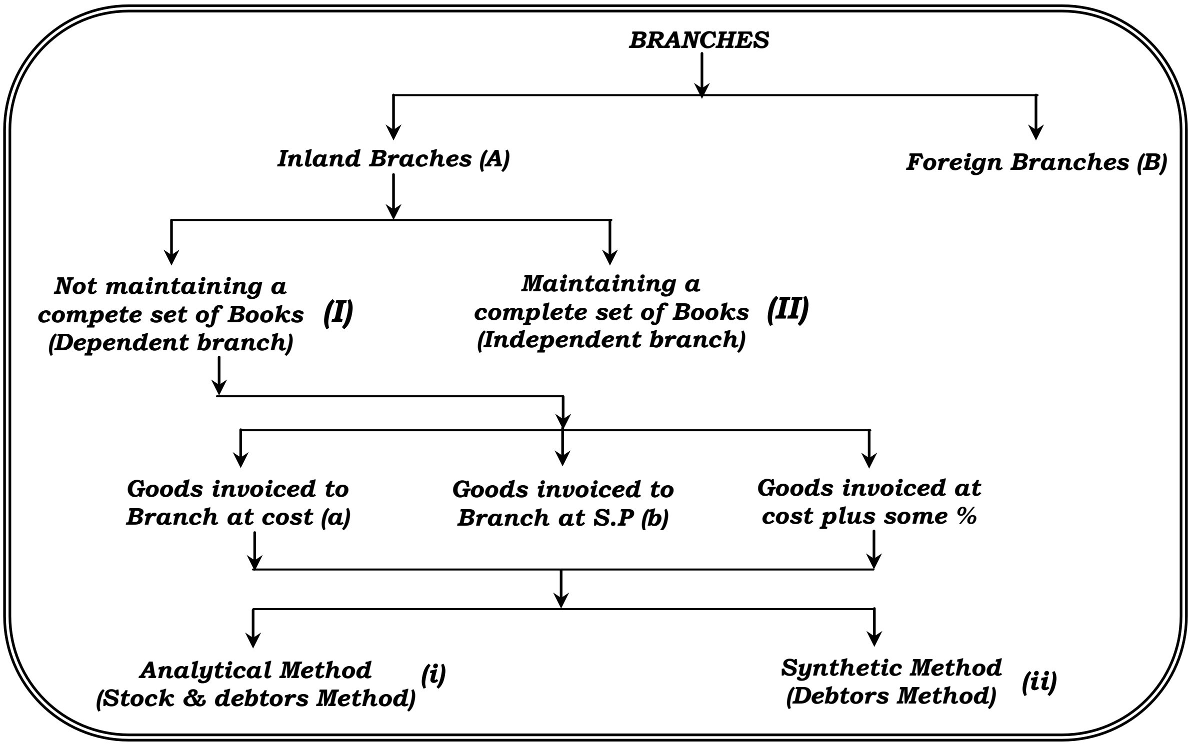
10. Branch Accounts

Theory

Classification of Branches: From an accounting point of view, branches are classified as:



In case of (A)(I)(a)(i):

Accounting Entries in the books of Head Office (H.O.):

No.	Particulars	Debit	Credit
1.	***For Cost Price of Goods sent to Branch:*** Branch Stock A/c Dr To Goods Sent to Branch A/c	XXX	XXX
2.	***For Cost Price of Goods returned by Branch:*** Goods Sent to Branch A/c Dr To Branch Stock A/c	XXX	XXX
3.	***For remittance to Branch for expenses:*** Branch Cash A/c Dr To Bank A/c	XXX	XXX
4.	***For cash sales at Branch:*** Bank A/c *[(or) branch cash, if money is not immediately remitted]* Dr To Branch Stock A/c	XXX	XXX
5.	***For credit sales at Branch:*** Branch Debtors A/c Dr To Branch Stock A/c	XXX	XXX
6.	***For Goods returned to Branch by customers:*** Branch Stock A/c Dr To Branch Debtors A/c	XXX	XXX
7.	***For Cash collected from Branch Debtors:*** Bank A/c [(or) branch cash, if money is not immediately remitted] Dr To Branch Debtors A/c	XXX	XXX

8.	***For Discount & Allowances to Debtors & Bad Debts:*** Branch Profit & Loss A/c Dr To Branch Debtors A/c	 XXX	 XXX
9.	***For remittances to Head Office:*** Bank A/c Dr To Branch Cash A/c	 XXX	 XXX
10.	***For Branch expenses:*** Branch Expenses A/c Dr To Bank A/c (or branch cash, if met by branch)	 XXX	 XXX
11.	***For Purchase of any Fixed Asset at Branch:*** Branch Asset A/c Dr To Bank A/c (or branch cash, if paid for by the branch)	 XXX	 XXX
12.	***For Depreciation on Branch Assets:*** Branch Profit & Loss A/c Dr To Branch Assets A/c	 XXX	 XXX
13.	***For abnormal Loss and Goods:*** Branch Profit & Loss A/c (or) Dr Insurance Claim A/c (if covered Insurance) Dr To Branch Stock A/c	 XXX XXX	 XXX

<u>Ledger Accounts and their details:</u>

- ✓ ***Branch Stock A/c:*** Value of opening stock is shown as opening balance on the debit side of Branch Stock A/c. Similarly, value of closing stock is shown as closing balance on the credit side of Branch Stock A/c. The balance of Branch Stock A/c will now represent Gross Profit/Loss at the branch to be transferred to Branch Profit and Loss A/c.
- ✓ ***Branch Expenses A/c:*** The balance of Branch Expenses A/c will also be transferred to Branch Profit & Loss A/c.
- ✓ ***Branch Debtors A/c:*** The balance of this Account represents the closing Debtors.
- ✓ ***Goods sent to Branch A/c:*** The balance of this account should be t/s to Purchase A/c.
- ✓ ***Branch Profit & Loss A/c:*** The balance of Branch Profit and Loss A/c will represent Net Profit/Loss at the branch to be transferred to General Profit and Loss A/c.

Note: Normal Loss need not be recorded separately.

