Chapter 2

Branch Accounts

Solution 1

Step 1: Reconcile

Books of Branch

(i) Goods in Transit A/c	Dr. 25,000	
To Head Office a/c		25,000
(Being goods in transit recorded)		

Books of Head Office

(i) Cash in – Transit A/c	Dr. 12,000	
To Branch		12,000
(Being Cash in Transit Recognised)		

Step 2: Book of Branch

Trading and profit and loss a/c

To Opening Stock	60,000	By Sales	3,80,000
To Purchase	1,78,000	By goods Supplied to HO	60,000
To Goods recd HO	90,000	By Closing Stock	27,000
To Gross Profit	1,39,000		
	4,67,000		4,67,000
To Salaries	15,000	By Gross Profit	1,39,000
To Rent	9,600		
To office Expenses	4,700		
To Net Profit	1,09,700		
	1,39,000		1,39,000

Branch Balance Sheet

To Creditors	18,500	By Debtors	37,000
		By Cash	17,800
To Profit & Loss A/c	1,09,700	By Purchase	14,000

		By Stock	27,000
		By Goods in Transit	25,000
		H.O A/c	2,400
		(+) GIT	5,000
	1,28,200		1,28,200

Step 3

Books of HO – Incorporation

Journal

1.	Debtors	Dr.	37,000	
	Cash	Dr.	17,800	
	Furniture	Dr.	14,000	
	Stock	Dr.	27,000	
	Goods in Transit	Dr.	25,000	
	To Branch			1,20,800
	(Being Sundry Asset incorporated)			
2.	Branch A/c	Dr.	18,500	
	To Creditor			18,500
	(Being Liability incorporated)			
3.	Branch		Dr.	18,500
	To Creditor			18,500
	(Being profit incorporated)			

Branch A/c

To Balance b/d	4,600	By Cash in Transit	12,000
To Creditor	18,500	By Debtors	37,000
To Profit & Loss	1,09,700	By Cash	17,800
		By Furniture	14,000
		By Stock	27,000
		By Goods in Transit	25,000
	1,32,800		1,32,800

Solution 2

Nagpur branch must include the inventory in its books as goods in transit.

The following journal entry must be made by the branch:

Goods in transit A/c	Dr.	50,000	
To Head office A/c			50,000

[Being Goods sent by Head office is still in transit on the closing date].

Solution 3

(i) Journal Entries for Adjustments

(a)	Stock Account A/c	Dr.	62	
	To Trading A/c			62
(b)	Goods in Transit A/c	Dr.	10	
	To head Office A/c			10
(c)	Expenses A/c	Dr.	1	
	To Head Office A/c			1

(ii) Final Account of Branch

Trading and P & L Account

Dr. *Particulars*	*Rs.*	*Cr.* *Particulars*	*Rs.*
To Opening stock	60	By Sale	360
To Goods received from Head Office	283		
To Carriage inward	7	By Closing stock	62
To Gross Profit	72		
	422		422
To Depreciation on Furniture	2	By Gross Profit	72
To Salaries	25		
To Rent	10		
To Advertising	6		
To Telephone, Postage & stationery	3		
To Office Expenses	1		
To Head Office Expenses	1		
To Net Profit	24		
	72		**72**

Balance Sheet

Liabilities	*Rs.*	*Assets*	*Rs.*
Head Office Account	115	Furniture and Fitting	18
		Stock	62
Outstanding Expenses	3	Goods in transit	10
		Debtors	20
		Cash at bank & in Hand	8
	118		118

Head Office Account

Dr.	*Rs.*	*Cr.*	*Rs.*
To Balance c/d	115	By Balance b/d	80
		By Good in transit	10
		By Expenses	1
		By Net Loss	24
	115		115

(iii) Incorporation Journal Entries in the books of Head Office

Dr.			*Cr.*
Branch Trading A/c	Dr.	350	
To Branch A/c			350
Branch A/c	Dr.	422	
To Branch Trading A/c			422
Branch Trading A/c	Dr.	72	
To Branch Profit & Loss A/c			72
Branch Profit & Loss A/c	Dr.	48	
To Branch A/c			48
Dr.			*Cr.*
Branch Profit & loss A/c	Dr.	24	
To General Profit & Loss A/c			24
Branch Assets A/c	Dr.	118	
To Branch A/c			118
Branch A/c	Dr.	3	
To Branch Liabilities A/c			3

Comments

Branch Accounts – The overall performance was poor in this question. Most of the candidates could not find the correct amount of gross profit and net profit. Journal entries were also wrongly passed and were without narration. Thus, the final accounts of the branch could also not be drawn correctly.

