

Special Transactions relating to Goods in a Business

Special transactions relating to goods in a business are unusual events involving how inventory is managed. These events are different from regular buying and selling and need specific accounting treatments to show their effect on financial statements.

Examples include giving goods to charity, offering free samples, losing goods to theft or fire, or withdrawing items for personal use. These events are not routine and need careful accounting to show their impact accurately.

These journal entries represent special transactions relating to goods in a business:

**1. Drawing in Goods:**

- When goods are withdrawn from the business for personal use by the owner, it is recorded as a drawing.
- The value of the goods withdrawn is debited to the Drawings Account and credited to the Purchases Account because it reduces the inventory available for sale.

**2. Goods given away as charity:**

- If goods are donated to charity, it's treated as a charitable expense.
- The value of the goods given away is debited to the Charity Account and credited to the Purchases Account.

**3. Goods Distributed as Free Samples:**

- When goods are distributed as free samples for promotional purposes, it's considered as an advertising expense.
- The value of the goods distributed is debited to the Advertisement Expense Account and credited to the Purchases Account.

**4. Loss of Goods by Theft or Fire:**

- If goods are lost due to theft or fire, it results in a loss to the business.
- The value of the goods lost is debited to either the Loss by Theft Account or the Loss by Fire Account and credited to the Purchases Account to reflect the decrease in inventory.
- If the goods were insured, the insurance company compensates for the loss, so the insurance company's account is debited, and the loss account is credited.



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**5. If the Insurance Company Does Not Admit the Claim in Full:**

- If the insurance company doesn't fully admit the claim, it's considered as a loss to the business.
- The amount not reimbursed by the insurance company is debited to the Bank Account or Statement of Profit and Loss Account, and the balance is credited to the Purchases Account.
- These entries help in accurately reflecting the impact of special transactions relating to goods on the financial statements of the business.

**Journal Entries**

Transaction	Debit Account	Credit Account	Explanation
Drawing in Goods	Drawings A/c	Purchases A/c	Goods withdrawn for personal use by owner
Goods given away as charity	Charity A/c	Purchases A/c	Goods given away as charity
Goods Distributed as free Samples	Advertisement Exp. A/c	Purchases A/c	Goods distributed as free samples for promotion
Loss of goods by theft or loss by fire	Loss by theft A/c or Loss by fire A/c	Purchases A/c	Goods lost due to theft or fire
If the goods were insured	Insurance company A/c	Loss by theft or fire A/c	Insurance compensation for loss
If the insurance company does not admit the claim in full	Bank A/c or Statement of P/L A/c	Purchases A/c	Partially admitted insurance claim

**Solved Example**

**Ques: Pass journal entries for the following:**

1. July 10, 2000 Proprietor withdrew for his personal use cash Rs. 2,000 and goods worth Rs. 1,000.
2. July 12, 2000 Goods for Rs. 5,000 were given away as charity (sale price Rs. 6,000)
3. July 14, 2000 Goods worth Rs. 2,500 were distributed as free samples.
4. July 16, 2000 Goods worth Rs. 5,000 and cash Rs. 2,000 were stolen by an employee.
5. July 18, 2000 Goods worth Rs. 10,000 were destroyed by fire. Insurance company admitted claim for 60% amount.



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**Solution:** The journal entries for the given transactions:

1. July 10, 2000: Proprietor withdrew for his personal use cash Rs. 2,000 and goods worth Rs. 1,000.

Date	Particulars	Debit	Credit
2000-07-10	Proprietor's Drawings A/c	3,000	
	Cash A/c	2,000	
	Inventory A/c	1,000	

2. July 12, 2000: Goods for Rs. 5,000 were given away as charity (sale price Rs. 6,000).

Date	Particulars	Debit	Credit
2000-07-12	Charity A/c	5,000	
	Inventory A/c		5,000

3. July 14, 2000: Goods worth Rs. 2,500 were distributed as free samples.

Date	Particulars	Debit	Credit
2000-07-14	Advertisement Expense A/c	2,500	
	Inventory A/c		2,500

4. July 16, 2000: Goods worth Rs. 5,000 and cash Rs. 2,000 were stolen by an employee.

Date	Particulars	Debit	Credit
2000-07-16	Loss by Theft A/c	7,000	
	Inventory A/c	5,000	
	Cash A/c	2,000	

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e) July 18, 2000: Goods worth Rs. 10,000 were destroyed by fire. Insurance company admitted claim for 60% amount.