In case of (A)(I)(a)(ii): Under this method it is assumed that the branch has a separate entity apart from the head office and, on this basis, a branch account is opened separately for each branch in the books of head office. This account is debited with the value of benefits and cash given to the branch and correspondingly credited with the value of benefits and cash received from the branch.

Branch A/c

Particulars		Rs.	Particulars		Rs.
To Balance b/d			By Bank		XXX
Branch Stock	XXX		(Amount remitted by Branch)		
Branch Debtors	XXX		By Goods sent to Branch		XXX
Branch Petty Cash	XXX	XXX	(Return to H.O)		
To Goods sent to branch		XXX	By Balance c/d:		
To Bank		XXX	Branch Stock	XXX	
(Amount remitted to branch)			Branch Debtors	XXX	
To Bank		XXX	Branch Petty Cash	XXX	
(Branch Exp.'s paid by H.O.)					XXX
To General P & L A/c		XXX			
		XXX			***XXX***

In case of (A)(I)(b&c)(i):

Accounting Entries in the books of Head Office: Under this system, in addition to the accounting entries passed in case of invoicing goods at cost price, the following entries are passed:

No.	Particulars	Amount Rs.
1.	***For Goods sent to Branch:*** **a.** Branch Stock A/c Dr To Goods Sent to Branch A/c	Invoice price
	b. Goods Sent to Branch A/c Dr To Branch Stock Adjustment A/c	Load on goods sent
2.	***For Goods returned by Branch to H.O.:*** **a.** Goods Sent to Branch A/c Dr To Branch Stock A/c	Invoice price
	b. Branch Stock Adjustment A/c Dr To Goods Sent to Branch A/c	Load on goods returned

Ledger Accounts and their details:

a. ***Branch Stock A/c:*** There will be an opening balance in this account representing opening stock at branch at selling price and a closing balance representing closing stock at branch at selling price. After all the relevant entries have been passed to this account as already detailed, both sides of this account should agree. Any difference represents surplus or deficiency of stock and will be transferred to a stock discrepancy account. The stock discrepancy account will be closed by transferring the load to branch stock adjustment account and the balance to branch profit & loss A/c.

b. ***Branch Stock Adjustment A/c:*** This account will be created with the Stock Reserve A/c for the loading included in the opening branch stock (at selling price). Similarly, this account is debited with the Stock Reserve A/c for loading included in the closing branch stock. The difference remaining in this account (after all the relevant entries have been passed) represents gross profit/loss at branch and will be transferred to branch Profit & Loss A/c.

c. ***Loss of Goods:*** This will be treated in the following manner:

Normal Loss: Since branch stock adjustment account discloses gross profit, normal loss should be charged to this account by the following entry:

1.	Branch Stock Adj. A/c Dr To Branch Stock A/c	Selling Price

Abnormal Loss: The following entries will be passed for recording abnormal loss:

1.	Abnormal Loss A/c Dr To Branch Stock A/c	Selling Price
2.	Branch Stock Adj. A/c Dr To Abnormal Loss A/c	Load on goods lost
3.	Branch Profit & Loss A/c Dr To Abnormal Loss A/c	Cost price of goods lost

If the goods are insured, insurance claim account will be debited instead of branch Profit & Loss A/c to the extent of claim admitted and the balance will be debited to branch profit & loss A/c.

In case of (A)(I)(b&c)(ii):

Accounting Entries in the books of Head Office:

The branch account will be prepared on the same line as discussed earlier, but as goods are supplied to the branch at loaded price. (1) Opening stock, (2) goods sent to branch, (3) goods returned by branch and (4) closing stock will be recorded in the branch account at this price. Hence, in order to ascertain the true profit or loss at branch it will be necessary to eliminate the loads and bring down these items to cost level.

For this purpose the following adjusting entries will be made:

1.	***For load on Goods sent to Branch:*** Goods Sent to Branch A/c Dr To Branch A/c	XXX	 XXX
2.	***For load on Goods returned by Branch to H.O.:*** Branch A/c Dr To Goods Sent to Branch A/c	XXX	 XXX
3.	***For load included in the Opening Stock:*** Stock Reserve A/c Dr To Branch A/c	XXX	 XXX
4.	***For load included in the Closing Stock:*** Branch A/c Dr To Stock Reserve A/c	XXX	 XXX

The balance of stock reserve account at the end of each year will be carried forward to the next year for being transferred to the branch account of that year as shown in item (3) above.

Distinction between Wholesale Profit & Retail profit at Branch:

In order to know whether self-retailing through branches is more profitable than wholesaling, it is necessary to make a distinction between wholesale profit and retail profit. The true profit of a branch can, therefore, be determined by charging it with the wholesale price of goods sent and crediting the head office trading account with the same amount. Since closing stock of branch, in such a case, will be valued at wholesale price it will be necessary to create a provision for unrealised profit on stock by debiting the head office Profit & Loss A/c.

For E.g.: Let the cost of an Article be Rs.100, wholesale price be Rs.140 and retail price be Rs.150. If it is market rate is through a detail branch, the profit earned there will be Rs.50. But the true profit of the branch is, however, Rs.10 only, because Rs.40 could have been earned even without having the branch i.e. by selling it on wholesale basis to others.

In case of (A)(II) (Independent Branches):

Part: I – Special Adjustments:

1. ***Regarding Goods-in-transit & Remittance-in-transit:***

1.	***If adjustment is made in the books of H.O.:*** Goods-in-transit A/c Dr Cash-in-transit A/c Dr To Branch A/c	 XXX XXX	 XXX
2.	***If adjustment is made in the books of branch:*** Goods-is-transit A/c Dr Cash-in-transit A/c Dr To Head Office a/c	 XXX XXX	 XXX

In the balance sheet, goods-in-transit or cash-in-transit will be shown as assets. At the commencement of the next financial year, these entries will be reversed and Transit A/c will be closed.

2. ***Regarding Depreciation on Fixed Assets:*** Often, the accounts of fixed assets of a branch are maintained in the head office books. In such a case,

1.	***Entry for depreciation in H.O. Books:*** Branch A/c Dr To Branch Fixed Assets A/c	 XXX	 XXX
2.	***The branch passes the following entry in its own books for Depreciation:*** Depreciation A/c Dr To Head Office A/c	 XXX	 XXX

Any purchase of fixed assets by the branch, in such a case, should be debited to head office account and credited to bank (or Supplier's A/c) in the branch books. Similarly, in head office books the same should be debited to branch fixed assets account and credited to Branch A/c.

