12,000	By Discount Received	800	500	300
To Advertising (4:3:2)	2,000	1,500	1,000				
To Discount Allowed (4 : 3 : 2)	1,200	900	600				
To Sundry Exp. (4 :3 :2)	10,800	8,100	5,400				
To Depreciation	500	500	500				
To Net Profit c/d	63,880	49660	20,580				
	1,15,180	**97,460**	**72,080**		**1,15,180**	**97,460**	**72,080**
To Stock Reserve (25/125 x 17,100)			3,420	By Net Profit b/d			
To Partners Remuneration (50% of Net Profit)				Department X		63,880	
				Department Y		49,660	
				Department Z		20,580	

A	31,940		1,34,120
B	24,830		
C	10,290		
		67,060	
To Profit transferred to Capital A/cs :			
A (5/10)	31,820		
B (3/10)	19,092		
C (2/10	12,728		
		63,640	
		1,34,120	1,34,120

PROBLEM : 12 : A company has two departments A and B. Department A sells goods to department B at normal market price. From the following particulars, prepare a Departmental Trading and Profit & Loss Account for the year ended 31st March, 2014.

	A Dept.	**B Dept.**	**General Total**
Opening Stock	15,000	Nil	
Purchases	2,50,000	40,000	
Goods from A Dept.	---	40,000	
Wages	15,000	20,000	
Salaries (Departments)	7,000	5,000	
Closing Stock at Cost to the Dept.	8,000	20,000	
Sales	2,6000	1,45,000	
Printing & Stationery	2,500	1,500	
Machinery	---	15,000	
Advertisements	---	---	12,000

Salaries (General)	---	---	18,000

Depreciate Machinery by 10%. General unallocated expenses are to be approprioned in the ratio of 2 : 1 to the departmetns A and B.

SOLUTION

Departmental Trading and Profit & Loss Account
for the year ended 31st March, 2014

	Dept. A	Dept. B	Total		Dept. A	Dept. B	Total
	₹	₹	₹		₹	₹	₹
To Opening Stock	15,000	---	15,000	By Sales	2,60,000	1,45,000	4,05,000
To Purchases	2,50,000	40,000	2,90,000	By Transfer to B. Deptt.	40,000		40,000
To Transfer from A Deptt.	---	40,000	40,000	By Closing Stock at Cost to Deptt.	80,000	20,000	1,00,000
To Wages	15,000	20,000	35,000				
To Gross Profit c/d	1,00,000	65,000	1,65,000				
	3,80,000	1,65,000	5,45,000		3,80,000	1,65,000	5,45,000
To Salaries (Deptts.)	7,000	5,000	12,000	By Gross Profit	1,00,000	65,000	1,65,000
To Salaries (General)	12,000	6,000	18,000				
To Printing & Stationery	2,500	1,500	4,000				
To Advertisement	8,000	4,000	12,000				
To Depreciation on Machinery	--	1,500	1,500				
To Net Profit c/d	70,500	47,000	1,17,000				
	1,00,000	65,000	1,65,000		1,00,000	65,000	1,65,000

	₹		₹
To Provision for Unrealised		By Net Profit b/d	1,17,500

Profit on Departmental		
Closing Stock (see note)	3,333	
To Balance transferred to Capital A/c	1,14,167	
	1,17,500	1,17,500

Working Note : Gross Profit Ratio of Deptt. A

$$= \frac{₹\ 1,00,000}{₹\ 3,00,000} \times 100 = 33\frac{1}{3}\%.$$

Proportion of A's Stock in B Deptt.

$$= \frac{\text{Purchases from A Deptt.}}{\text{Total Purchases of B Deptt.}} \times \text{Total Stock of B Deptt.}$$

$$= \frac{₹\ 40,000}{₹\ 80,000} \times ₹\ 20,000 = ₹\ 10,000$$

PROBLEM : 13 : M/s Gulati & Sons has two departments, cloth and readymade clothes. Readymade clothes are manufactured by the firm itself out of cloth supplied by the cloth department at its usual selling rate. From the following figures, prepare departmental Trading and Profit and Loss Account and General Profit and Loss Account for the year ending 31st December, 2014 :

	Cloth Department ₹	**Readymade Cloth Department** ₹
Opening Stock on 1.1.2014	3,60,000	60,000
Purchases	29,00,000	20,000
Sales	35,00,000	7,00,000
Transfer to Readymade Clothes Department	4,50,000	--
Manufacturing Expenses	---	1,40,0000
Closing Stock on 31.12.2014	1,00,000	48,000

General expenses incurred for both the departments were ₹ 1,20,000. The stocks in the readymade clothes department may be considered as consisting of $66^{2/3}\%$ cloth and $33^{1/3}\%$ other expenses. The cloth departemnt earned profit at the rate of 18% in 2013.

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT

for the year ending 31st December, 2014

	Cloth	**Ready made Cloth**		**Cloth**	**Ready made Cloth**
	₹	₹		₹	₹
To Opening Stock	3,60,000	60,000	By Sales	35,00,000	7,00,000
To Purchases	29,00,000	20,000	By Transfer to Ready-		
To Transfer from			made Depratment	4,50,000	
Cloth Department		4,50,000	By Closing Stock	1,00,000	48,000
To Manufacturing					
Expenses		1,40,000			
To Gross Profit c/d	7,90,000	78,000			
	40,50,000	7,48,000		40,50,000	7,48,000
To General Exp.	1,00,000	20,000	By Gross Profit b/d	7,90,000	78,000
(apportioned in					
proportion to sales					
to outsiders i.e. 5:1					
or 35,00,000 :					
7,00,000					
To Departmental					

Profit transferred to General Profit and Loss Account	6,90,000	58,000			
	7,90,000	78,000		7,90,000	78,000

GENERAL PROFIT AND LOSS ACCOUNT
for the year ending 31st December, 2014

	₹		₹
To Stock Reserve against Closing Stock of Readymade Clothes Department, i.e. 20% of $66^{2/3}$ of ₹ 48,000 $= \frac{20}{100} \times \frac{200}{3 \times 100} \times$ ₹ 48,000	6,400	By Profit from :	
		Cloth Department	6,90,000
		Readymade Clothes	58,000
		By Stock Reserve against Opening Stock of Ready-made clothes Department i.e., 18% of $66^{2/3}$ of Rs. 60,000	7,200
To Net Profit	7,48,800		
	7,55,200		7,55,200

Reserve against closing stock ahs been kept @ 20% because rate of gross profit in cloth department is 20% in 2014. It is calculated as follow :

	₹
Sales in Cloth Department	35,00,000
Transfer to Readymade Cloth Department at usual selling price	4,50,000
Total Sales of Cloth Deparment	39,50,000

Gross Profit of Cloth Department = ₹ 7,90,000

Therefore, Rate of Gross Profit $= \frac{₹\ 7,90,000}{₹\ 39,50,000} \times 100 = 20\%$

PROBLEM : 14 : Complex Ltd. has 3 departments A, B and C. Following Information is provided :

	A	B	C
	₹	₹	₹
Opening Stock	3,000	4,000	6,000
Consumption of direct materials	8,000	12,000	---
Wages	5,000	10,000	---
Closing Stock	4,000	14,000	8,000
Sales	---	---	34,000

Stocks of each department are valued at cost tot he department concerned. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above deprtmental cost.

Other expenses were : Salaries ₹ 2,000 ; Printing and Stationery ₹ 1,000; Rent ₹ 6,000; Interest paid ₹ 4,000; Depreciation ₹ 3,000.

Allocate expenses int he ratio of departmental gross profits. Opening figures of reserves for unrealised profits on departmental stocks were :

Department B - ₹ 1,000; Department C - ₹ 2,000.

Prepare Departmental Trading and Profit and Loss Account.

SOLUTION

Complex Ltd.

Departmental Trading and Profit and Loss Account

for ....

	Deptt. A	Deptt. B	Deptt. C	Total		Deptt. A	Deptt. B	Deptt. C	Total
	₹	₹	₹	₹		₹	₹	₹	₹
To Opening Stock	3,000	4,000	6,000	13,000	By Sales	---	---	34,000	34,000
To Direct					By Transfer (1)	18,000	33,000	---	51,000
Materials					By Closign Stock	4,000	14,000	8,000	26,000
(Consumption)	8,000	12,000	---	20,000					
To Wages	5,000	10,000	---	15,000					
To Transfer	---	18,000	33,000	51,000					
To Gross									
Profit c/d	6,000	3,000	3,000	12,000					

	22,000	47,000	42,000	1,11,000		22,000	47,000	42,000	1,11,000
To Salaries	1,000	500	500	2,000	By Gross				
To Printing					Profit b/d	6,000	3,000	3,000	12,000
& Stationery	500	250	250	1,000	By Net Loss c/d	2,000	1,000	1,000	4,000
To Rent	3,000	1,500	1,500	6,000					
To Interest Paid	2,000	1,000	1,000	4,000					
To Depreciation	1,500	750	750	3,000					
	8,000	4,000	4,000	16,000		8,000	4,000	4,000	16,000

COMBINED INCOME ACCOUNT

	₹		₹
To Net Loss b/d	4,000	By Reserve for Unrealised	
To Reserve for Unrealised		Profit on Stock (Opening)	3,000
Profit on Stock (2)	3,918	By Profit & Loss A/c (Loss	
		Transferred)	4,918
	7,918		7,918

Working Notes :

(1) Calculation of Transfer From	**A to B Dept.**	**B to C Dept.**
	₹	₹
Opening Stock	3,000	4,000
Direct Materials	8,000	12,000
Wages	5,000	10,000
Transfer from A Dept.	---	18,000
	16,000	44,000
Less : Closing Stock	4,000	14,000
	12,000	30,000
Add : Loading	6,000 (50%)	3,000 (10%)
Transfers	18,000	33,000

(2) Calculation of Unrealsied Profit Stock

Department B

$$\text{Unrealised Profit} = \frac{1}{3} \times \text{Closing Stock} \times \frac{\text{Value of Inward Transfer}}{\text{Department Cost}}$$

(Materials + Wages + Internal Tranfer)

$$= \frac{1}{3} \times ₹\,14{,}000 \times \frac{₹\,18{,}000}{₹\,40{,}000} = ₹\,2{,}100$$

Department C

From B Dept. $₹\,8{,}000 \times \frac{10}{10}$ = 727

From A Dept. $(₹\,8{,}000 - ₹\,727) \times \frac{₹\,18{,}000}{₹\,40{,}000} \times \frac{1}{3}$ = 1,091

1,818

Therefore, Total Unrealised Profit on Stock = ₹ 2,100 + ₹ 1,818 = ₹ 3,918.