Solution 6

Journal of Head Office

Particulars	*L.F.*	*Dr.* (*Rs.*)	*Cr.*(*Rs.*)
Good-in-Transit A/c	Dr.	440	
To Branch A/c			440
Branch A/c	Dr.	300	
To Profit and Loss A/c			300

Profit & Loss A/c	Dr.	400	
To Branch A/c			400

Particulars	*L.F.*	*Dr.* (*Rs.*)	*Cr.*(*Rs.*)
Branch A/c	Dr.	250	
To Fixed Assets A/c			250
Branch Profit & Loss A/c	Dr.	2,510	
To General Profit & Loss A/c			2,510
Profit & Loss A/c	Dr.	14,560	
To General Profit & Loss A/c			14,560

Journal of Branch

Particulars	*L.F.*	*Dr.* (*Rs.*)	*Cr.*(*Rs.*)
Cash in Transit A/c	Dr.	1,000	
To Head Office A/c			1,000
Profit & Loss A/c	Dr.	300	
To Head Office A/c			300
(Head Office expenses & charges)			
Profit and Loss A/c	Dr.	250	
To Head Office A/c			250
(Depreciation on assets)			
Profit and Loss A/c	Dr.	2,510	
To Head Office A/c			2,510

Note: The profit at Branch and at H.O. is calculated as follows:

H. O. Profit and Loss Account

Dr. *Particulars*	*Rs.*	*Particulars*	*Cr.* *Rs.*
To Branch A/c (stock stolen)	400	By profit (as given)	14,600
To Profit transferred to General Profit and Loss A/c	14,560	By Administration Expenses charged to Branch	300
	14,960		14,960

Branch Profit and Loss Account

Dr. *Particulars*	*Rs.*	*Particulars*	*Cr.* *Rs.*
To Head Office Expenses	300	By Profit (as given)	3,060
To depreciation	250		
To Profit transferred to General			

Profit & Loss A/c	2,510	
	3,060	3,060

Balance Sheet as at 31st March, 20x2

Liabilities		*Rs.*	*Assets*		*Rs.*
Capital		1,00,000	*Fixed Assets*	Rs.	
Creditors			Head Office	35,750	
Head Office			Branch		
	Rs.		(less depreciation)	16,000	51,750
Branch	3,960		*Stock:*		
Profit and Loss A/c	1,920	5,880	Head Office	34,200	
Head Office	14,560		Branch	10,740	
Branch	2,510	17,070	In-transit	440	45,380
			Debtors:		
			Head Office	7,820	
			Branch	4,840	12,660
			Cash:		
			Head Office	10,740	
			Branch	1,420	
			In-transit	1,000	13,160
		1,22,950			1,22,950

Solution 7

Sri Sundaram
Trading and Profit and Loss Account
For the year ended 31st March, 1993
Partner's Capital Accounts

	H.O. *Rs.*	*Branch* *Rs.*	*Total* *Rs.*		*H.O.* *Rs.*	*Branch* *Rs.*	*Total* *Rs.*
To Purchases	3,93,900	—	3,93,900	By Sales	2,56,000	1,64,000	4,20,000
To Cost of Processing	10,000	—	10,000	By Goods Sent to Branch	1,84,800	—	—
To Goods received from H.O.	—	1,76,000	—	By Stock Shortage	—	3,520	3,200
To Gross Profit Proce. Goods	11,200	28,160	44,800	By Closing Stock goods	20,000	—	20,000
c/d	68,000	19,680	84,000				
	4,72,000	1,95,680	4,88,000		4,72,000	1,95,680	4,88,000

	H.O. *Rs.*	*Branch* *Rs.*	*Total* *Rs.*		*H.O.* *Rs.*	*Branch* *Rs.*	*Total* *Rs.*
To Administrative Expenses	27,800	3,000	30,800	By G/P b/d	68,000	19,680	84,000
To Selling Exp.	10,000	1,240	11,240				
To Stock Shortage	—	3,520	3,200				
To Stock Reserve	3,360	—	—				
To Capital A/c - Net Profit	26,840	11,920	38,760				
	68,000	19,680	84,000		68,000	19,680	84,000

Balance Sheet as on 31st March, 1993

Liabilities	*Amount* *Rs.*	*Assets* *Rs.*	*Amount* *Rs.*	*Rs.*	
Capital	62,000		Stock in trade:		
Add: Net Profit	38,760		Processed goods	44,800	
Less: Drawings	11,000	89,760	(including goods in transit)		
			Unprocessed goods	20,000	64,800
Creditors:			**Debtors:**		
H.O.	1,20,280		H.O.	61,920	
Branch	2,160	1,22,440	Branch	22,720	84,640
			Bank Balance:		
			H.O.	30,400	
			Branch	15,500	45,900
			Cash in transit		16,860
		2,12,200			2,12,200

