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Collect and composed by

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Mr. Good, after graduating from City Business University has joined Food Chain as a junior accountant in grade *Alfa*. City Food is working through its branch network across the country. Good has been posted at the Food's head office where he is responsible to look after the accounts of one branch - Big Branch, which is under direct control of the head office and its accounts are maintained at the head office under famous *stock and debtors system*.

During the training, Good came across with a long list of various ledger accounts kept by the head office to account for transactions associated with the branch. Here, he came to know that among these accounts, one was the branch stock account which was used to record stock transactions associated with the branch. Further, this account was operated on invoice value. Later, he learnt that all the stock movements between the branch and the head office, and all stock losses were recorded on invoice value. But, the sales including cash and credit and returns from debtors were entered in the stock account on actual sales prices.

The accounting for these differing values were out of his understanding, so he enquired from his immediate supervisor – Mr. Accountant regarding this, but he also failed to answer it. Later, Mr. Good put this issue in front of his accounting teacher – Mr. Nobel of his university and got a pretty good answer.

Briefly describe the answer given by Good's teacher in your own words?

Solution:

While dealing with Branch Stock Account, stock at branch is recorded in invoice price along with other dealings related to stock. The only difference comes in where the stock is sold or sold stock is returned. since Invoice price and Selling price seldom match. The sales and sales return figures will always create an unavoidable difference in the accounts if are sold above the invoice price. Once the Sales is made above Invoice price it is obvious that the returns as well will have to be recorded on the same sales price. The difference will be named as surplus or deficit and reported exactly to the Head Office.

In practice certain allowance is made in this unavoidable situation. If its more than tha

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normal allowance then enquiries should be made as to the cause of difference.
Shortage/Deficiencies are recorded on the credit side and Surplus is recorded on the Debit side.