15.2 Summary :

All the divisions of a business are lcoated under one roof and its is desired to ascertain the profit or loss of each department or class of goods separately, then departmental accounts ae prepared. This is generally doen to have smooth and efficient running of a business. When a business is divided into several departments, intrnal information about operating results of each department is required. The accounting system which is adopted for a departmental organisation depends upon the need to identify the different expenses and revenues of each department so that profit of each may be assertained accuately.

15.3 Important Practice Questions :

Long Answer Type :

1. What is meaning of Departmental Accounts ? Describe their advantages.
2. Set out the objectives of Departmental Accounts.
3. List the difference between Branch and Departmental system of accounting.
4. What are the usual direct and indirect charges in departmental accounts.
5. Explain the basis of allocation of expenses over various departments of a departmental organisation.

6. What are departmental accounts ? What are the objects and advantages of preparing these accoutns ? Explain the basis of allocation of expenses over various departments.

7. Give three objectives of preparing departmental accounts.

8. State the basis on which the following common expenses, the benefit or which is shared by all the departments is distributed among the departmetns.

   (i)Rent, rates and taxes, insurance of building; (ii) Selling expenses such as discount bad debts, selling commission and other such seeling expenses; (iii) Carriges inward; (iv) Depreciation; (v) Interest on loan; (vi) Profit or loss on sale of investment; (vii) Wages; (viii) Lighting and Heating Expenses. (ix) Managing Director's salary and commission, (x) Advertisement charges, (xi) Insurance premiu, (xii) Income-tax, (xiii) Establishment expenses.

9. How are the inter-departmental transactions recorded in Departmental Accounts ?

Practical Problems

1. On 31-3-2014, the Trial Balance of S. Mann, a merchant, was extracted and from it the following balances were taken :

	Dr.		Cr.
	₹		₹
Stock (1-4-2013)		Sales	
Dept. A	7,000	Dept. A	26,000
Dept. B	5,000	Dept. B	13,000
Purchases :			
Dept. A	10,000		
Dept. B	8,000		
Returns Inward :			
Dept. A	400		

Dept. B	600		
Rent, Rates & Taxes	1,500		
General Expenses	1,200		
Salaries	1,500		
Carriages Inwards	600		
Wages :			
Dept. A	2,000		
Dept. B	1,200		
	39,000		39,000

Stock on 31-3-2014 were : Dept. A ₹ 3,000; Dept. B ₹ 6,000

Make out a Departmental Trading and Profit and Loss Account for the year ended 31-3-2014 from the above informations assuming that the Departments occupy similar floor area. All Expenses are divided among the two departments in the ratio of 2:1.

2. Trading and Profit and Loss Account of a concern having three departments is as follows for the year ending 31.3.2014 :

Purchases	₹	***Sales***	₹
(A) Televisions	1,40,700	Televisions (A)	1,50,000
(B) Radios	90,600	Radios (B)	1,00,000
(C) Spare parts for service	64,400	Receipts from Servicing (C)	25,000
Salareis and Wages	48,000	Closing Stock :	
Rent	10,800	Television (A)	60,100
Sundry Expenses	11,000	Radios (B)	20,300
Profit	34,500	Spare Parts (C)	44,600
	4,00,000		4,00,000

Prepare Departmental Accounts for the Departmetns A, B and C taking into account the following information :

(a) TV and Radio are sold int eh shop and servicing is doen in the workshop.

(b) Salaries and Wages compriise the following :

Shop 3/4 ; Workshop 1/4.

It was decided to allocate shop salaries and wages in the ratio of 1:2 between A and B.

(c) Workshop rent is ₹ 500 per month. Rent of the shop is divided equally between A and B.

(d) Sundry Expenses are to be distributed on the basis of turnover of each department.

3. From the following figures prepare accounts to disclose total profit and the profit of the two departments A and B.

	₹		₹
Opening Stock		Advertising	8,100
A	15,200	Insurance	1,000
B	10,800	General Expenses	5,400
Purchases :		Discount Allowed	1,800
A	75,100	Accountancy Charges	500
B	69,800	Sales :	
Carriage inwards	2,860	A	1,00,000
Salaries :		B	80,000
A	9,000	Purchase Returns :	
B	8,500	A	1,100

General	11,600	B	800
Rent and Rate	6,000	Discount Received	1,430

Following General Expenses further information is supplied :

(a) Goods transferred from department A to B were ₹ 5,000. This has not yet been recorded. (b) General Salaries are to be allocated equally. (c) The area occupied is in the ratio of 3 : 2. (d) Insurance Premium is for a comprehensive policy, allocation being inconvenient. (e) The closing stocks of the two departmetns were; A - ₹ 17,800 and B - ₹ 15,600.

4. Brahma Limited has three departments and submits the following information for the year ending on 31st March, 2014:

	A	B	C	Total (₹)
Purchases (units)	5,000	10,000	15,000	
Purchases (Amount)				8,40,000
Sales (units)	5,200	9,800	15,300	
Selling Price (Rs. per unit)	40	45	50	
Closing Stock (units)	400	600	700	

You are required to prepare Departmental Trading Account of Brahrna Limited assuming that the rate of profit on sales is uniform in each case.

5. A departmental store carries on its business through five departments A, B, C, D and E.

(i) Following information for 2014 is now made available to you :

Salaries and Commission ₹ 11,020 ; Rent and rates ₹ 2,900 ; Insurance ₹ 1,160 ; Miscellaneous Expenses ₹ 2,610.

All these expenses are chargeable to each department in proportion to the cost of the articles sold in the respective departments.

(ii) Following balances as at 31-12-2014 were ascertained:

	₹	₹	₹	₹	₹
Operning Stock at cost	10,000	6,000	15,000	8,000	9,000
Purchases	1,00,000	60,000	20,000	52,000	60,000
Sales	96,000	62,000	19,000	46,000	60,000
Closing Stock at cost	23,000	8,000	6,000	2,000	11,000

Prepare the Profits And Loss Account to show the final result of each department and also the combined results with respective percentages on sales.

6. From the following particualrs given by M/s. Tins and Toys prepare a Departmental Traiding and Profit and Loss Accountant for their two Departments, viz. Tins Department and Toys Department, for the year ended 31-03-2014.

	₹		₹
Opening Stock		Office Expenses	4,800
Toys	5,000	Depreciations :	
Tins	15,000	Factory Equipment	3,200
Raw Materials cosumed (Tins)	36,000	Buildings	1,600
Stores consumed	9,000	Sales :	
Wages :		Tins	90,000
Toys	3,000	Toys	18,000
Tins	6,000	Closing Stock :	
Advertisement	1,500	Toys	6,000
Packing Expenses (Toys)	600	Tins	12,000

You are also given the following additional informations :

(a) Toys are made of end bits of sheets of raw materials used by Tins Department. The value of such materials used during the year by Toys Department was f 2,000.

(b) Toy making does not require any equipment.

(c) Only 1/8 of the total area of Buildings occupied by Toys Department.

7. Following purchases were made by a business house having three departments :

Department A	1,000 units	
Department B	2,000 units	at a total of Rs. 1,00,000
Department C	2,400 untis	

Stocks on 1st January were : Department A 120 units. Department B 80 units, and Department C 152 units.

The sales were :

Department A 1,020 units @ ₹ 20.00 each. Department B 1,920 units @ ₹ 22.50 each.

Department C 2,496 units @ ₹ 25.00 each. The rate of gross profit is the same in eac case.

Assume the unit price of opening stock and purchase unit cost are uniform. Prepare Departmental Trading Accounts.

8. Wholesale Traders Ltd., deals in three departments of merchandise. The balances of the accounts as at 31-3-2014 are as follows:

Share Capital consisting of 50,000 Equity shares of ₹ 10 each fully paid, ₹ 5,00,000; 6% Debentures ₹ 3,00,000; Stock at 1-4-2013 : Dept. I ₹ 70,000; Dept. II ₹ 40,000; Dept. III ₹ 60,000; Purchases: Dept. I ₹ 14,10,000; Dept. II ₹ 7,00,000; Dept. III ₹ 10,50,000; Sales:

Dept. I ₹ 18,60,000 ; Dept. II ₹ 9,15,000; Dept. III ₹ 13,80,000; Wages : Dept. 1 ₹ 2,80,000; Dept. II ₹ 1,30,000; Dept. III ₹ 2,10,000; Salaries ₹ 54,000; Sundry Debtors ₹ 2,66,000; Bills Receivable ₹ 2,80,000; Sundry Creditors ₹ 1,01,000; Bills Payable ₹ 30,000; General Reserve ₹ 1,45,000; Carriage ₹ 12,600; Travelling expenses ₹ 6,300; Advertisement ₹ 8,100; Printing and Stationery ₹ 13,500; Goodwill ₹ 90,000; Rate and Taxes ₹ 1,800; General Charges ₹ 36,900; Fleet of Transport Vehicles ₹ 1,30,000; Land and Building ₹ 1,80,000; Debenture Interest (half year to Sept 30, 2013) ₹ 9,000; Furniture, Fittings & Fixtures ₹ 72,000; Cash in hand and at Bank ₹ 1,44,800; Balance of last year's Profit and Loss A/c (Cr.) ₹ 24,000.

₹ 2,000 of Sundry Debtors and ₹ 1,600 of Bills Receivable are bad and are written off, and a provision for bad debts @ $1^{1/2}$ % is to be made on Sundry Debtors.

Stock at 31-3-2014 amounted to Dept. I ₹ 60,000; Dept. II ₹ 50,000; Dept. III ₹ 65,000.

Depreciate Land and Buildings by $2^{1/2}\%$, Furniture, Fittings & Fixtures by 10% and Transport Vehicles by 20%. Allocating the undivided expenses and charges in proportion to the total of Opening Stock and Purchases for each Dept. except in the case of depreciation on Transport Vehicles which is to be allocated in the proportion of 2 : 1 : 1. Prepare the Departmental Profit and Loss Account for the year ended 31-3-2014 and a Balance Sheet as at that date.

9. Following balances as at 31-03-2014 are extracted from the books of a firm which runs two departments :

	Dept. I	Dept. II
	₹	₹
Opening Stock		
Materials	7,000	5,000
Finished Goods	18,000	15,000
Purchases	2,30,000	1,90,000
Purchases Returns	2,000	1,000
Manufacturing wages	1,80,000	1,60,000
Office Salaries	35,000	32,000
Sales	6,33,000	4,92,000
Sales Returns	3,000	2,000

General Transactions :

Sundry Debtors ₹ 1,90,000 ; Sundry Creditors ₹ 1,73,000 ; Plant and Machinery ₹ 2,40,000 ; Leaseholds ₹ 80,000 ; Building and Structures ₹ 1,20,000 ; Furniture and Fittings ₹ 48,000 ; Office and Selling Expenses ₹ 1,28,000 ; Cash in hand and at Bank on 31-3-2014 ₹ 1,18,000 ; Capital ₹ 5,00,000

Plant and Machinery is to be depreciated by 10%; Building and Structures by 2%; Furniture and Fittings by 5%; Leaseholds are to be written offby ₹ 8,000.