Working Notes:

1. Calculation of closing stock

Say, cost price = Rs. 100 Then, Invoice price = Rs. 110 and selling price = Rs. 125

Stock at H.O.:	Rs.	Rs.
Cost of goods processed (4,04,000 - 20,000)		3,84,000
Less: Cost of goods sent to Branch (Rs. 1,84,800 × 100/110)	1,68,000	
Less: Cost of goods sold (Rs. 2,56,000 × 100/125)	2,04,800	3,72,800
	(A)	11,200

Stock at Branch:

Goods received from H.O. (at invoice price)		1,76,000
Less: Invoice value of goods sold (Rs. 1,64,000 × 110/125)	1,44,320	

Less: Invoice value of stock shortage (Rs. 4,000 × 110/125)	3,520	1,47,840
Stock at Branch at invoice price	(B)	28,160
Goods-in-transit (Rs. 1,84,800 - Rs. 1,76,000)	(C)	8,800
Stock Reserve:		
Unrealised profit on Branch stock (10/110 × Rs. 28,160)		2,560
Unrealised profit on goods in transit (10/110 x Rs. 8,800)		800
	(D)	3,360

Closing stock for the business as a whole (A + B + C - D) 44,800

2. Cost of stock shortage = 100/125 × Rs. 4,000 = Rs. 3,200.

Solution 8

Branch Trading & Profit & Loss Account

Particulars	*Branch*	*Head office*	*Particulars*	*Branch*	*Head office*
To Goods received	6,40,200	—	By Sales	6,40,000	14,20,000
To Purchase		19,93,350	By Goods send to branch		6,51,200
To Cost of processing		34,650	By Stock	1,24,200	1,20,000
			By Shortage		4,000
To Gross Profit	1,28,000	3,43,200	By Stock – Raw mat		1,80,000
	7,68,000	23,71,000		7,68,000	23,71,000
To Selling expense	27,000	2,24,000	By Gross Profit	1,28,000	3,43,200
To Net Profit	97,000	1,19,200			
	1,28,000	3,43,200		1,28,000	3,43,200

Trading & Profit & Loss Account

To goods received by branch		By Sales	20,60,000
To Purchase	19,93,350	By closing Stock	2,42,200
To cost of processing	34,650	By shortage	4,000
		By goods sent to branch	
		By closing stock	1,80,000
To Gross Profit	4,71,200	By Goods-in-Transit	11,8000
	24,99,200		24,99,200
To Selling expense	21,000	By Gross Profit	4,71,200
To Net Profit	4,50,200		
	4,71,200		4,71,200

Branch Balance Sheet

Creditors		2,400	Debtors	92,000
Head office	1,50,800		Bank	34,000
+ Goods in Transit	11,000	1,61,800	Goods in Transit	11,000
Profit & Loss Account		97,000	Stock	1,24,200
		2,61,200		2,61,200

Head office Balance Sheet

Capital	1,95,000	Debtors		2,30,000
Creditors	5,83,550	Branch		205,550
		(-) CIT	43,750	1,61,800
Profit & Loss Account	1,19,200	Cash in Transit		43,750
		Bank		1,62,000
		Closing stock of no process goods		1,80,000
		Closing stock finished Goods		1,20,000
	8,97,550			8,97,550

Consolidated Balance Sheet

Creditors		5,85,750	Debtors	2,30,000	
Capital	1,95,000		+ Branch	92,000	3,22,000
+ Branch	1,61,800	3,56,800	Bank	34,000	
Net Profit	1,19,200		+ Branch	1,62,000	1,96,000
+ Branch	97,000		Cash in Transit		43,750
- Stock Reserve	12,291	2,03,909	Closing stock of unprocessed goods		180,000
			Closing stock	124,200	
			- Stock Reserve	11,291	
			HO	1,20,000	2,32,909
			Goods in Transit	11,000	
			- Stock Reserve	1,000	10,000
		9,84,659			9,84,659

WN1: Reconciliation Entries

Books of Branch

Goods in Transit A/c	Dr	11,000	
To Head Office A/c			11,000

Books of Head Office

Cash in Transit A/c	Dr.	43,750	
To Branch A/c			43,750

Dr. Stock A/c (At I.P)

To Balance b/d		By Loss of Goods Sold	5,12,000
To Goods received	6,40,200	By Shortage	4,000
Stock		By Closing	1,24,200
	6,40,200		6,40,200