3. ***Regarding Inter-Branch Transactions:*** Where there are number of branches, inter-branch transactions are likely to take place, e.g., cash or goods sent by one branch to another or expenses incurred by one branch on behalf of another. Such transactions are usually adjusted assuming that they were entered into under the instructions from the H.O. Suppose Kolkatta branch transfers some goods to Mumbai branch under the directions of the H.O. The entries will be as follows:

1.	***In the books of Kolkatta Branch:*** Head Office A/c Dr To Goods Supplied to Branch A/c	XXX	 XXX
2.	***In the books of Mumbai Branch:*** Goods received from Branches A/c Dr To Head Office A/c	XXX	 XXX
3.	***In the books of Head Office:*** Mumbai Branch A/c Dr To Kolkatta Branch a/c	XXX	 XXX

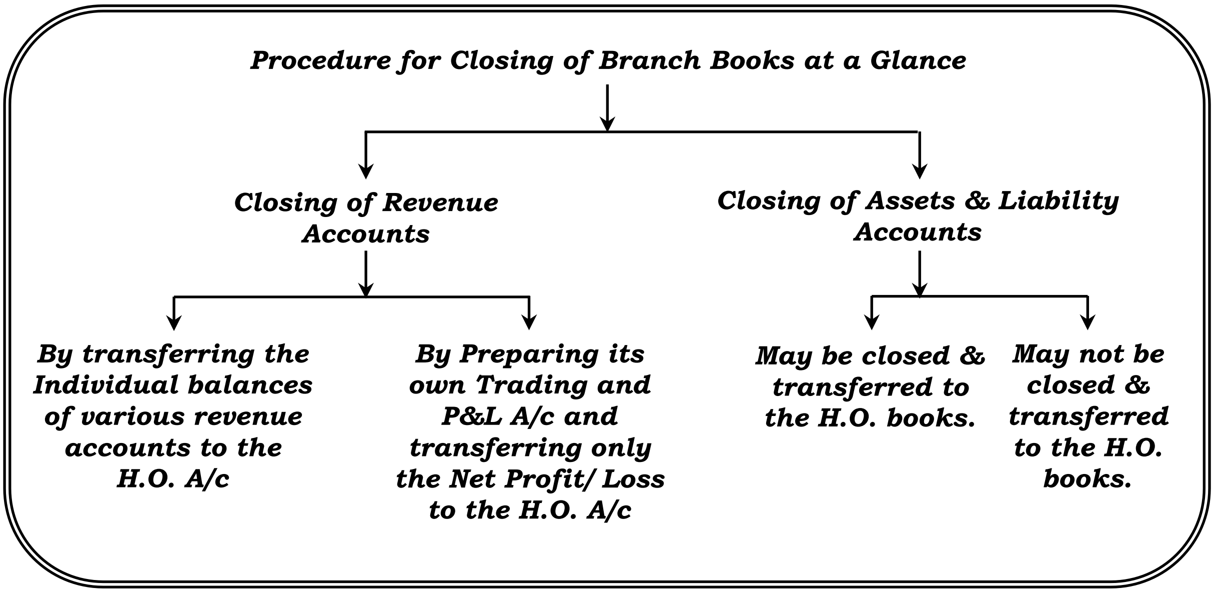
Note: Inter-branch transactions without the knowledge of head office may be passed as between the branches only in the usual manner.

4. ***Regarding Charges made by H.O.:*** The head office may make a charge to the branch for services rendered by it, or for a portion of head office overheads applicable to branch management on the principle that the branch should be debited with all relevant expenses and charges applicable to it.

1.	***In head office books the entry will be:*** Branch A/c Dr To The Relevant Expenses A/c	XXX	 XXX
2.	***In Branch books the entry will be:*** The Relevant Expenses A/c Dr To Head Office A/c	XXX	 XXX

5. ***Remittances A/c:*** Sometimes the branch remits cash to the head office quite frequently. In such a case, the head office finds it convenient to open a branch remittances account. The periodical total of this account will be transferred to the credit of branch account. If the branch so desires, it can also open a remittances to head office account the periodical total of which will be transferred to the debit of head office account. Similar treatment can be made for goods sent to branch also.

Part II – Closing of Branch Books:



Explanation: At the end of each financial year the branch prepares a trial balance and proceeds to close its books of accounts. The subject of closing the books consists of two activities: (a) Closing of Revenue accounts; (b) Closing of Asset & Liability accounts.

Closing of Revenue Accounts: Two different methods may be applied for closing the revenue accounts.

First method: Under this method the branch simply transfers the individual balance of various revenue accounts to the H.O. A/c, thereby closing the revenue accounts. The entries will be as follows:

1.	***For debit balances of revenue items:*** Head Office A/c Dr To Sundry Revenue A/c	XXX	 XXX
2.	***For credit balances of revenue items:*** Sundry Revenue A/c Dr To Head Office A/c	XXX	 XXX

Second method: Under this method, the branch prepares its own Trading and Profit & Loss A/c and transfers only the Net Profit or Loss (instead of all the revenue balances) to the H.O. A/c in the same way as Profit or Loss is transferred to Capital A/c in an ordinary business. The revenue accounts are thus closed, and the Profit or Loss transferred to the H.O. A/c.