The Stock at the end were:

Materials: Dept. I ₹ 6,000; Dept. II ₹ 6,000

Finished goods: Dept. I ₹ 20,000; Dept. II ₹ 18,000.

All unallocated expenditure is to be distributed in the ratio of the net sales of each department.

Prepare in a Column Form Trading and Profit and Loss Account of the two departments and Balance Sheet of the combined business as a whole as on 31-3-2014.

10. From the following Trial Balance, prepare Departmental Trading and Profit and Loss Account for the year ended 31st March, 2014 and Balance Sheet as at that date.

		Debit	Credit
		₹	₹
Stock 1-4-2013	Department A	17,000	
	Department B	14,500	
Purchases	Department A	35,400	
	Department B	30,200	
Sales	Department A	---	60,800
	Department B	---	51,250
Wages	Department A	8,200	
	Department B	2,700	
Rent, rates, taxes and insurance		9,390	
Sundry expenses		3,600	
Salaries		3,000	
Lighting and heating		2,100	
Discount allowed		2,220	
Discounts received		---	650
Advertising		3,680	
Cariage inwards		2,340	

Furniture and fittings	3,000	
Plant and Machinery	21,000	
Sundry debtors	6,060	
Sundry creditors	---	18,600
A's Capital Account	---	47,660
A's Drawings	4,500	
Cash in hand	170	
Cash at Bank	9,900	
	----------------	----------------
	1,78,960	1,78,960
	----------------	----------------

Following information is also provided:

(a) Internal transfer of goods from Dept. A to Department B f 420.

(b) The item, rent, taxes and insurance, sundry expenses, lighting and heating, salaries and carriage inwards, to be apportioned 2/3 to Department A and 1/3 to Department B.

(c) Advertising to be apportioned equally.

(d) Discount allowed and received are apportioned on the basis of departmental sale- and purchases (excluding transfers) correct to nearest f 10.

(e) Depreciation at 10 per cent per annum on furniture and fitting and on plant awl machinery.

This is to be charged 3/4 to Department A and 114 to Department B.

(f) Services rendered by Department B to Department A included in wages f 500.

(g) Stock as at 31.3.2014-A Dept. f 16,740 and B Dept. f 12,050.

(h) Fixed assets remain unchanged during the year.

11. Prepare Departmental Trading Account and General Profit and Loss Account and Balance Sheet as on 31st December, 2014 :

	₹	₹
Capital		3,00,000
Land and Buildings	1,25,000	
Furniture	25,000	
Opening Stock :		
Department A	30,000	
Department B	40,000	
Purchases :		
Department A	10,00,000	
Department B	15,00,000	
Sales :		
Department A		20,00,000
Department B		32,00,000
General Expenses	14,00,000	
Debtors	2,00,000	
Creditors		1,00,000
Drawings	2,80,000	
Bank	10,00,000	
	56,00,000	56,00,000

Additional Information: (a) Closing stock of Department *A* f 1,30,000. It includes stock of f 40,000 which *B* Department has sent to *A* Department. *(b)* Closing stock of *B* Department f 2,60,000. It includes stock of f 90,000 which *A* Department has sent to *B* Department. *(c)* Sales of *A* Department include goods of f 2,00,000 transferred to *B* Department. Sales of *B* Department, include goods of f 3,00,000 transferred to *A* Department. Both of these transfers have been made at market price. *(d)* Opening stock of *A* Department includes goods of f 10,000 taken from *B* Department and closing stock of *B* Department includes goods of f 15,000 taken from *A* Department. *(e)* Depreciation on Land and Buildings @5% per year and on Furniture@ 10% per year.

12. From the undermentioned information and instructions, prepare departmental trading and profit and loss account in columnar form of the three departments of the Outfitters Ltd. :

	Tailoring	Ladies Wear	Outfitting
Stock, January 1, 2014	41,280	22,975	93,721
Stock, December 31,2014	32,840	43,828	81626
Purchases for the year	2,10,342	75,296	1,39,109
Returns (purchases)	14,382	5,629	1,823
Sales for the year	4,00,173	1,54,085	3,62,189
Returns (Sales)	Nil	3,259	11,217
Wages	72,823	30,084	24,613

Goods were transferred as follows (all at cost) :

Tailoring to ladies' wear, f 389 and to outfitting f 6,679 ; Ladies' wear to tailoring f 5,315 ; Outfitting to tailoring f 4,271 and to ladies' wear f 5,801.

Apportion equally: stationery f 921 ; postage f 663 ; general charges f 39,627 insurance f 1,785 and depreciation, f 5,460.

Allocate the following further expenditure as you think best and append notes stating the basis selected for each item,

Establishment f 63,395 ; bad debts, f 19,823; advertising, f 7,293 and income tax, f 11,028.

Rent and taxes, f 45,437 is to be spilt up in proportion to space occupied, *i.e.,* tailoring 4, ladies wear 2, outfitting 3, other space 2.

Approximate apportionment is all that is necessary ; charge any odd balance to outfitting department.

MARKET BASED TRANSFER PRICE

13. From the following data, prepare Departmental Trading and Profit and Loss Account and thereafter the combined Income Account revealing the concern's true results for the year ended 31st December, 2014.

	A	B
Stock (Januray 1)	40,000	---
Purchases from outside	2,00,000	20,000
Wages	10,000	1,000
Transfer of goods from Department A	---	50,000
Stock (December 31) at cost to the Department	30,000	10,000
Sales to outsiders	2,00,000	71,000

B's entire stock represents goods from Department A which transfers them 25% above its cost. Administrative and selling expenses amojnt to Rs. 15,000 which are to be allocated between departmetns A and B in the ratio of 4 : 1 respectively.

14. M/s Highway Garage consists of three departmetns, Spares, Service and Repairs, each department being managed by a departmental manager whose commission was respectively 5%, 10% of the respective departmental profits, subject, however, to a minimum of Rs. 3,000 in each case. Inter-departmental transfers take palce at a loaded price as follows :

From Spares to Service 5% above cost; From Spares to Reparis 10% above cost; From Repairs to Service 10% above cost.

In respect of the year ended March 31, 2014, the firm had already prepared and closed the departmental trading and profit and loss account, Subseqnently it was discovered that the closing stocks of various departments had included inter-departmentally transferred goods at "loaded" price instead of the correct cost price. From the following information prepare a statement recomputing the departmental profit or loss :

Final Net Profit / Loss	19,000	25,200	36,000
	(Loss)	(Profit)	(Profit)
Inter-departmental transfer			
included at "Loaded" price in			
the departmental stocks		32,500	2,100

[10,500 from Spares

and 22,000 from Reparirs]

15. The directors of Departmental Stores Ltd. wish to ascertain, approximately, the net profits of the "A", "B" and "C" departments separately for the quarter ended March 31,2014. It is found impracticable actually to take stock on that date but an adequate system of departmental accoutns is in use and the normal rates of gross profit for the departmetns concerned are 40%, 30% and 20% on turnover, respectively. Indirect expenses are charged in proporation to departmental turnover.

Following are the figures for each department :

	A	B	C
Stock as on 1.1.2014	30,000	35,000	15,000
Purchases to March 31, 2014	35,000	37,500	23,500
Sales of March 31,2014	60,000	50,000	30,000
Direct Expenses	10,100	7,250	3,550

Total indirect expenses for the period (including those relating to other departments) were Rs. 21,000 on total sales of Rs. 4,20,000.

Prepare a statement showing gross profit, net profits after making reserve for stock at 10% in respect of each department.

Unit - IV	**Chapter 13- 16**
Course No. 201	**Semester- II**

INSURANCE CLAIMS
PRINCIPLES AND TERMS IN INSURANCE BUSINESS

16.1. **Principle of Indemnity**

16.2 **Insurable Interest**

16.3 **Principles of Uberrimae Fidie**

17.1 **Catastrophic loss**

17.2 **Stock Insurance**

18.1 **How to calculate the amount of claim to be lodged for loss of stock by fire?**

18.2 **Points to be noted before calculation**

19.1 **Ascertainment of claim when abnormal items of goods are available or poor selling line.**

20.1 **Practical Questions**

20.2 **Summary**

20.3 **Important practice questions.**

INSURANCE CLAIMS

PRINCIPLES AND TERMS IN INSURANCE BUSINESS

16.1 Principle of indemnity :

Insurance is a contract of indemnity. The insurer is called indemnifier and the insured is the indemnified. In a contract of indemnity, only those who suffer loss are compensated to the extent of actual loss suffered by them. One cannot make profit by insuring his risks.

16.2 Insurable interest:

All and sundry cannot enter into contracts of insurance. For example, a cannot insure the life of B who is a total stranger, but if B happens to be his wife or his debtor or business manager, A has insurable interest i.e, vested interest and therefore, he can insure the life of B. For every type of policy insurable interest is insisted upon. In the absence of such interest the contract will amount to a wagering contract.

16.3 Principle of uberrimae fidei:

Under ordinary law of contract, there is no positive duty to tell the whole truth in relation to the subject matter of the contract. There is only the negative obligation to tell nothing but the truth. In a contract of insurance, however, there is an implied condition that each party must disclose every material fact known to him. All contracts of insurance are contracts of uberrimae fidei , i.e, contracts of utmost good faith. This is because the assessment of the risk and the determination of the premium by the insurer depend on the full and frank disclosure of all material facts in the proposal form.

17.1 Catastrophic loss:

A loss or related losses which is unbearable i.e, it causes severe consequences such as bankruptcy to a family, organisation or insurer.

17.2 Stock insurance:

Every business unit has to keep a sufficient quantity of stock in the business premises for meeting the requirements of sales or manufacturing the goods. The stock kept in the business premises is subject to risk of loss by fire. For protecting itself against such loss, a business unit takes a fire insurance policy covering the loss of stock by fire. A fire insurance policy which covers loss of stock by fire is known as loss of stock policy in which the insurance company undertakes to compensate the business unit for loss of stock by fire in consideration of a payment called premium.

A fire in a business place destroys a number of assets such as building , machinery, furniture, stock, etc., so it is in the interest of a business unit to take a fire insurance policy to indemnify itself against the loss of stock and other assets by fire. It is easy to lodge claim for the loss of all assets except usually stock in trade, because books of account maintain accounts of such assets except stock in trade.

