

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- When goods are withdrawn from the business for personal use by the owner, it is recorded as a drawing.
- The value of the goods withdrawn is debited to the Drawings Account and credited to the Purchases Account because it reduces the inventory available for sale.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Drawings A/c Dr.		XXXX	
	To Purchases A/c			XXXX
	(Being goods withdrawn by proprietor for personal use)			

Explanation

When the owner takes goods for personal use, it is treated as **drawings**. Purchases are reduced because goods meant for sale are taken out of business.

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.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Charity A/c Dr.		XXXX	
	To Purchases A/c			XXXX
	(Being goods given away as charity)			

Explanation

Goods donated to charity are a **business expense**. Purchases are credited as stock is reduced.



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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.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Advertisement A/c Dr.		XXXX	
	To Purchases A/c			XXXX
	(Being goods distributed as free samples)			

Explanation

Free samples are given for promotion, so they are treated as **advertising expense**.

Purchases are reduced due to decrease in stock.

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.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Loss by Theft / Fire A/c Dr.		XXXX	
	To Purchases A/c			XXXX
	(Being loss of goods due to theft/fire)			

Explanation

Loss of goods is a **business loss**.

Purchases are credited because inventory is reduced.

5. In Case the goods were insured:

When a business insures its inventory, it protects itself financially against unexpected losses, like theft or fire. If an insured event occurs:

a) Initial Recognition of the Loss:

- The loss is recorded when it happens (e.g., "Loss by Theft" or "Loss by Fire").
- This entry decreases the value of inventory in the books.

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Date	Particulars	LF	Debit (₹)	Credit (₹)
	Loss by Fire/Theft A/c Dr.		XXXX	
	To Purchases A/c			XXXX
	(Being goods lost due to fire/theft)			

Explanation

This records the actual loss of goods and reduction in stock.

b) Insurance Claim Process:

- If goods are insured, the business will file a claim with the insurance company.
- The expected compensation is recorded as a receivable under the "Insurance Company" account, acknowledging that the insurer owes the business.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Insurance Company A/c Dr.		XXXX	
	To Loss by Fire/Theft A/c			XXXX
	(Being insurance claim admitted)			

Explanation

Insurance company becomes a **debtor** to the business.
Loss is reduced to the extent of claim admitted.

c) Receiving the Compensation:

- When the insurance company pays the compensation, the bank account is debited (increased), and the "Insurance Company" account is credited (cleared).
- If the insurance covers the full amount of the loss, the compensation received offsets the loss entirely.
- In case of partial compensation, the remaining amount is left as a business loss.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Bank A/c Dr.		XXXX	
	To Insurance Company A/c			XXXX
	(Being insurance claim amount received)			

Explanation

Cash/bank increases and insurance company account is cleared.

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6. 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.

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Insurance Company A/c Dr.		XXXX	
	Profit & Loss A/c Dr.		XXXX	
	To Loss by Fire/Theft A/c			XXXX
	(Being partial insurance claim admitted and balance treated as loss)			

Explanation

- Amount admitted → recoverable from insurance company
- Amount not admitted → **loss to business**, charged to P&L A/c

7. If the full amount of claim is received from Insurance Company

When a business faces a loss due to an event like theft or fire, and the goods were insured, the insurance company steps in to cover the financial impact. **Full compensation** means the insurance company agrees to pay the entire value of the loss. Here's how it works:

a) Initial Loss Entry:

- The business records the loss in its books, reducing the inventory value.
- For example:

Debit: Loss by Fire/Theft Account

Credit: Purchases/Inventory Account

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Loss by Fire/Theft A/c Dr.		XXXX	
	To Purchases A/c			XXXX
	(Being goods lost due to fire/theft)			

b) Claim Submission:

- The business files a claim with the insurance company for the value of the lost goods.

○ *Debit:* Insurance Company Account

Credit: Loss by Fire/Theft Account

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Date	Particulars	LF	Debit (₹)	Credit (₹)
	Insurance Company A/c Dr.		XXXX	
	To Loss by Fire/Theft A/c			XXXX
	(Being full claim admitted by insurance company)			

c) Compensation Received:

- When the insurance company pays the full amount, the money is deposited into the business's bank account.
- *Debit:* Bank Account (for the full compensation amount)
- *Credit:* Insurance Company Account (clearing the receivable).

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Bank A/c Dr.		XXXX	
	To Insurance Company A/c			XXXX
	(Being full insurance claim received)			

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.
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:

Date	Particulars	LF	Debit (₹)	Credit (₹)
10-Jul-00	Drawings A/c Dr.		3,000	
	To Cash A/c			2,000
	To Purchases A/c			1,000
	(Being cash and goods withdrawn by proprietor for personal use)			
12-Jul-00	Charity A/c Dr.		5,000	
	To Purchases A/c			5,000
	(Being goods given away as charity)			
14-Jul-00	Advertisement A/c Dr.		2,500	
	To Purchases A/c			2,500
	(Being goods distributed as free samples)			
16-Jul-00	Loss by Theft A/c Dr.		7,000	
	To Purchases A/c			5,000
	To Cash A/c			2,000
	(Being goods and cash stolen by employee)			
18-Jul-00	Loss by Fire A/c Dr.		10,000	
	To Purchases A/c			10,000
	(Being goods destroyed by fire)			
18-Jul-00	Insurance Company A/c Dr.		6,000	
	Profit & Loss A/c Dr.		4,000	
	To Loss by Fire A/c			10,000
	(Being insurance claim admitted @60% and transferred to L&L A/c)			

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Assignment

Ques 1: Pass journal entries for the following:

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

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

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.

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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.
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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