Closing of Asset & Liability Accounts: The balances of Assets & Liabilities may or may not be transferred to the H.O. books. If it is decided to transfer them, the under mentioned entries will be passed to close the accounts in the branch books:

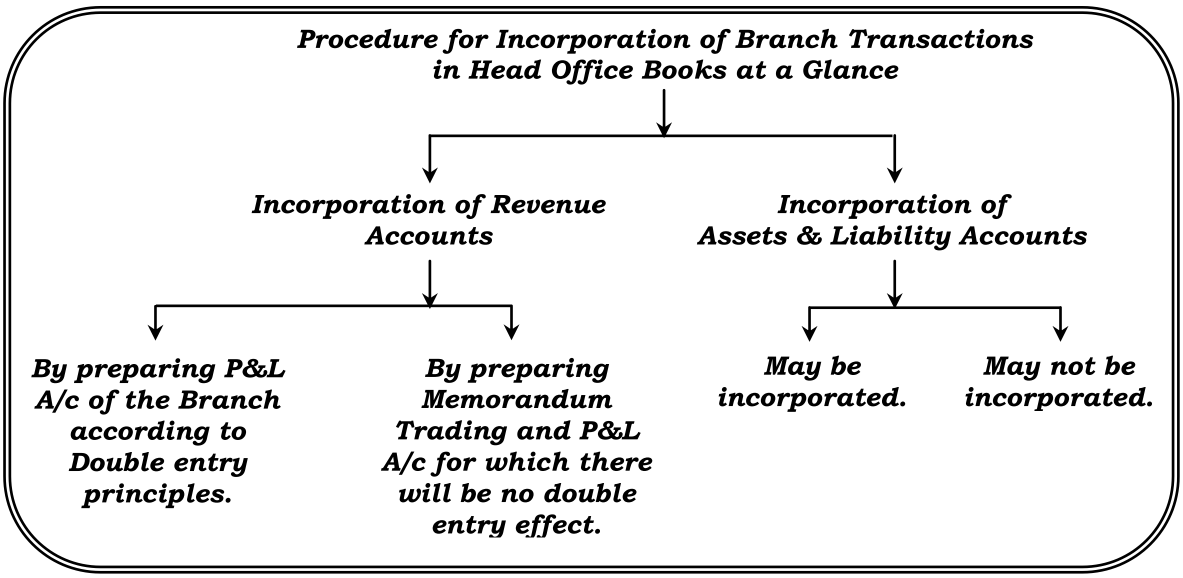
1.	***For Assets:*** Head Office A/c Dr To Sundry Asset A/c	XXX	 XXX
2.	***For Liabilities:*** Sundry Liability A/c Dr To Head Office A/c	XXX	 XXX

After such transfer, the H.O. A/c in branch books will have no balance.

Note:

- ✓ At the commencement of the next accounting period it is necessary to restore the balance of Assets & Liabilities in the branch books by passing a reverse entry.
- ✓ If, however, these are not transferred, there will remain a balance in H.O. A/c equal to the net assets (i.e. assets *less* liabilities). Thus, in this case, the branch may prepare a Balance Sheet.

Part III – Incorporation of Branch Trial Balance in H.O. Books:



Explanation: The branch sends its trial balance (together with its trading and P & L A/c and Balance Sheet, if these are prepared by the branch) to the H.O. for incorporation in H.O. books. When the H.O. receives the branch Trial Balance, it proceeds to incorporate the same in its books. The incorporation procedure may be broken up into two parts: **(a)** Incorporation of revenue accounts of branch and **(b)** Incorporation of assets and liabilities of branch.

Incorporation of Revenue Accounts: This can be done in two different methods:

First method: Under this method, a Trading and Profit & Loss A/c of the branch is prepared by H.O. The entries to be passed are as follows:

1.	***For items which will appear on the debit side of Trading A/c:*** Branch Trading A/c Dr To Branch A/c	 XXX	 XXX
2.	***For items which will appear on the credit side of Trading A/c:*** Branch A/c Dr To Branch Trading A/c	 XXX	 XXX
3.	***For Gross profit made by branch:*** Branch Trading A/c Dr To Branch P & L A/c	 XXX	 XXX
4.	***For items which will appear on the debit side of P & L A/c:*** Branch P & L A/c Dr To Branch A/c	 XXX	 XXX
5.	***For items which will appear on the credit side of Trading A/c:*** Branch A/c Dr To Branch P & L A/c	 XXX	 XXX
6.	***For Net Profit made by the branch:*** Branch P & L A/c Dr To General P & L A/c	 XXX	 XXX

Second method: Under this method, Branch Trading and Profit & Loss A/c is prepared in H.O. books which is merely a Memorandum A/c, and therefore, the entries made in this account do not have any double entry effect. The only object of this Memorandum A/c is to ascertain the net profit/loss of the branch. This net profit/loss is incorporated (and not the individual balances as in the first method) in the head office books by the following entry:

1.	***In case of Net Profit:*** Branch A/c Dr To General Profit & Loss A/c	 XXX	 XXX
2.	***In case of Net Loss:*** General Profit & Loss A/c Dr To Branch A/c	 XXX	 XXX

Incorporation of Assets & Liabilities: The head office may or may not be incorporate the Assets & Liabilities of the branch. If incorporated the following entries shall be necessary:

1.	***For Branch Assets:*** Sundry Branch Asset A/c Dr To Branch A/c	 XXX	 XXX
2.	***For Branch Liabilities:*** Branch A/c Dr To Sundry Branch Liability A/c	 XXX	 XXX

After such incorporation of Assets & Liabilities, the Branch A/c (in which adjustment entries have already been posted) in H.O. books will be closed.

Note:

- At the commencement of the next accounting period, the entries passed for incorporation of Assets & Liabilities will be reversed, and then the Branch A/c will again be restored showing the opening balances of these items.
- If the Branch Assets & Liabilities are not incorporated, the Branch A/c in H.O. books will have closing balance equal to net assets of the branch.
- While preparing a Balance Sheet of the H.O. all the Assets & Liabilities of the H.O. and those of the branch will be taken into consideration.

FOREIGN BRANCHES

Introduction: A Foreign branch usually maintains a complete set of books under double entry principles. So, the accounting principles of a Foreign Branch will be the same as those applying to an Inland Branch. Before a Trial Balance of the Foreign Branch is incorporated in the H.O. books, it has to be converted into home currency.

Rules for conversion: In case of fluctuating rates of exchange, the following rules for conversion are applied:

No	Nature of Account	Exchange Rate Applicable
1.	Fixed Assets	Rates ruling at the time they were acquired.
2.	Fixed Liabilities	Rates ruling as on the date of the Trial Balance.
3.	Current Assets & Liabilities	Rates ruling as on the date of the Trial Balance.
4.	Remittances sent by the branch	At the actual rates at which they were made.
5.	Goods received from H.O. as well as goods returned to H.O.	At the rates ruling on the date of dispatch or the date of receipt.
6.	The Nominal A/c's (except next two)	Average rate ruling during the accounting period.
7.	Depreciation on Fixed Assets	Rate of conversion applicable in case of the particular asset concerned [as indicated in (a) above].
8.	Opening and Closing stocks	Rates ruling of on the opening and closing dates respectively.
9.	Balance in H.O. A/c	Value at which the Branch A/c appears in H.O. books on the date.