18.1 How to calculate the amount of claim to be lodged for the loss of stock by fire?

To lodge claim for the loss of stock by fire, the value of stock in trade on the date of fire has to be estimated. Various points which are considered for the estimation of stock in hand on the date of fire are given below:-

1. The most important points is the percentage of gross profit on sales so that cost of goods sold during the year of fire may be ascertained. In the absence of any special circumstances , the percentage of gross profit on sales earned last year is applied to the current year i.e, the year of fire. Therefore, the trading account of the last year may be referred to determine the gross profit ratio of the last year.

2. The next step is to prepare memorandum trading account of the current year up to the date of fire on the basis of opening stock, purchases and sales from the beginning of the year up to the date of fire and estimated gross profit on the basis of last year's gross profit ratio . The balancing figure in the memorandum trading account will be the estimated value of stock in hand on the date of fire.

3. The third step is to deduct the value of stock salvaged, if any, from the value of stock as ascertained in step 2, the resultant figure is the amount of claim for the loss of stock to be lodged with the insurance company.

18.2 Points to be noted before calculation

1. If stock in trade of the last year was not valued at cost, it should be adjusted to cost to ascertain the correct percentage of gross profit on sales to be applied to the current year. For example, if closing stock of the last year was valued at Rs 90,000 being 10 % of below cost, it should be adjusted to Rs 100,000 (90,000 x 100 /90) for the purpose of preparing the trading account of the last year and the memorandum trading account of the current year.

2. If there is a poor selling line stock in opening and / or closing stock, such stock should be eliminated from the trading account of the last year to get the gross profit ratio to be applied to the current year. Any sale of poor selling line should also be deducted from the total sales to find out normal sales because gross profit ratio is to be applied to the normal sales. The same procedure is to be followed for poor selling line stock and sales in case of memorandum trading account.

3. When gross profit ratios for a number of years are give, an average of these ratios may be ascertained for finding out the gross profit ratio is to be applied to the current year. But it is not advisable to take the average gross profit ratio in case of a continuous and persistent fall in the rate of gross profit from year to year, rather than a reasonably declining rate of gross profit as compared to the previous year should be applied in the current year.

4. Fire fighting expenses: Such expenses incurred on the date of fire for the purpose of salvaging the goods from fire are to be deducted before calculating the total loss or gross claim and applying the average clause.

5. under insurance: When and insurance policy is taken to cover the loss of profit, under insurance occurs if the sum assured falls short of the amount for which the cover should have been taken. For loss of profit in the event of fire, the insurable

amount is calculated by applying the rate of gross profit to the turnover of 12 months preceding the date of fire.

The insurer applie “Average Clause” to determine the amount of valid calim in the event of under insurance. The insured has to bear a portion of the loss himself.

Suppose standard sales are Rs 125,000 but owing to dislocation caused by fire, sales amount to Rs 100,000. If the applicable gross profit is 20 % of sales. The amount for which cover should have been taken would be 20 % of Rs 125,000 i.e, Rs 25,000. When cover is less than ₹ 25,000 , the insurer will settle claim with a proportionately lesser amount.

Average clause:

A fire insurance policy usually includes an average clause to discourage the under insurance of stock or any asset. The effect of this clause is that if the value of stock or any asset insured on the date of fire is more that the amount of policy taken , the full value of stock or any asset destroyed does not become payable to the insured but the insurance company pays the proportion of the loss which the amount of policy taken bears to the total value of stock or any asset in hand on the date of fire. For example, if the value of insurance policy for the loss of stock is Rs 100,000 and stock in hand on the date of fire is ₹ 140,000 out of which stock destroyed is estimated to be ₹ 70,000. The claim admitted by the insurance company will be as follows:

$$\text{Value of stock destroyed} \times \frac{\text{value of insurance policy}}{\text{Value of stock on the date of fire}}$$

70,000 x 100,000 /140,000 = 50,000

Therefore, the insurance claim admitted will be proportionately reduced to Rs 50,000 and the total value of stock destroyed by fire i.,e, Rs 70,000 will not be admissible to the insured.

Problem 1:

Calculate the amount of insurance claim to be lodged, based on the following information.

Value of stock destroyed by fire Rs 90,000

Insurance policy amount subject to average clause Rs 65,000

Value of stock salvaged from fire Rs 40,000

Solution 1:

Total stock before fire = 90,000 + 40,000 = Rs 130,000

Amount of insurance claim = $\frac{\text{stock destroyed by fire}}{\text{Total stock before fire}} \times \text{amount insured}$

= 90,000 / 130,000 x 65,000 = Rs 45,000.

Problem 2:

A fire occurred on 25th April, 2014 in the premises of a company. From the following particulars ascertain the amount of claim to be lodge in case of the loss of stock which was insured.

Stock on 1-1-2014	250,000	manufacturing expenses	100,000
Purchases to date of fire	10,00,000	sales to date of fire	15,00,000
Wages	200,000		

Gross profit ratio is 15 %. The stock salvaged was estimated at Rs 57,000.

Solution 2:

Memorandum Trading Account

To opening stock	250,000	By sales	15,00,000
To purchases	10,00,000	By closing stock (bal. Figure)	275,000
To wages	200,000		
To manufacturing expenses	100,000		
To gross profit	225,000		
(15,00,000 x 15 /100)			
	17,75,000		17,75,000

Statement showing the insurance claim to be lodged

Value of stock in hand on the date of fire	275,000
Less: stock salvaged	57,500
Claim to be lodged	217,500

Problem 2:

A fire occurred in the premises of Mr. Patil on 31st march, 2014 . From the following particulars, ascertain the claim to be lodged.

Stock on 1-1-2013	450,000	Sales returns during the year 2013	60,000
Purchases for 2013	18,55,000	Purchases from 1-1-2014 to date of fire	420,000
Purchases returns during 2013	15,000		
Goods taken by Mr. Patil for his personal use during 2013	10,000	Sales from 1-1-2014 to date of fire	495,000
Stock on 31-12-2013	630,000	Value of stock saved	99,000
Sales for the year 2013	20,60,000	Goods destroyed by fire during 2013	30,000

Solution 2:

Trading account of Mr. Patil for the year ending 31st December, 2013

To stock	450,000	Bysales 20,60,000	
To purchases 18,55,000		Less: returns 60,000	20,00,000
Less: returns 15,000		By goods destroyed by fire	30,000
18,40,000		By closing stock	630,000
Less: drawings 10,000	18,30,000		
To gross profit c/d	380,000		
	26,60,000		26,60,000

Percentage of gross profit to sales = gross profit / sales x 100 = 380,000/ 20,00,000 x 100 = 19 %

Memorandum trading account of Mr. Patil up to 31st march, 2014

To stock	630,000	By sales	495,000
To purchases	420,000	By stock on the date of fire	649,050
To gross profit c/d	94,050	(bal. Fig.)	
(19 % of Rs 495,000)			
	11,44,050		11,44,050

Statement showing the insurance claim to be lodged

Value of stock on 31-03-2014	649,050
Less: value of stock saved	99,000
Claim to be lodged	550,000

Problem 3:

The premises of Bombay sports house caught fire on 1st April, 2014 and its stock was damaged. The firm had made up accounts to 31st may each year. Following information is available:

	1st June, 2012 to 31st may,2013	1st June , 2013 to 1st April, 2014
Stock at commencement		
Valued at 10 % above cost	105,754	145,992
Purchases	452,580	348,270
Sales	520,000	491,700

In December, 2013 goods which cost Rs 10,000 were given away to gymkhana secretaries of various colleges for advertising purpose. No entry was made in the books . During the same month salesman had misappropriated unrecorded cash sales of Rs 4,000 . The rate of gross profit is constant. From the above make an estimate of stock on hand on the date of fire.

Solution 3:

Trading account of Bombay sports house

For the year ending 31st may, 2013

To opening stock	96,140	By sales	520,000
(105,754 x 100/110)		By closing stock	132,720
To purchases	452,580	(145,992 x 100/110)	
To gross profit c/d	104,000		
	652,720		652,720

Percentage of gross profit to sales = 104,000/520,000 x 100 = 20 %

Memorandum trading account of Bombay sports house

Upto 1st April, 2014

To opening stock	132,720	By sales 491,700	
To purchases 348,270		Add: cash sales	
Less: goods given away for advertising purpose <u>10,000</u>	338,270	Misappropriated <u>4,000</u>	495,700
To gross profit c/d (495,700 x 20 %)	99,140	By stock on the date of fire (bal. Fig.)	74,430
	570,130		570,130

Stock on hand on the date of fire Rs 74,430

Problem 4 :

A fire broke out in the warehouse of mercantile traders ltd. on 30th September, 2014. The company desires to file a claim with the insurance company for loss of stock and gives you the following information to enable you to prepare a statement showing the amount to be claimed. The last accounts of the company were prepared on 31st December, 2013.

Sundry debtors on 31-12-2013	320,000	sundry debtors on 30-09-2014	240,000
Cash received from debtors	11,52,000	stock on 31-12-2013	120,000
Purchases from 1-1-2014 to 30-09-2014	10,00,000	rate of gross profit to cost of sales	25 %

solution 4:

Memorandum trading account of mercantile traders ltd.

Up to 30th September, 2014

To opening stock	120,000	By sales	10,72,000
To purchases	10,00,000	By closing stcok (bal. Fig.)	262,400
To gross profit	214,400		
(20 % of 10,72,000)			
	13,34,400		13,34,400

Amount of claim will be for Rs 262,400 for stock destroyed on account of fire.

Sundry debtors account

To balance b/d	320,000	By bank	11,52,000
To sales (bal. Fig.)	10,72,000	By balance c/d	240,000
	13,92,000		13,92,000

Problem 5:

Fire occurred in the premises of A & Company on 1st September, 2014 and stock of the value of Rs 505,000 was salvaged and the business books and records were saved. Following information was obtained:

Purchases for the year ended 31-3-2014 35,00,000 sales from 1-3-2014 to 1-9-2014 18,00,000

Sales for the year ended 31-3-2014 55,00,000 purchases from 1-3-2014 to 1-9-2014 12,00,000 stock on 31-3- 2013 15,00,000 stock on 31-3-2014 17,00,000

Further information is also given that the stock on 31-3-2014 was overvalued by Rs 100,000

Calculate the amount of the claim to be presented to the insurance company in respect of losses, rate of gross profit is to be based on the year ended 31-3-2014

Solution 5:

Trading account of A and company

For the year ending 31st march, 2014

To opening stock	15,00,000	By sales	55,00,000
To purchases	35,00,000	By closing stock	16,00,000
To gross profit c/d	21,00,000	(17,00,000 – 100,000)	
	71,00,000		71,00,000

Rate of gross profit on sales = 21,00,000/ 55,00,000 x 100 = 38.18 %

Memorandum trading account

To opening stock	16,00,000	By sales	15,00,000
To purchases	10,00,000	(18,00,000 x 5 /6)	
(12,00,000 x 5 / 6)		By closing stock (bal. Fig.)	16,72,000
To gross profit	572,700		
(15,00,000 x 38.18 %)			
	31,72,000		31,72,000

Purchases and sales for 6 months from 1-3-2014 to 1-9-2014 include purchases and sales of march, 2014. So , these have been reduced to 5 months sales and purchases from April 1, 2014 to September, 1, 2014 by multiplying the given figures by 5/6.