Date	Particulars	Debit	Credit
2000-07-18	Insurance Company A/c	6,000	
	Loss by Fire A/c	4,000	
	Inventory A/c		10,000

**Assignment**

**Ques 1: Pass journal entries for the following:**

- January 5, 2025: Proprietor withdrew for personal use cash Rs. 3,500 and goods worth Rs. 2,000.
- January 10, 2025: Donated goods worth Rs. 4,000 to a charitable organization (sale price Rs. 5,000).
- January 15, 2025: Distributed goods worth Rs. 1,500 as free samples.
- January 20, 2025: Experienced a loss of goods worth Rs. 6,000 due to theft by an employee.
- January 25, 2025: Goods worth Rs. 8,000 were destroyed in a fire. Insurance company admitted a claim for 80% of the loss.
- January 30, 2025: Goods purchased for Rs. 7,000 were found to be defective and returned to the supplier.

**Ques 2: Pass journal entries for the following:**

- April 5, 2025: Proprietor withdrew for personal use cash Rs. 4,000 and goods worth Rs. 2,500.
- April 10, 2025: Donated goods worth Rs. 5,000 to a charitable organization (sale price Rs. 6,500).
- April 15, 2025: Distributed goods worth Rs. 3,000 as free samples.
- April 20, 2025: Experienced a loss of goods worth Rs. 7,500 due to theft by an employee.
- April 25, 2025: Goods worth Rs. 10,000 were damaged in transit. Insurance company admitted a claim for 70% of the loss.
- April 30, 2025: Sold goods on credit for Rs. 12,000 to a customer.

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**Ques 3: Pass journal entries for the following:**

1. July 5, 2025: Proprietor withdrew for personal use cash Rs. 3,200 and goods worth Rs. 1,800.
2. July 10, 2025: Donated goods worth Rs. 3,500 to a charitable organization (sale price Rs. 4,200).
3. July 15, 2025: Distributed goods worth Rs. 2,000 as free samples.
4. July 20, 2025: Experienced a loss of goods worth Rs. 4,800 due to theft by an employee.
5. July 25, 2025: Goods worth Rs. 7,000 were destroyed in a fire. Insurance company admitted a claim for 50% of the loss.
6. July 30, 2025: Purchased goods for Rs. 6,500 on credit from a supplier.

**Ques 4: Pass journal entries for the following:**

1. October 5, 2025: Proprietor withdrew for personal use cash Rs. 3,800 and goods worth Rs. 2,200.
2. October 10, 2025: Donated goods worth Rs. 4,800 to a charitable organization (sale price Rs. 6,000).
3. October 15, 2025: Distributed goods worth Rs. 2,500 as free samples.
4. October 20, 2025: Experienced a loss of goods worth Rs. 5,500 due to theft by an employee.
5. October 25, 2025: Goods worth Rs. 9,000 were damaged in a flood. Insurance company admitted a claim for 60% of the loss.
6. October 30, 2025: Sold goods for cash Rs. 11,000.

**Ques 5: Pass journal entries for the following:**

1. December 5, 2025: Proprietor withdrew for personal use cash Rs. 4,200 and goods worth Rs. 2,500.
2. December 10, 2025: Donated goods worth Rs. 6,000 to a charitable organization (sale price Rs. 7,500).
3. December 15, 2025: Distributed goods worth Rs. 3,000 as free samples.
4. December 20, 2025: Experienced a loss of goods worth Rs. 8,000 due to theft by an employee.
5. December 25, 2025: Goods worth Rs. 12,000 were damaged in a warehouse fire. Insurance company admitted a claim for 75% of the loss.
6. December 30, 2025: Purchased goods for Rs. 8,500 on credit from a supplier.

**Ques 6: Pass journal entries for the following:**

1. Rs.1, 000 due from Rohit is now bad debts.
2. Goods worth Rs.2,000 were used by the proprietor
3. Charge depreciation @ 10% p.a. for two months on machine costing Rs. 30,000
4. Provide interest on capital of Rs. 1, 50,000 at 6% p.a. for 9 months.

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5. Rahul who owed us Rs. 2,000 becomes insolvent and a final dividend of 60 paise in a rupee is received from his estate.
6. Goods costing Rs. 8000 sold to Mohan for Rs. 10,000.

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