***Difference in Exchange*:** As a result of conversion of branch trial balance in home currency, a difference in the trial balance is will often arise. If a loss (Dr.) results, it should be debited to Profit & Loss A/c, if a profit (Cr.) results, the prudent course is to credit it to an exchange Reserve A/c so as to provide for future losses on exchange.

Problems

Problem 1: The Empire Stores Ltd. invoice goods to their various branches at cost and the branches sell on credit as well as for cash. Form the following details relating to the Mumbai branch, prepare the necessary accounts in the head office books:

Particulars	Amount	Particulars	Amount
Debtors, 1st January, 2001	26,200	Allowances to customers	320
Debtors, 31st December, 2001	33,100	Returns from customers	580
Cash Balance, 1st January, 2001	300	Discount allowed to customers	2,400
Stock, 1st January, 2001	15,000	Bad debts	600
Stock, 31st December, 2001	13,900	Remittance to head office	74,900
Goods received from head office	50,800	Rent and rates	1,800
Cash received from head office	1,500	Wages and salaries	6,000
Goods returned to head office	700	General trade charges	1,300
Cash sales	33,500	Normal loss of goods due to wastage	1,200
Credit sales	60,000	Abnormal loss of goods due to pilferage	3,000

Problem 2: During the year ended 31st December, 2001 X & Co. of Chennai sent to their branch at Mumbai goods costing Rs.1,00,000. They used to invoice to the branch at a price designed to show a gross profit of 33.33% on invoice price. Collections at the branch from debtors amounting to Rs.26,390 were all sent to head office. Branch transactions during the year were:

Particulars	***Amount***
Cash sales	1,21,050
Credit sales	27,600
Goods returned by customers	300
Goods returned to H.O. (Invoice Price)	780

Particulars	***31.12.00***	***31.12.01***
Stock (at invoice price)	2,250	2,700
Sundry debtors	1,320	2,230

Goods at the branch of Rs.1,260 (invoice price) were lost. Insurance company paid Rs.730 on the claim. Branch expenses, paid by head office, amount to Rs.36,780. Show the necessary Ledger Accounts as would appear in the head office books recording the above transactions relating to the branch including branch Profit & Loss A/c.

Problem 3: T of Calcutta has a branch at Dibrugarh. The branch does not maintain separate books of accounts. The branch has the following assets & liabilities on 31st August, 2003 and 30th September, 2003:

Particulars	***31st August 2003***	***30th September 2003***
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 Rs.10,00,000 from Calcutta head office;

b. Purchased tea worth Rs.12,00,000;

c. Sent tea costing Rs.12,30,000 to Calcutta, freight of Rs.80,000 being payable at the destination by the receiver;

d. Spent Rs.25,000 on office expenses;

e. Paid Rs.3,00,000 as advance to suppliers;

f. Paid Rs.6,50,000 to suppliers in settlement of outstanding dues.

In addition, T informs you that the Calcutta office had directly paid Rs.3,50,000 to discharge suppliers by cheques drawn on bank accounts in Calcutta during month.

T informs you that for the purpose of accounting, Dibrugarh branch is not treated as an outsider. He wants you to write the detailed accounts relating to the transactions of the Dibrugarh branch as would appear in the books of Calcutta head office.

Problem 4: Premier Company has two branch shops at Shyam bazar and at Tollygunge each 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, 2002.

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 25% of any ascertained deficiency of the branch stock. All goods were supplied by the head office to branches. From below information, calculate the commission due to each manager for 2001-2002:

Particulars	*Shyambazar*	*Tollygunge*
Stock at 1.4.01 at cost	18,684	12,484
Goods to branches at cost	72,420	43,480
Sales	90,320	58,560
Drawing of commission on account by managers	600	400
Chargeable expenses	12,280	9,020
Stock at 31.3.02 at selling price	30,832	15,952

Problem 5: Bengal Trading Co., with its head office in Kolkata, invoiced goods to its branch at Mumbai, at 20% *less* than the catalogue price which is cost plus 50%, with instructions that cash sales were to be made at invoice price and credit sales at catalogue price *less* discount at 15% on prompt payment. From the following particulars available from the branch, prepare the necessary Accounts and Branch Trading and Profit & Loss A/c for the year ended 31st March, 2002 in the head office books so as to show the actual profit or loss of the branch for the year:

Particulars	*Amount*
Stock on 1st April, 2001 (invoice price)	12,000
Debtors on 1st April, 2001	10,000
Goods received from head office (invoice price)	1,32,000
Sales (cash)	46,000
Sales (credit)	1,00,000
Cash realised from debtors	85,635
Discount allowed to debtors	13,365
Expenses at the branch	6,000
Remittance to head office	1,20,000
Debtors on 31st March, 2002	11,000
Cash in hand on 31st March, 2002	5,635
Stock on 31st March, 2002 (invoice price)	15,000

Provision should be made for discount to be allowed to debtors as on 31st March, 2002, on the basis of the year's trend of prompt payment.

Problem 6: Buckingham Bros, Bombay have a branch at Nagpur. They sold goods at cost to their branch at Nagpur. However, direct purchases are also made by the Branch for which payments are made at head office. All the daily collections are transferred from the Branch to the head office. From the following prepare Nagpur branch account in the books of head office:

Particulars	*Amount*	*Particulars*	*Amount*
Opening Balance on 1.1.90:		Bad debts	1,000
Imprest cash	2,000	Discount to customers	2,000
Sundry debtors	25,000	Remittances to H.O.	
Stock: Transferred from H.O.	24,000	(received by H.O.)	1,65,000
Direct Purchases	16,000	Remittances to H.O.	
Cash sales	45,000	(not received by H.O. so far)	5,000
Credit sales	1,30,000	Branch exp. directly paid by H.O.	30,000
Direct purchases	45,000	***Closing Balance (31-12-90):***	
Returns from customers	3,000	***Stock:*** Direct purchases	10,000
Goods sent to branch from H.O.	60,000	Transfer from H.O.	15,000
Transfer from H.O. for petty exp.	4,000	Debtors	?
		Imprest cash	?