Statement showing the amount of claim

Value of stock on 1-9-2014	16,72,00
Less: stock salvaged	505,000
Claim to be lodged	11,67,700

Problem 6:

A fire occurred in the premises of a businessman on 31st January, 2014 which destroyed most of the stock. However, stock worth Rs 5,940 was salvaged. Insurance policy for stock destroyed was for Rs 450,000.

Summarise trading account for the year ended 31st December, 2013 is as follows:

Turnover		15,00,000
Closing stock		393,750
		18,93,750
Less: opening stock	309,375	
Purchases	13,59,375	16,68,750
Gross profit		225,000

Transactions for the month of January, 2014 were as under:

Turnover	75,000	creditors as on 1-1-2014	113,000
Payment to creditors	80,010	creditors as on 31-1-2014	115,490

You are required to submit claim for insurance for loss of stock.

Solution 6:

Rate of gross profit for 2013 = Gross profit for 2013 x 100 = 225,000 x 100 = 1
5 %

Turnover for 2013 15,00,000

Memorandum trading account

For the month ending 31st January, 2014

To opening stock	393,750	By sales	75,000
To purchases	82,500	By closing stock (bal. Fig.)	412,500
To gross profit @ 15 % on 75,000	11,250		
	487,500		487,500

Statement showing the amount of claim

Closing stock on 31-3-2014		412,500
Less: stock salvaged		5,940
Claim to be lodged	406,560	

There is no need of applying average clause because the amount of policy Rs 450,000 is more than the value of stock Rs 412,000 on the date of fire.

Calculation of the value of purchases for January , 2014

Total creditors account

To bank	80,010	By balance b/d	113,000
To balance c/d	115,490	By purchases (bal. Fig.)	82,500
	195,500		195,500

Problem 7:

On 20th October, 2014 , the godown and business premises of aman ltd. were affected by fire. From the salvaged accounting records, the following information is available.

Stock of goods @ 10 % lower than the cost as on 31st march, 2014	216,000
Purchases less returns 1-4-2014 to 20-10-2014	280,000
Sales less returns 1-4-2014 to 20-10-2014	620,000

Additional information:

1. Sales up to 20th October, 2014 Rs 80,000 for which goods had not been dispatched.
2. Purchases upto 20th October,, 2014 did not include Rs 40,000 for which purchases invoices had not received from suppliers though goods have been received in godown.
3. Past records show the gross profit rate of 25 %
4. The value of goods salvaged from fire Rs 31,000
5. Aman ltd. has insured their stock for Rs 100,000

Compute the amount of claim to be lodged to the insurance company.

Solution 7:

Memorandum trading account

To opening stock	240,000	By sales (620,000 – 80,000)	540,000
To purchases (280,000 + 40,000)	320,000	By closing stock (bal. Fig.)	155,000
To gross profit c/d (540,000 x 25 %)	135,000		
	695,000		695,000

Statement of stock destroyed by fire

Stock on the date of fire 155,000

Less: stock salvaged 31,000

Stock destroyed by fire 124,000

$$\text{Insurance claim} = \frac{\text{loss of stock} \times \text{amount of policy}}{\text{Value of stock on the date of fire}}$$

= 124,000 / 155,000 x 100,000 = 80,000

Working note:

Stock as on 1st April, 2014 was valued at 10 % lower than cost.

Hence, original cost of the stock as on 1st April, 2014 would be = 16,000 / 90 x 100 = 240,000.

Problem 8:

Fire occurred in the premises of Gharib dass on 1st april, 2014 and a considerable part of the stock was destroyed. The stock salvaged was Rs 30,000. Value placed on goods saved in a damaged condition as Rs 26,000. A fire insurance policy for Rs 342,000 was taken to cover loss of stock by fire, you are required to ascertain the insurance claim which the company should claim from the insurance company for the loss of stock by the fire from the following particulars.

Purchases for the year 2013		18,76,000
Sales for the year 2013	23,20,000	
Purchases from 1st January, 2014 to 1st april, 2014		364,000
Sales from 1st January , 2014 to 1st april, 2014	480,000	
Stock as on January 1, 2013		288,000
Stock as on 31st December, 2013		484,000
Wages paid during the year 2013		200,000
Wages paid during the year 1st January, 2014 to 1st April, 2014	36,000	

Fire also broke out on 21st December, 2013 and destroyed stock of the estimated cost of Rs 100,000

There was a practice in the concern to value stock at cost less 10 % but all of the sudden this practice was changed and stock on 31st December, 2013 was valued at cost plus 10 %.

Solution 8:

Trading account of gharib dass

For the year ending 31st December, 2013

To stock	320,000	By sales	23,20,000
(288,000 x 100 / 90)		By closing stock	
To purchases	18,76,000	(484,000 x 100/ 110)	440,000
To wages	200,000	By stock destroyed by fire	100,000
To gross profit	464,000		
	28,60,000		28,60,000

Percentage of gross profit to sales = gross profit / sales x 100 = 464,000 / 23,20,000 x 100 = 20 %

Stock destroyed on 21st December, 2013 has been shown on the credit side of the trading account for the year 2013 to ascertain correct percentage of gross profit .

Memorandum trading account of gharib dass

Up to 1st april, 2014

To stock	440,000	By sales	480,000
To purchases	364,000	By closing stock (bal. Fig.)	456,000
To wages	36,000		
To gross profit	96,000		
(480,000 x 20 %)			
	936,000		936,000

Calculation of stock destroyed by fire

Value of stock on 1st april, 2014
456,000

Less: stock salvaged	30,000	
Agreed value of damaged goods	26,000	56,000
Stock destroyed by fire		400,000

The average clause will apply as the value of stock on the date of fire Rs 456,000 is more than the sum assured of Rs 342,000. Therefore, the insurance claim to be lodged will be:

$$\frac{\text{Value of policy} \times \text{value of stock destroyed}}{\text{Value of stock on the date of fire}}$$

342,000 / 456,000 x 400,000 = 300,000

Problem 9:

On 31st march, 2014 , fire occurred in the premises of M/s suraj brothers, the concern had taken an insurance policy of Rs 60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period from 1st January to 30th march, 2014.

1. Stock as per balance sheet at 31st march, 2013 Rs 95,600.
2. Purchases including purchases of machinery costing Rs 30,000 was Rs 170,000
3. Wages include wages Rs 3,000 for installation of machinery Rs 50,000
4. Sales including goods sold on approval basis amounting to Rs 49,500 was Rs 275,000. No approval has been received in respect of 2/3rd of the goods sold on approval
5. The average rate of gross profit is 20 % of sales.

6. The value of the salvaged goods was Rs 12,300

You are required to compute the amount of claim to be lodged to the insurance company.

Solution 9:

Memorandum trading account

For the period - 1st January, 2014 to 30th march, 2014.

To opening stock	95,600	By sales	242,000
To purchases (Rs 170,000- Rs 30,000)	140,000	By goods with customers for approval	26,400
To wages (Rs 50,000 – Rs 3,000)	47,000	By closing stock (bal. Fig.)	62,600
To gross profit (20 % on sales)	48,400		
	331,000		331,000

Calculation of goods with customers

Since the approval for sales has been received for the goods of Rs 33,000 i.e, 2/3rd of 49,500 . Hence, these should be valued at cost i.e, 33,000 – 20% of Rs 33,000 = Rs 26,400

Calculation of actual sales

Total sales – sale of goods on approval = Rs 275,000 - Rs 33,000 = Rs 242,000.

Computation of claim for loss of stock

Stock on the date of fire i.e, on 30th march, 2014 62,600

Less: value of salvaged stock	12,300
Loss of stock	50,300

$$\text{Amount of claim} = \frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}}$$

$$= \frac{\text{Rs } 60,000}{62,600} \times \text{Rs } 50,300$$

$$= \text{Rs } 48,211$$

Problem 10 :

The premises and stock of karam chand stores were totally destroyed by fire on 30th January, 2014 . From the account books and other records that were saved, the following information is available. The stock on hand has always been valued at 10 % below cost.

	2011	2012	2013	2014
Opening stock as valued	27,000	324,00	36,000	36,900
Purchases less returns	74,900	80,000	81,000	6,000
Sales less returns	120,000	132,000	140,000	12,000
Wages	17,400	16,400	23,600	2,000
Closing stock as valued	32,400	36,000	36,900	?

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

Solution 10 :

Trading account of Karam chand stores

For the year ended 31st December, 2011

To opening stock	30,100	By sales less returns	120,000
(27,000 x 100 / 90)		By closing stock	36,000
To purchases less returns	74,900	(32,400 x 100 /90)	
To wages	17,400		
To gross profit	33,600		
	156,000		156,000

Percentage of gross profit on sales for the year 2011

= 33,600/ 120,000 x 100 = 28 %

Trading account of Karam chand stores

For the year ended 31st December, 2012

To opening stock	36,000	By sales less returns	132,000
(32,400 x 100 / 90)		By closing stock	40,000
To purchases less returns	80,000	(36,000 x 100 /90)	
To wages	16,400		
To gross profit	39,600		
	172,000		172,000

Percentage of gross profit on sales for the year 2012

= 39,600/ 132,000 x 100 = 30 %

Trading account of Karam Chand Stores

For the year ended 31st December, 2013

To opening stock	40,000	By sales less returns	120,000
(27,000 x 100 / 90)		By closing stock	36,000
To purchases less returns	81,000	(32,400 x 100 /90)	
To wages	23,600		
To gross profit	36,400		
	181,000		181,000

Percentage of gross profit on sales for the year 2013

= 36,400/ 140,000 x 100 = 26 %

Average percentage of gross profit $= \frac{28\ \% + 30\ \% + 26\ \%}{3} = 28\%$

Memorandum Trading account of Karam chand stores

Up to 30th January, 2014

To opening stock	41,000	By sales less returns	12,000
(36,900 x 100 / 90)		By closing stock	40,360
To purchases less returns	6,000	(bal. Fig.)	
To wages	2,000		
To gross profit	3,360		
	52,360		52,360

Stock worth Rs 40,360 has been completely destroyed by fire, so claim for loss of stock to be lodged is Rs 40,360.