Head Office Stock A/c

		By Goods sent to Dr.	5,92,000
		By Loss of goods sold	11,36,000
To Purchase	19,93,250	By Closing Stock	
To Cost of processing	34,650	-unprocessed good	1,80,000
		By Balance c/d	1,20,000
	20,27,900		20,27,900

Solution 9

(i)	Cash in Transit A/c	Dr.	3,000	
	To Branch	Dr		3,000
(ii)	P/L A/c		1,700	
	To Branch			1,700

Branch Balance Sheet

Profit & Loss	31,700	Fixed Assets	95000
Creditors	10,400	Stock	50,460
H.O. Balance	1,29,010	Debtors	19,100
		Cash	6,550
	1,71,110		1,71,110

H.O. Balance Sheet

Creditors	21,900	Fixed Assets		5,30,000
Issued Share Capital	8,00,000	Stock		2,22,470
General Reserve	1,00,000	Debtors		50,500
P/L A/c	75,810	Cash		62,730
		Branch A/c	1,33,710	
		- CIT	4,700	1,29,010
	9,97,710			9,97,710

P/L Appropriation A/c

To Interim Dividend	30,000	By Balance b/d	25,310
To balance c/d	75,810	By Net Profit (82,200 – 1,700)	80,500
	1,05,810		1,05,810

Consolidated Balance Sheet

Authorised Share Capital	10,00,000	F Assets	5,30,000	
Issued Share Cap.	8,00,000	+ Branch	95,000	6,25,000
Cap. Reserve	1,00,000	Stock	2,22,470	

Creditors	21,900		+ Branch	50,460	2,72,930
+ Branch	10,400	32,300	Debtors	50,500	
P/L A/c	75,810		+ Branch	19,100	69,600
+ Branch	31,200	1,07,510	Cash	62,730	
			+ Branch	6,550	69,280
		10,39,810			10,39,810

Solution 10

Trading & Profit & Loss A/c

	H.O.	*Branch*	*Total*		*H.O.*	*Branch*	*Total*
To Raw Materials		1,800	1,800	By Sales	65,200	2,00,000	2,65,200
To Opening Stock	9,200	13,000	22,200	By Closing Stock	8,060	15,000	23,060
To Goods recd form				By Goods send			
Head Office	44,500			to purchaser	46,000		
To Raw Material Purchase		35,000	35,000	By Closing Stock –			
				Raw material		23,000	23,000
To Direct Wages		1,08,500	1,08,500	By Gross Total			1,500
To Factory overhead		39,000	39,000				
To Gross profit	19,560	66,000	85,560				
	1,19,260	2,38,000	3,57,260		1,19,260	2,38,000	3,57,260
				By Gross Profit	19,560	66,000	85,560
				By provision un-realised profit		1,200	1,200
To Adm. Salaries	4,000	13,900	17,900				
To Sales man's Comm.	6,200	22,500	28,700				
To Adm.& Selling of HS	2,300	12,500	14,800				
To Bonus to employees	156		156				
To Net Profit	6,904	18,300	25,204				
	19,560	67,200	86,760		19,560	67,200	86,760

Consolidated Balance Sheet

Capital		50,000	Debtors	37,000	
Creditor		13,000	Cash	22,000	
Profit & Loss	18,300		(+) Branch	1,000	23,000
(+)Branch	6,904				
(-) Opening Profit	1,247	23,957	Cash-in-transit		1,500

Provision for un-realised Profit	12,347	Stock:	
Bonus payable	156	Finished Goods – HO	15,000
		Finished Goods – Branch	8,060
		Raw Material - HO	2,300
		Goods-in-transit	1,500
	88,360		88,360

Working Note 1: Reconciliation Entries

1- Cash-in-transit	Dr.	1,500	
To Branch			1,500
(Being of Head Office)			
2- Goods-in-transit	Dr.	1,500	
To Head Office			1,500
(Being branch)			

Branch Balance Sheet

To Head Office	2000		By Cash	1,000
(+)Goods-in-transit	1,500	3,500	By Goods-in-transit	1,500
To Profit & Loss		6,904	By Stock	8,060
To Bonus payable		156		
		10,560		10,560

Head Office Stock Account

To Balance - Raw Materials	1,800	By Sales (30% 2,00,000)	1,40,000
- Finished Goods	13,000	By Goods sent to Branch	40,000
To Raw material	35,000	By Closing Stock-Raw material	2,300
To Direct wages	1,08,500	- Finished Goods	15,000
To Factory overhead	39,000		
	1,97,300		1,97,300