Also find out the profit by preparing the Profit & Loss A/c (Branch).

Problem 7: Arnold Ltd. Delhi trades in Ghee and oil. It has a branch at Lucknow. The company despatches 25 tins of oil @ Rs.1,000 per tin and 15 tins of Ghee @ Rs.1,500 per tin on 1st of every month. The Branch incurs some expenditure which is met out of its collections this is in addition to expenditure directly paid by H.O. Following are the other details:

Particulars	Delhi	Lucknow
Purchases:		
Ghee	14,75,000	---
Oil	29,32,000	---
Direct exp. paid by H.O.	3,83,275	14,250
Sales:		
Ghee	18,46,350	3,42,750
Oil	27,41,250	3,15,730
Collection during the year (including cash sales)	---	6,47,330
Remittance by branch to H.O.	---	6,13,250

Particulars	Delhi		Lucknow	
	1.1.03	31.12.03	1.1.03	31.12.03
Stock:				
Ghee	1,50,000	3,12,500	17,000	13,250
Oil	3,50,000	4,17,250	27,000	44,750
Debtors	7,32,750	---	75,750	?
Cash on hand	70,520	55,250	7,540	12,350
Furniture & Fittings	21,500	19,350	6,250	5,625
Plant & Machinery	3,07,250	7,73,500	---	---

- Additions to Plant & Machinery on 1.1.03 Rs.6,02,750.
- **Rate of Depreciation:** Furniture & Fittings @ 10%, Plant & Machinery @ 15% (already adjusted in the above figures).
- The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of Rs.2,000 p.m. General expenses incurred by H.O. Rs.24,000.

Prepare Branch A/c in the H.O. books and also prepare the company's Trading and P&L A/c (excluding branch transactions).

Problem 8: Bipani Ltd. of Mumbai has a branch at Nasik. The branch does not maintain accounting books and all the collections of the branch are remitted to head office. The head office reimburses the expenses of the branch. Goods are invoiced to the branch at selling price which is cost plus 25% and the branch is not entitled to vary this price. From the following information prepare Branch Accounts in the books of head office:

Particulars	Opening Rs.	Closing Rs.
Balances at branch:		
Stock	5,000	?
Debtors	3,200	?
Cash	400	400

Transactions during the year:

Particulars	Rs.
Goods sent to branch	40,000
Goods returned to head office	2,000
Credit sales at branch	32,000
Cash sales at branch	8,000
Cash received from customers at branch	28,000
Bills receivable accepted by customers at branch	2,000
Cash sent to branch for expenses	4,800
Shortage in stock at branch	500
Discount allowed to branch customers	320

Problem 9: The Head Office sends goods to Branch @ 20% profit on cost, freight and duties amounting to 10% on invoice value being paid by branch. Branch sells at 20% G.P. on selling prices. The stock taking date is 31-12-2002, but stock was taken on 10-1-2003. The price for stock was agreed to be the cost to head office to be increased by actual expenses incurred by the Branch less Rs.6,000. Stock on 10-1-2003 (at Branch cost) amounted to Rs.64,600. Rs.6,000 stock (invoice value) was received from H.O. after 31-12-2002 but before 10-1-2003. Sales in this period amounted to Rs.10,000.

Ascertain the selling price of stock as on 3-12-2002.

Problem 10: The Head Office passes adjustment entry at the end of each month to adjust the position arising out inter-branch transactions during the month. From the following Inter-branch transaction in January 2003, make the entry in the books of H.O.:

A. Mumbai Branch:

- **a.** Received Goods Rs.6,000 from Kolkatta Branch, Rs.4,000 from Patna Branch.
- **b.** Sent Goods of Rs.10,000 to Patna, Rs.8,000 to Kolkatta.
- **c.** Received B/R Rs.6,000 from Patna.
- **d.** Sent Acceptance Rs.4,000 to Kolkatta, Rs.2,000 to Patna.

B. Chennai Branch (apart from the above):

- **a.** Received Goods Rs.10,000 from Kolkatta, Rs.4,000 from Mumbai.
- **b.** Cash Sent Rs.2,000 to Kolkatta Rs.6,000 to Mumbai.

C. Kolkatta Branch (Apart from the above):

- **a.** Sent Goods to Patna Rs.6,000.
- **b.** Paid B/P Rs.4,000 to Patna, Rs.4,000 cash to Patna.

Problem 11: New Textiles ltd. operates a number of retail shops to which goods are invoiced at wholesale price which is cost plus 20%. Shops sell the goods at the list price which is wholesale price plus 10%. From the following particulars ascertain the profit or loss for 2003 at Shop No. 143:

Particulars	*Amount*
Stock at shop on 1st January, 2003	15,000
Goods invoiced to shop during 2003	1,40,000
Sale at the shop during the year	1,54,770
Goods destroyed by accident (retail value)	660
Expenses at the shop	7,200

Problem 12: Rahul Limited operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%. Following is the information regarding one of the outlets for the year ended 31.3.2003:

Particulars	*Amount*
Stock at the outlet 1.4.2002	30,000
Goods invoiced to the outlet during the year	3,24,000
Gross profit made by the outlet	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.2003	36,000

You are required to prepare the following accounts in the books of Rahul Ltd. for the year ended 31.3.2003: Outlet Stock A/c, Outlet Profit & Loss A/c and Stock Reserve A/c.

Problem 13: Following is the trial balance of Jaipur Branch as on 30-6-2002:

Particulars	*Rs.*	*Rs.*
Furniture	1400	---
Cash at bank & in hand	1780	---
Office expenses	470	---
Rent	960	---
Debtors and Creditors	3700	1850
Salaries	1500	---
Goods supplied to H.O.	---	6000
Sales	---	38000
Goods received from H.O.	8000	---
Purchases	48800	---
Stock, 1st July, 1991	6000	---
H.O. account	3240	---

Closing stock was valued at 2,700. The Branch A/c in the H.O. books on 30th June, 2002, stood at Rs.460 (Dr.). Goods worth Rs.2,500 sent by H.O. to Branch and remittance of Rs.1,200 sent by Branch to H.O. were in transit. A provision for doubtful debts is to be raised at 2% on debtors and furniture is to be depreciated by 10%. Incorporate the branch T.B. in H.O. books.