Problem 11:

A fire broke out on 10th January, 2014 in the premises of vikrant ltd. The entire stock was destroyed except to the extent of Rs 248,000. From the following figures, ascertain the amount of loss suffered by the company.

Book value of opening stock as on 1st april, 2012	14,40,000
Purchases during the accounting year ended 31st march, 2013	58,00,000
Sales less returns during the year ended 31st march, 2013	80,00,000
Book value of closing stock as on 31st march, 2013	900,000
Purchases from 1st april, 2013 to 10th January, 2014	58,40,000
Sales from 1st april,2013 to 10th January, 2014	75,60,000

It is the practice of the company to value the stock at 20 % less than cost. On 1st April, 2013 the company raised the prices by 10 %.

Solution 11:

Trading account

For the year ended 31st March, 2013

To opening stock	18,00,000	By sales less returns	80,00,000
(14,40,,000 x 100 / 80)		By closing stock	11,25,000
To purchases less returns	58,00,000	(940,000 x 100 /80)	
To gross profit	15,25,000		
	91,25,000		91,25,000

Percentage of gross profit on sales for the year 2012-13

= 15,25,000/ 80,00,000 x 100 = 19.06 %

Calculation of gross profit ratio for 2013-14

When sale price is increased by 10 %

Let sales in 2012-13 be Rs 100

Sales in 2013-14 (Rs 100 + 10 %)	110.00
Less: cost (Rs 100 – Rs 19.06)	80.94
Gross profit	29.06

Gross profit ratio in 2013-14 = Rs 29.06 x 100 / 110 = 26.42 %

Memorandum Trading account

From 1st April, 2013 to 10th January, 2014

To opening stock	11,25,000	By sales less returns	75,60,000
To purchases less returns	58,40,000	By closing stock	14,02,350
To gross profit		(bal. Fig.)	
(75,60,000 x 26.42 %)	19,97,350		
	89,62,350		89,62,350

Calculation of amount of claim

Closing stock as on 10th janauary, 2014	14,02,350
Less: salvage value	248,000
Amount of claim	11,54,350

Problem 12:

From the following figures, calculate the amount of claim to be lodged with the insurance company for loss of stock:

Stock at cost on 1st January, 2013	90,000
Stock at cost on 1st January, 2014	70,000
Purchases during 2013	400,000
Sales during 2013	600,000
Purchases from 1st January, 2014 to 30th September, 2014	600,000
Sales from 1st January , 2014 to 30th September, 2014	880,000

You are informed that:

1. In 2014 , the cost of purchases have risen by 20 % above the level prevailing in 2013.
2. In 2014, the selling prices have gone up by 10 % over the levels prevailing in 2013.
3. Salvage value is Rs 5,000
4. Apply FIFO method.

Solution 12:

Trading account

For the year ending 31st December, 2013

To opening stock	90,000	By sales	600,000
To purchases	400,000	By closing stock	70,000
To gross profit (30 % on sales)	180,000		
	670,000		670,000

Memorandum trading account

For 9 months ending 30th sept, 2014

To opening stock To purchases On sales of opening stock 40,000 On sales out of current purchases 182,000 To gross profit	70,000 222,000 600,000 892,000	By sales Out of opening stock 110,000 Out of current purchases 770,000 By closing stock (bal. Fig.)	 880,000 12,000 892,000

Calculation of amount of claim

Value of stock on 30-09-2014, the date of fire	12,000	
Less: salvage value of stock destroyed by fire	5,000	
Amount of claim to be lodged		7,000

Calculation of Sales out of opening stock

Selling price in 2013	100 (let)
Less: gross profit in 2013	30
Cost of sales in 2013	70

Calculation of selling price of opening stock

Selling price in 2014 (i.e, Rs 100 + 10 %)		110
Less: cost of opening stock for Rs 110 sales		70
Gross profit on sales of Rs 110	40	

Therefore, selling price of opening stock = Rs 110/70 x Rs 70,000 = Rs 110,000

Calculation of gross profit on sales of opening stock

Selling price	110,000
Less : cost of opening stock	70,000
Gross profit	40,000

Calculation of sales of current purchases and profit thereon

Sales at 2013 (let)		100
Add: 10 % increase in rate		10
Sales at 2014 rate		110
Less: cost of sales		
Cost of sales at 2013 rate		70
Add: 20 % increase (20 / 100 x 70)	14	
		84
Profit on sales of Rs 110 in 2014		26

Total sales in 2014	80,000
Less: sales of opening stock	110,000
Sales out of current purchases	770,000

Therefore, the gross profit on sales out of current purchases

= 26 /110 x 770,000 = Rs 182,000

19.1 Ascertainment of claim when abnormal items of goods are available or poor selling goods

Abnormal items of goods are those which cannot be sold at the normal price or has a slow rate of turnover. Such goods may include some poor selling of stock of goods and are generally valued at below cost and thus, reduce the gross profit. In order to determine the normal rate of gross profit the stock and sale proceeds of these goods are to be eliminated from the total sales and stock. Trading account in such a case is prepared in columnar form to show separately the normal and abnormal items. The following are the main steps involved in calculating the claim in the presence of abnormal lines of goods.

1. **Preparation of last year trading account :** While preparing the last year trading account stock, purchases and sales of normal goods must be considered in arriving the gross profit. In other words, value of abnormal goods included in opening stock, purchases , sales and closing stock must be deducted from the respective items.

2. **Calculation of rate of gross profit on sales:** Rate of gross profit on sales must be calculated with reference to gross profit on sales of normal goods and sales of normal goods only by the following formula

$$\text{Rate of gross profit on normal sales} = \frac{\text{Gross profit on sale of normal goods} \times 100}{\text{Sales of normal goods}}$$

3. **Preparation of memorandum trading account:** While preparing this account, value of abnormal goods included in opening stock, purchases and sales must be deducted from the respective item and is to be shown in a separated column for abnormal items. Gross profit must be calculated on the sales value of normal goods by applying rate of gross profit on normal sales as calculated in step 2 .The balancing figure will be closing stock of normal goods on the date of fire.

4. **Calculation of actual amount of loss**

Stock of normal goods on the date of fire from memorandum trading account	
	+++
Stock of abnormal goods on the date of fire	+++
	+++

Less: stock salvaged	+++
	+++
Add: expenses for extinguishment of fire	+++
Actual loss of stock	+++

5. **Calculation of amount of claim**: There would not be any difference in calculation of amount of claim on account of existence of abnormal goods. Calculation of claim is also based on the extent of insurance. If the amount of policy is less than the total stock, then average clause is applied as there is under insurance.

Problem 13:

On 25th june, 2014 a fire broke out in the premises of unlucky ltd. co. all the stocks were destroyed except some which were partly damaged and sold subsequently for Rs7,000

From the following particulars ascertain the claim to be submitted to the insurance company assuming that the policy was for Rs 20,000.

Stock as on 1st January, 2014	24,400
Purchases upto date of fire	73,000
Sales upto the date of fire	97,000
Purchases during the year 2013	153,500
Sales during the year 2013	196,500
Stock as on 1st January,	18,500

The stock as on 1st January, 2013 included a special item valued Rs 5,600 which was sold at a profit of 20 % on sales. A part of this item was sold in 2013 while the balance was sold on 3rd may, 2014 for Rs 2,500. Except for this item, the gross profit on all other items was at a uniform rate throughout the period.

Solution 13:

Trading account of unlucky co.

For the year ending 31st December, 2013

	Normal	Abnormal		Normal	Abnormal
To opening stock	12,900	5,600	By sales	192,000	4,500
To purchases	153,500	-	By closing stock	22,400	2,200
To gross profit	48,000	900			
	214,400	6,500		214,400	6,500

Sale value of special item is calculated as follows:

Cost of special item		5,600
Add: 25 % profit on cost which is equivalent to 20 % on sales	1,400	
Total sales value of the special item		7,000
Less: sale value of the special item		2,500
Sale of special item in 2013		4,500

Cost of the sale of special item in 2014 or cost of closing stock of special item on 31-12-2013

Sale value		2,500
Less: 20 % profit included there in (2,500 x 20 / 100)	500	
Cost		2,000

$$\text{Gross profit on normal sales} = \frac{\text{Gross profit on normal sales} \times 100}{\text{Normal sales}}$$

$$= \frac{48,000 \times 100}{192,000}$$

= 25 %

Memorandum trading account of unlucky co.

Up to 25the june, 2014

	Normal	Abnormal		Normal	Abnormal
To opening stock	22,400	2,000	By sales	94,500	2,500
To purchases	73,000	-	By closing stock (bal. Fig.)	24,525	-
To gross profit	23,625	900			
	119,025	2,500		119,025	2,500

Calculation of value of stock destroyed by fire

Value of stock on the date of fire	24,525
Less: sale of partly damaged stock	7,900
Value of stock destroyed by fire	16,625

Calculation of gross claim

$$\text{Claim to be lodged} = \frac{\text{value of stock destroyed} \times \text{insurance policy}}{\text{Closing stock}}$$

$$= \frac{16,625 \times 20,000}{24,525}$$

= Rs 13,558

Problem 14:

On 1st july, 2014 a fire took place in the godown of ram kumar which destroyed all stocks. Calculate the amount of insurance claim for stock from the following details:

Sales in 2012	200,000
Sales in 2013	300,000
Gross profit in 2012	60,000
Gross profit in 2013	60,000
Stock as on 1-1-2014	270,000
Purchases from 1-1-2014 to 30-06-2014	400,000
Sales from 1-1-2014 to 30-06-2014	720,000

Following are also to be taken in to consideration:

1. Stock as on 31st December, 2013 had been undervalued by 10 %.
2. A stock taking conducted in march, 2014 had revealed that stocks costing Rs 80,000 were lying in a damaged condition. 50 % of these stocks had been sold in may, 2014 at 50 % of cost and the balance were expected to be sold at 40 % of cost.

Solution 14:

Calculation of rate of gross profit in 2012

Gross profit	60,000
Sales	200,000

Rate of gross profit on sales $= \frac{60,000 \times 100}{200,000} = 20\ \%$

Calculation of rate of gross profit in 2013

Gross profit		60,000
Add:- profit to be increased due to increase in value of closing stock	30,000	
Total gross profit		90,000

Sales in 2013
300,000

Therefore, percentage of gross profit to sale (90,000 / 300,000 x 100) = 30 %

Average percentage of gross profit = $\frac{30\,\% + 30\,\%}{2}$ = 30 %

Memorandum trading account

Up to 1st july, 2014

	Normal	Abnormal		Normal	Abnormal
To opening stock	220,000	80,000	By sales	700,000	20,000
(270,000 x 100 / 90)			By gross loss	-	44,000
To purchases	400,000	-	By closing stock	130,000	146,000
To gross profit c/d	210,000	-			
	830,000	80,000		830,000	910,000

Calculation of gross loss on abnormal items

Cost of abnormal items	80,000	
Cost of ½ of the abnormal items		40,000
Less: value of sales @ 50 %		20,000
Gross loss on 50 % abnormal items		20,000

Add: 60 % loss on balance of 50 % abnormal goods

(400,000 x 60 / 100)	24,000
Total gross loss on abnormal items	44,000

Problem 15:

Bee and co. suffered loss of stock due to fire on 6th may,2014. From the following information, prepare a statement showing the claim to be lodged.