Problem 14: A madras Head office has an independent branch at Ahmedabad. From the following particulars, give journal entries to close the books of the Ahmedabad Branch. Show also the Madras Head office account in the Branch books.

Ahmedabad Branch (Trail Balance as at 31st December 2002)

Particulars	*Rs.*	*Particulars*	*Rs.*
Stock on 1st Jan 2002	8,200	Creditors	2,700
Purchases	12,800	Sales	34,950
Wages	6,550	Head Office A/c	14,000
Manufacturing exp.	3,400	Discount	150
Rent	1,700	Purchase	300
Salaries	5,500	Returns	
Debtors	4,000		
General exp.	2,000		
Goods recd. from H.O.	7,200		
Cash at bank	750		

a. Closing stock at Branch Rs.14,350 & Rent due Rs.150.

b. The Branch Fixed Assets maintained in H.O. books were: Machinery Rs.25,000, Furniture Rs.1,000. Depreciation is to be charged at 10% on Machinery & 15% on Furniture.

c. A remittance of Rs.4,000 made by the branch on 28th December, 2002, was received by the H.O. on 4th January, 2003.

Problem 15: A business has three branches at Kochi, Kolkatta and Cuttack. The head office at Chennai purchases goods and sends them to branches, to be sold at a uniform percentage of profit on cost. The following particulars are made available to you to enable you to prepare a combined Trading A/c for the year ended 31st March, 2002.

Particulars	*Chennai*	*Kochi*	*Kolkatta*	*Cuttack*
Stock on 1st April, 2001	54,000	16,000	12,500	10,000
Purchases in the year	2,74,000	-	-	-
Sales	-	1,80,000	1,20,000	1,00,000
Stock on 31st March, 2002	28,000	6,000	5,000	2,500
Branch A/cs on 1st April, 2001				
Kochi	15,000			
Kolkata	32,000			
Cuttack	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 ledger at cost price. Show Branch Accounts in Chennai H.O. Books.

Problem 16: A trader commenced business on 1st January, 2001 with a H.O. at Chennai and branch at Sholapur, Purchases were made exclusively by H.O. where the goods were processed before sale. There was no loss or wastage in processing. Only processed goods received from H.O. were handled by the branch, and these were charged thereto at processed cost + 10%. All sales, whether by H.O. or by the branch, were at a uniform gross profit of 25% processing on cost. Following are the trail balances as on 31st December, 2001.

Particulars	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
Capital	---	31,000	---	---
Drawings	5,500	---	---	---
Purchases	1,96,950	---	---	---
Cost of processing	5,050	---	---	---
Sales	---	1,28,000	---	82,000
Goods sent to branch/received by branch	---	92,400	88,000	---
Selling and general expenses	18,900	---	2,120	---
Debtors/Creditors	30,960	60,140	11,360	1,080
Branch/Head Office current A/c	38,980	---	---	26,150
Balance at Bank	15,200	---	7,750	---

The following information is relevant:

- Goods charged by H.O. to the branch in December, 2001, at Rs.4,400 were not received by the branch until January, 2002. A remittance of Rs.8,430 from the branch to H.O. was not received by H.O. until January, 2002.
- Stock taking at the branch disclosed a shortage of goods of Rs.2,000 (at selling price)
- Cost of unprocessed goods at H.O. on 31st December, 2001 was Rs.10,000.

You are required to prepare Trading and P & L A/c in columnar form and a combined Balance Sheet of the business as a whole.

Problem 17: KP Ltd. manufactures a range of goods which it sells to wholesale customers only from its head office. In addition, the H.O. transfers goods to a newly opened branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis.

The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. The selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from H.O.) of 30% of the sales value.

The company operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are included in the over head costs shown in the trial balances.

From the information given below, you are required to prepare for the year ended 31st Dec., 1998 in columnar form.

a. A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.

b. A Balance Sheet as on 31st Dec., 1998 for the entire business.

	H.O. Branch		Branch	
	Rs.	Rs.	Rs.	Rs.
Raw material purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1–1– 98				
Raw material	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	

administrative Salaries	13,900		4,000	
Salesmen's Salaries	22,500		6,200	
Other administrative & selling overheads	12,500		2,300	
Inter –unit accounts	5,000			2,000
Capital		50,000		
Sundry creditors		13,000		
Provision for unrealized profit in stock		1,200		
Sales		2,00,000		65,200
Goods sent to Branch		46,000		
Goods Received from H.O.			44,500	
	3,10,200	**3,10,200**	**67,200**	**67,200**

Notes:

1. On 28th Dec., 1998 the branch remitted Rs.1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also on the same date, the H.O. dispatched goods to the branch goods to the branch invoiced at Rs.1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.

2. The stock of raw materials held at the H.O. on 31st Dec.,1998 was valued at Rs. 2,300.

3. You are advised that:

a. There were no stock losses incurred at the H.O. or at the branch.

b. It is the company's practice to value finished goods stock at the H.O. at factory cost.

c. There was no opening or closing stock of work- in-progress.

4. Branch employees are entitled to a bonus of Rs. 156 under a bilateral agreement.

Problem 18: AFFIX Ltd. of Calcutta has a branch at Delhi which the goods are supplied from Calcutta but the cost there of is not recorded in the Head office books. On 31st March, 1997 the branch Balance sheet was as follows:

Liabilities	***Rs.***	***Assets***	***Rs.***
Creditors Balance	40,000	Debtors Balance	2,00,000
Head Office	1,68,000	Building Extension A/c closed by transfer to H.O. A/c	---
		Cash at Bank	8,000
Total:	2,08,000	Total:	2,08,000

During the six months ending on 30-9-1997, the following transactions took place at Delhi.