Stock on 1st January, 2013 Rs 38,400

Purchases during 2013	160,000
Sales during 2013	202,600
Closing stock on 31st December, 2013	31,800
Purchases from 1st January 2014 to the date of fire	54,000
Sales from 1st January, 2014to the date of fire	61,400

An item of stock purchased in 2012 at a cost of Rs 10,000 was valued at Rs 6,000 on 31st December, 2012. Half of this stock was sold in 2013 for Rs 2,600, the remaining was valued at Rs 2,400 on 31st December, 2013. 1/4th of the original stock was sold in march, 2014 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 and there was an average clause in the policy.

Solution 15:

Trading account

For the year ended 31st December, 2013

	Normal	Abnormal	Total		Normal	Abnormal	Total
To opening stock	32,400	10,000	42,400	By sales	200,000	2,600	202,600
To purchases	160,000	-	160,000	By gross loss	-	2,400	2,400
To gross profit	37,000	-	37,000	By closing stock	29,400	5,000	34,400
	229,400	10,000	239,400		229,400	10,000	239,400

Gross profit rate = 37,000 / 200,000 x 100 = 18.5 %

Memorandum trading account

Upto 6th may, 2014

	Normal	Abnormal	Total		Normal	Abnormal	Total
To opening stock	29,400	5,000	34,400	By sales	60,000	1,400	61,400
To purchases	54,000	-	54,000	By gross loss	-	2,100	2,100
To gross profit	11,100	-	11,100	By closing stock	34,500	1,500	36,000
	94,500	5,000	99,500		94,500	5,000	99,500

Value of stock on 6th may, 2014		36,000
Less: stock destroyed		12,000
Stock destroyed by fire	24,000	

Amount of claim = 30,000 / 36,000 x 100 = 20 , 000

Problem 16

A fire occurred in the premises of malcom marshal & co. on 15-5-2014 causing destruction of a large part of the stock. The firm had taken a fire insurance policy for Rs 547,200 to cover the loss of stock by fire. From the records saved, the following particulars were ascertained:

Purchases for the year 2013	30,01,600
Sales for the year 2013	37,12,000
Purchases from 1st January,2014 to 15th may, 2014	582,400
Sales from 1st January , 2014 to 15th may, 2014	768,000
Stock on 1st January ,2013	460,800
Stock on 31st December, 2013	774,400
Wages paid during 2013	320,000
Wages paid during 1st January , 2014 to 15th may, 2014	57,600
Stock salvaged	8,600

In 2013 some goods were destroyed by fire. The cost of such goods were Rs 160,000. These goods were not covered by any insurance policy.

In valuing the stock on 31st December, 2013 stocks costing Rs 34,000 were found to be poor selling line and Rs 6,000 in relation to such stock were written off. A Portion of these goods (origingal cost Rs 5,000) were sold in April, 2014 at a loss of Rs 1,000 on original cost. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit has remained at a uniform rate throughout.

You are required to ascertain the insurance claim available to the firm.

Solution 16:

Trading account of malcom marshall & co.

For the year ending 31st December, 2013

To opening stock	460,800	By sales	37,12,000
To purchases	30,01,600	By goods destroyed by fire	160,000
To wages	320,000	By closing stock	
To gross profit c/d	870,000	Normal items (Rs 774,400- Rs 28,000)	746,400
		Abnormal items (cost) (Rs 28,000- Rs 6,000 written off)	34,000
	46,52,400		46,52,400

Rate of gross profit = 870,000/ 37,12,000 x 100 = 23.4375 %.

Memorandum trading account of malcom marshall & co.

For the period 1st January,2014 to 15th may, 2014

	Normal	Abnormal	Total		Normal	Abnormal	Total
To opening stock	746,400		780,400	By sales	764,000	4,000	768,000
		34,000					
To purchases			582,400	By gross loss	-	1,000	1,000
		-					
To wages	562,400		57,600	By closing stock	801,463	29,000	830,463
		-					
To gross profit c/d	57,600						
			179,063		15,65,463	34,000	15,99,463
	179,063		15,99,463				
		-					
	15,65,463						
		34,000					

Statement showing the amount of claim to be lodged

Book value of stock on the date of fire	830,463	
Less: value of stock salvaged		89,600
Value of stock destroyed by fire		740,863

Calculation of claim to be lodged

(applying average clause) $= \dfrac{740,863 \times 547,200}{830,463}$

Problem 18:

A fire occurred in the premises of a merchant on 31st march, 2014 destroyed the major part of the stock. The stock was ,however, insured. The amount of the policy was for Rs 76,000 and there was an average clause in the policy. The details about the year 31st December, 2013 together with available figures for 3 months of 2014 are given below:

	2013	2014
Stock on 1st January	87,000	73,200
Purchases	254,000	69,980
Sales	346,000	96,000
Variable expenses – direct	9,600	3,680

Closing stock of 2012 includes an abnormal item (slow moving) taken at 75 % of cost, original cost being Rs 32,000. The normal stock on hand has always been valued at 0 % less than cost.

50 % of the abnormal stock of 2012 was sold out in 2013 for Rs 14,000 and 50 % of the balance was sold out at Rs 10,000 in march, 2014. The rates of gross profit in 2011 and 2012 were 28 % and 24 % respectively. The stock salvaged was Rs 5,000.

Show the amount of the claim to be lodged to the insurance company in respect of the loss of stock, mentioning any further factors which you consider should be taken in to consideration when preparing the claim.

Solution 17 :

Trading account

For the year ending 31st December, 2013

	Normal	Abnormal		Normal	Abnormal
To opening stock	70,000	32,000	By sales	332,000	14,000
To purchases	254,000	-	By gross loss	-	2,000
To variable expenses	9,600	-	By closing stock	68,000	16,000
To gross profit c/d	66,400	-			
	400,000	32,000		400,000	32,000

Rate of gross profit = 66,400/ 332,000 x 100 = 20 %

Calculation of opening stock on 1 -1-2013

Opening stock as given on 1-1-2013	87,000
Less: abnormal stock : 75 % of Rs 32,000	24,000
Normal stock at 90 %	63,000
Normal stock at 100 % (63,000 x 100 / 90)	70,000

Calculation of closing stock on 31-12-2013

Stock on 1-1-2014 as given	73,200
Less: abnormal stock : 50 % of Rs 32,000 valued at 75 %	12,000
Normal stock at 90 %	61,200
Normal stock at 100% (61,200 x 100 /90)	68,000
Abnormal stock at 100 % (12,000 x 100 / 75)	16,000

Memorandum trading account

For 3 months ending march 31, 2014

	Normal	Abnormal		Normal	Abnormal
To opening stock	68,000	16,000	By sales	86,000	10,000
To purchases	69,980	-	By closing stock	72,000	8,000
To variable expenses	3,680	-			
To gross profit c/d	16,340	2,000			
	158,000	18,000		158,000	18,000

Statement showing the claim to be lodged

Stock on the date of fire i.e, 31-3-2014	80,000
Less: stock salvaged	5,000
Value of stock destroyed by fire	75,000

Average clause = $\frac{75,000 \times 76,000}{80,000}$

= 71,250

Problem 18 :

On 30th june, 2014 accidental fire destroyed a major part of the stocks in the godown of jay associates, stocks costing Rs 30,000 could be salvaged but not their stores ledgers. A fire insurance policy, was in force under which the sum insured was Rs 350,000. From available records, the following information was received:

1. Total of sales invoices during the period april to june amounted to Rs 30,20,000. An analysis showed that goods of the value of Rs 300,000 had been returned by the customers before the date of fire.
2. Opening stock on 1-4-2014 was Rs 220,000 incuding stocks of value of Rs 20,000 being lower of cost and net value subsequently realised.
3. Purchases between 1-4-2014 and 30-6-2014 were Rs 21,00,000
4. Normal gross profit rate was 33.33 % on sales.
5. A sum of Rs 30,000 was incurred by way of fire fighting expenses on the date of fire for the purpose of salvaging the goods from the fire.

Prepare a statement showing the insurance claim recoverables.

Solution 18:

Memorandum trading account of jay associates

For 3 months ending 30th june, 2014

	Normal	Abnormal		Normal	Abnormal
To opening stock	200,000	20,000	By sales	27,00,000	20,000
To purchases	21,00,000	-	By closing stock	500,000	-
To gross profit	900,000	-			
	32,00,000	20,000		32,00,000	20,000

Statement of claim to be lodged

Stock on the date of fire on 30-6-2014	500,000	
Less: stock salvaged		30,000
		470,000
Add: fire fighting expenses		30,000
Total loss or gross claim		500,000

Average claim = 350,000 / 500,000 x 500,000 = 350,000

20.2 Summary

Insurance is a contract of Indemnity. In this contract of Insurance, only those so who suffer loss are compensated to the extent of actual loss. Suffered by them. Every business unit has to keep a sufficient quantity of stock in the business premises for meeting the requirements of sales or manufacturing the goods. When an insurance policy is taken to cover the loss of profit, under insurance occurs of the sum assured falls short of the amount for which the cover shall have been taken.

20.3 Important practice questions

1. A fire occured on 15-9-2014 i the godown of M/s A and B. From the following figures ascertain the claim to be lodged :

	₹		₹
Stock on 1-4-2014	1,05,300	Sales from 1-4-2014 to	
Purchases from 1-4-2014		the date of fire	6,76,000
to the date of fire	3,50,400	Goods used by the partners	
Manufacturing expenses		themselves (at cost)	10,500
and wages	2,60,000		

Rate of gross profit is 30% on cost. The stock salvaged was value at Rs. 36,000.

2. On 15th December 2014, a fire occurred in the premises of M/s OM exports. Most of the stocks were destroyed. Cost of stock salvaged being ₹ 1,40,000. From the books of account, the following particulars were available.

(i) Stock at the close of account on 31st March, 2014 was valued at ₹ 9,40,000.

(ii) Purchases from 1-4-2014 to 15-12-2014 amounted to ₹ 13,20,000 and the sales during the period amounted to ₹ 20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim if the stock were insured for ₹ 4,00,000.

3. A fire occurred in the premises of a merchant on 18th September, 2014 and a considerable part of the stock was destroyed. The value of the stock saved was ₹ 8,200.

The books disclosed that on 1st April 2014 the stock was valued at ₹ 66,850, the purchases to the date of fire of amounted to ₹ 1,85,000 and the sales to ₹ 2,82,500. Goods costing ₹ 500 were taken for personal use and goods sold for ₹ 2,500 wre returned to the merchant. On investigation it is found that during the past five years the averge gross profit on the copst was 25%.

You are required to prepare a statement showing the amount the merchant should claim from the insurance company in respect of stock destroyed by fire.

4. A fire occurred in the premises of Ranjan on 25th November, 2014 when a large part of the stock was destroyed. The value of salvaged stock was ₹ 1,50,000. Ranjan gives you the following information for the period 1st April, 2014 to 25th November, 2014;

(i) Purchases ₹ 8,05,000 (ii) Sales : 9,00,000 (iii) Goods costing ₹ 5,000 wre taken away by Ranjan for his personal use. (iv) Cost price of the stock on 1st April 2014 : ₹ 4,00,000.

Over the last few years, Ranjan has been selling goods at a consistent rate of gross margin of $33^{1/3}\%$ on sales.

Insurance policy is for ₹ 5,00,000. It includes an average clause.

Ranjan asks you to prepare a statement of claim to be made on the insurance company.

5. On 1st April 2014 an accidental fire completely destroyed the stock of Chhote Nawab. However, from the various records available from his chargered accountant, the following information was obtained, from which you are requested to prepare a statement showing tbhe amount of claim to be lodged with the Sharmila Insurance Company Ltd.

Stock of cost :		Sales :	
	₹		₹
Ist January, 2013	4,50,000	Year ended 31st	
1st January 2014	5,50,000	December, 2013	17,00,000
Purchases :		Period upto the date	
Calendar Year 2013	12,92,500	of fire	10,00,000
Three months to		Calendar year 2013	2,10,000
31st March, 2014	6,00,000	Three months to 31st	
		March, 2014	?

In February, 2014 goods valued at sazle of ₹ 50,000 were distributed as samples. Manufacturing expenses were normally found to be constant. The value of the salvaged stock was estimated at ₹ 70,000.

6. On 20th June, 2014, the godown and business premises of a merchant were affected by fire and from accounting records salvaged, the following information is made available to you :

	₹
Stock of Goods at Cost on 1st April, 2013	1,00,000
Stock of Goods at 10% below than cost as on 31st March, 2014	1,08,000
Purchases of Goods for the year from 1st April, 2013 to 31-3-2014	4,20,000
Sales for the same period	6,00,000
Purchases less Returns for the Period from 1st April, 2014 to 20th June 2014	1,40,000
Sales less Returns for the same period	3,10,000

Sales upto 20th June, 2014 included ? 40,000 for which goods had not been despatched. Purchases upto 20th May, 2013 did not include ` 20,000 for which purchase invoices had not been received from suppliers, though goods have been received at the godown. Goods salvaged from the accident were worth ` 12,000 and these were handed over to the insured.

Ascertain the value of the claim for loss of goods/stock which could be preferred on the insurer.

7. A fire occurred on the premises of a merchant on 31st August, 2014 From the following particulars, calculate the amount of claim to be lodged with the insurance company for the loss of stock :

	₹		₹
Stock on 1st April, 2013	3,60,000	Stock on 31st March, 2014	4,40,000
Purchases for the year ended 31st March, 2014	16,00,000	Purchases from 1st April, 2014 to 31st August, 2014	5,40,000
Sales for the year ended 31st March, 2014	25,00,000	Sales from 1st April, 2014 to 31st August, 2014	6,60,000

Stock on 1st April, 2013 was valued at 10% below cost and the stock on 31st March 2014 was valued at 10% above cost. Salvage value of stock after fire was ₹ 99,600. Value of insurance policy of the stock was ₹ 3,00,000.

8. A fire occurred on 15th September, 2014 in the premises of Excel Ltd. From the

following figures, calculate the amount of claim to be lodged with the insurance company for the loss of stock :

	₹		₹
Stock at cost as on 1st April, 2013	2,00,000	Purchases from 1st April, 2014 to 15th September, 2014	8,80,000
Stock at cost as on 1st April, 2014	3,00,000	Sales during the year ended 31st March, 2014	6,00,000
Purchases during the year ended 31st March, 2014	4,00,000	Sales from 1st April 2014 to 15th September, 2014	10,50,000

During the current year, cost of purchases has risen by 10% above last year's level and selling prices have gone up by 5%. Salvage value of stock after fire was ₹ 20,000.

ASCERTAINMENT OF CLAIM WHEN ABNORMAL ITEMS ARE AVAILABLE

9. On 30th September, 2014, the stock of Fred Perry was lost in a fire accident. From the available records, the following information is made available to you to enable you to prepare a statement of claim on the insurers :

	₹		₹
Stock at cost on 1-4-2013	37,500	Sales less returns for the year ended 31-3-2014	3,15,000
Stock at cost on 31-3-2014	52,000	Purchases less returns upto 30-9-2014	1,45,000
Purchases less returns for the year ended 31-3-2014	2,53,750		
Sales less returns up to 30-9-2014	1,84,050		

In valuing stock on 31-3-2014, due to obsolescence 50% of the value of the stock which originally cost ₹ 6,000 had been written off. In May 2014, three-fourths of this stock had been sold at 90% of the original cost and it is now expected that the balance of the obsolete stock would also realise the same price. Subject to the above, gross profit had remained uniform throughout.

Stock to the value of ₹ 7,200 was salvaged.

10. On 11-11-2014 the premises of Rocky Ltd. was destroyed by fire. Following information is made available :

	₹		₹
Stock as on 1-4-2012	3,75,000	Purchases from 1-4-2014	
Purchases from 1-4-2012		to 11-11-2014	3,41,000
to 31-3-2014	5,20,000		
Sales from 1-4-2012		Sales from 1-4-2014 to	
to 31-3-2014	8,55,000	11-11-2014	4,35,500
Stock as on 31-3-2014	2,00,000		

In valuing the stock on 31-3-2014, due to damage 50% of the value, of the stock which originally cost ₹ 22,000 was written off.

In June, 2014 about 50% of this stock was sold for ₹ 5,500 and the balance of obsolete stock is expected to realize the same price (i.e., 50% of the original cost).

Gross profit ratio is to be assumed as uniform in respect of other sales. Stock salvaged from fire amounts to ₹ 11,500. Compute the value of stock lost in fire.

11. Malcom owns a retail stationery shop which was partly destroyed by fire on 27th June, 2014. The stock was insured for ₹ 13,000.

The Balance Sheet drawn on 31st December, 2013 included, inter alia, the following items :

Stock ₹ 12,500 ; Creditors ₹ 3,500.

On examination of the books of account for the subsequent period up to the date of the fire, the following particulars were obtained :

Sales ₹ 88,800 ; Payments to creditors for goods ₹ 75,000 ; Creditors as on 27-6-2014 ₹ 1,800.

A physical check of stock after the fire showed that items undamaged were ₹ 7,000.

The normal rate of gross profit is 25 per cent on cost but the stock on 31st December, 2013 included items of discontinued line totalling ₹ 3,800 which were all sold during the next two months at cost.

You are required to compute the amount of claim to be made to the insurer. [₹ 6,500].

From the following particulars ascertain the value of stock as on 31st March, 2014 :

	₹		₹

Stock as on 1-4-2013	14,250	Sales	1,24,500
Purchases	76,250	Manufacturing Expenses	3,15,000

At the time of valuing stock as on 31st March, 2013, a sum of ` 1,750 was written off on a particular item, which was originally purchased for ` 5,000 and was sold during the year for ` 4,500. Barring the transaction relating to this item, the gross profit earned during the year was 20 per cent on sales.

On 1st April, 2014, the godown of Hindustan Limited was destroyed by fire. From the books of account, the following particulars are gathered :

	₹		₹
Stock at cost on Ist January, 2013	27,570	Sales during 2013	3,51,000
Stock as per Balance Sheet on 31st December, 2013	51,120	Sales from 1st January, 2014 to 31st March, 2014	91,500
Purchases during 2013	2,71,350	Value of goods salvaged	6,300
Purchases from 1st January, 2014 to 31st March, 2014	75,000		

Goods of which original cost was ` 3,600 had been valued at ` 1,500 on 31st December, 2013. These were sold in March, 2014 for ` 2,700. Except this transaction, the rate of gross profit has remained constant.

On 31st March, 2014 goods worth ` 15,000 had been received by the godown keeper, but had not been entered in the purchases account.

Calculate the value of goods destroyed by fire.

The premises of a company were destroyed by fire on 15-6-2014. The records, however, were saved wherefrom the following particulars were available

	₹		₹
Stock at cost on 1-1-2013	30,000	Purchases less returns for the 1-1-2014 to 15-6-2014	85,000
Stock at cost on 31-12-2013	40,000		
Purchases less returns for the		Sales less returns from	

year ended 31-12-2013	2,00,000	1-1-2014 to 15-6-2014	1,20,000
Sales less returns for the			
year ended 31-12-2013	2,50,000		

₹ 2,500 has been written off certain stock, which was a poor selling line, while valuing the stock for Balance Sheet as at 31-12-2013. The cost of such stock was ₹ 4,000. A portion of this stock was sold in March 2014 at a loss of ₹ 500 on the original cost of ₹ 2,000. The balance of this stock was now estimated to be worth the original cost. Expecting the above, the Gross Profit has remained at a uniform rate throughout. The stock saved was ₹ 5,000. You are required to ascertain the amount of loss on stock which was to be claimed from the Insurance Company.

15. On 15th June, 2014 the premises of Fire and Stone were destroyed by the fire but sufficient records were saved from which the following particulars were ascertained.

	₹		₹
Stock at cost, 1st January, 2013	73,500	Purchases less returns, 1st Jan.,	
Stock at cost, 31st December, 2013	79,600	2014 to 15th June, 2014	1,62,000
Purchases less returns, year		Sales less returns, 1st January,	
ended 31-12-2013	3,98,000	2014 to 15th June, 2014	2,31,200
Sales less returns, year ended			
31-12-2013	4,87,000		

In valuing stock for Balance Sheet at 31st December, 2013 ₹ 2,300 had been written off certain stock which was a poor selling line, having cost ₹ 6,900. A portion of these goods was sold in March, 2014 at a loss of ₹ 250 on the original cost of ₹ 3,450. The balance of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profits had remained at a uniform rate throughout.

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