	Rs.		**Rs.**
Sales	2,40,000	Manager's Salary	4,800
Purchases	48,000	Collections from Debtors	1,60,000
Wages paid	20,000	Discount allowed	8,000
Salaries (inclusive of advance of Rs.2,000)	6,400	Discount earned	1,200
		Cash paid to Creditors	60,000
General Expenses	1,600	Building Account (further payment)	4,000
Fire Insurance (paid for one year)	3,200	Cash in Hand	1,600
Remittance to H.O.	38,400	Cash at Bank	28,000

Set out the Head Office Account in Delhi books and the Branch Balance Sheet as on 30-9-1997. Also give journal entries in the Delhi books.

Problem 19: The following Trial balances as at 31st December, 1997 have been extracted from the books of Major Ltd. and its branch at a stage where the only adjustments requiring to be made prior to the preparation of a Balance Sheet for the undertaking as a whole.

Particulars	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
Share capital		1,50,000		
Sundry fixed assets	75,125		18,901	
Sundry Current Assets	1,21,809		23,715	(Note 3)
Sundry Current Liabilities		34,567		9,721
Stock Reserve, 1st Jan., 1997 (Note 2)		693		
Revenue A/c		43,210		10,250
Branch A/c	31,536			
Head Office A/c				22,645
	2,28,470	**2,28,470**	**42,616**	**42,616**

Notes:

1. Goods transferred from Head Office to the Branch are invoiced at cost plus 10% and both Revenue Accounts have been prepared on the basis of the prices charged.
2. Relating to the Head Office goods held by the Branch on 1st January, 1997.
3. Includes goods received from Head Office at invoice price Rs.4,565.
4. Goods invoiced by Head Office to Branch at Rs.3,641 were in transit at 31st December, 1997, as was also a remittance of Rs.3,500 from the Branch.
5. At 31st December, 1997, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.
   a. The purchase price of lorry, Rs.2,500, which reached the Branch on December 25;
   b. A sum received on 30th December, 1997 from one of the Branch debtors, Rs.750.

You are required:

a. To record the foregoing in the appropriate ledger accounts in both sets of books;

b. To prepare a Balance Sheet as at 31st December, 1997 for the undertaking as a whole.

Problem 20: Fixed Assets at the branch $55,000. Life 10 years. Exchange rate at the time of purchase on 1-1-2001 $1000 = Rs.12,500 Loan taken to purchase the Fixed Assets $45,000 (at the rate $1000=Rs.12,500) on the same date. As on 31-12-2001 exchange rate was $1000=Rs.13,900 as on 31-12- 2003 exchange rate was $ 1000 = Rs.16,800. Average rates for $ 1000: 2001 Rs.12,700; 2002 Rs.14,200; 2003 Rs.15,400.

Annual loan installments $ 4,500 along with 18% interest p.a. was paid at year end every year.

Problem 21: An Indian Company has a branch at Washington. Its Trial Balance as at 30th September, 2003 is as follows:

Particulars	Dr. Us $	Cr. Us $
Plant & Machinery	1,20,000	---
Furniture & Fixtures	8,000	---
Stock on Oct.1st, 2002	56,000	---
Purchases	2,40,000	---
Sales	---	4,16,000
Goods from Indian Co. (H.O)	80,000	---
Wages	2,000	---
Carriage inward	1,000	---
Salaries	6,000	---

Rent, rates and taxes	2,000	---
Insurance	1,000	---
Trade Expenses	1,000	---
Head Office A/c	---	1,14,000
Trade Debtors	24,000	---
Trade Creditors	---	17,000
Cash at Bank	5,000	---
Cash in Hand	1,000	---
	5,47,000	***5,47,000***

The following further information is given:

a. Wages outstanding $ 1,000

b. Depreciate Plant & Machinery and Furniture & Fixtures @ 10 Per cent p.a.

c. The H.O. sent goods to Branch for Rs. 39,40,000

d. The H.O. shows an amount of Rs. 43,00,000 due from Branch

e. Stock on 30th September, 2003-$ 52,000

f. There were no in transit items either at the start or at the end of the year.

Exchange rates:

a. On 1st September 2001 when the fixed assets were purchased, the rate of exchange was Rs.38 to one $.

b. On 1st October, 2002 the rate was Rs.39 to one $.

c. On 30th September, 2003 the rate was Rs.41 to one $.

d. Average rate during the year was Rs.40 to one $.

You are asked to prepare **(a)** Trial Balance incorporating adjustments given above, converting dollars into rupees, **(b)** Trading and P & L A/c for the year ended 30.9.2003 and Balance sheet as on that date.

Problem 22: London Branch of Delhi Export House sent the following T.B. as on 31.12.2001.

Particulars	***Dr.***	***Cr.***
Fixed assets	17,500	
Loan (taken to purchase of fixed assets)		13,000
Depreciation	2,500	
Stock 1-1-2001	8,200	
Goods from H.O.	58,800	
Sales		1,05,200
Salaries & Wages	15,200	
Interest	2,880	
Cash & Bank	1,700	
Debtors	21,200	
H.O. Account		9,780

Fixed assets were purchased on 1-1-99 when 1 £ = 25.50, life was estimated to be 10 years. To finance the fixed asset a loan amounting to £.22,000 was taken @ 18% interest p.a. Annual loan installment of 3,000 and interest were payable in every December. Exchange Rates are as follows:

Average of 1999	£ 1 = Rs. 25.70
On 31.12.1999	£ 1 = Rs. 26.10
Average of 2000	£ 1 = Rs. 26.20
On 31.12.2000	£ 1 = Rs. 26.40
Average of 2001	£ 1 = Rs. 36.50
On 31.12.2001	£ 1 = Rs. 42.20

In the Head Office books London Branch A/c appeared as follows:

London Branch A/c

Particulars	£	Rs.	Particulars	£	Rs.
To Balance b/d	7,000	1,84,800	By Bank	56,020	20,44,730
To goods	58,800	21,46,200	By Balance	9,780	4,12,716
To P&L A/c	-	1,26,446			
Exchange gain	-				
Closing Stock: £ 2,400.					

You are required to show Branch fixed assets A/c., Branch Loan A/c., Branch Trail balance in Rupee terms, Branch P & L A/c, Adjustment Entries to incorporate branch balances in the H.O. Books.

Notes

Ten simple two-lettered words for success:
" if it is to be, it is up to me"