Solution 11

Trading & P/L A/c

Particulars	*Branch*	*H.O.*	*Total*	*Particulars*	*Branch*	*H.O.*	*Total*
To Open. Stock	40,000	30,000	70,000	By G/S/B	70,000	50,000	—
To Purchase	2,60,000	1,70,000	4,30,000	By Sales	3,50,000	3,00,000	6,50,000
To G/received	48,000	65,000	—	By closing stock	54,000	46,000	1,00,000
To Gross Profit	1,26,000	1,31,000	2,57,000	By Goods in Transit	—	—	7,000
	11,04,000	3,96,000	7,57,000		11,04,000	3,96,000	7,57,000
To Expenses	41,800	25,200	67,000	By Gross	1,26,000	1,31,000	2,57,000

				Profit			
To Depreciation	8,000	5,000	13,000				
To Net Profit	76,200	1,00,800	1,77,000				
	1,26,000	1,31,000	2,57,000		1,26,000	1,31,000	2,57,000

Consolidated Balance

	Rs.			Rs.	Rs.
Capital	53,000		Debtors	60,000	
(+) Profit	70,560		(+) branch	68,000	1,28,000
(+ branch	57,670	1,81,230	Bank		70,000
Sunil	35,000		Fixed Assets	45,000	
(+) Profit	30,240		(+) branch	72,000	1,17,000
(+) branch	94,530	1,59,770	Stock	46,000	
Supplier	30,000		(+) branch	54,000	1,00,000
(+) branch	50,000	80,000	Goods in Transit	2,000	
Bank OD	6,000		(+) branch	5,000	7,000
			CIT	5,000	
		4,27,000			4,27,000

Branch A/c

	Rs.		Rs.
To Expenses	2,800	By Balance b/d	5,000
To Creditor	50,000	By Goods in Transit	5,000
To Capital		By Debtor	68,000
- Anil	57,670	By Assets	72,000
- Sunil	94,530	By Stock	54,000
To Bank o/d	6,000	By Goods in Transit	2,000
		By Cash in Transit	5,000
	2,11,000		2,11,000

Head Office A/c

	Rs.		Rs.
To Balance b/d	17,000	By Goods in Transit	2,000
To Debtor	68,000	By Cash in Transit	5,000
To Assets	72,000	By Expenses	9,800
To Stock	54,000	By Creditor	50,000
To Cash in Transit	5,000	By Bank o/d	6,000
To Goods in Transit	2,000	By Capital	
		- Anil	57,670
		- Sunil	94,530
	2,18,000		2,18,000

Solution 12

In the Books of Head Office
Journal

Date *1996*	*Particulars*	*Dr.* *Rs.*	*Cr.* *Rs.*
Jan 31	Madras Branch A/c	6,000	
	Patna Branch A/c	16,000	
	To Bombay Branch A/c		6,000
	To Calcutta Branch A/c		16,000
	(Being adjustment entry passed by head office in respect of inter-branch transactions during the month)		

Working Note

Inter branch transactions	*Bombay* *Rs.*	*Madras* *Rs.*	*Calcutta* *Rs.*	*Patna* *Rs.*
(a) Bombay Branch	10,000(Dr.)		6,000(Cr.)	4,000 (Cr.)
(1) Received Goods	18,000 (Cr.)		8,000(Dr.)	10,000(Dr.)
(2) Sent Goods				
(3) Received B/R	6,000 (Dr.)			6,000 (Cr.)
(4) Sent Acceptance	6,000 (Cr.)		4,000 (Dr.)	2,000 (Dr.)
(b) Madras Branch				
(5) Received Goods	4,000(Cr.)	14,000(Dr.)	10,000 (Cr.)	
(6) Cash Sent	6,000 (Dr.)	8,000(Cr.)	2,000(Dr.)	
(c) Calcutta Branch				
(7) Sent Goods			6,000(Cr.)	6,000 (Dr.)
(8) Paid B/P and Cash			8,000(Cr.)	8,000(Dr.)
	6,000 (Cr.)	6,000 (Dr.)	16,000 (Cr.)	16,000 (Dr.)

Comments

Inter-branch Transactions – This question was not well attempted by most of the candidates. Manner of presentation was not in accordance with the requirements of question. Majority gave individual journal entries in relation to each inter-branch transaction instead of single month-end adjustment entry as required in the question. Only very few candidates did show the workings of net effect properly.

Solution 14

Voucher No	*+ Delhi -*		*+ Mumbai -*		*+ Chennai -*		*+ Calcutta–*	
	Dr.	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*
A-1	50,000			35,000				15,000
A-2		45,000			25,000		20,000	
A-3	20,000					20,000		
A-4		35,000	25,000				10,000	
B-5		20,000	35,000					15,000
B-6	15,000			22,000			7,000	
C-7					30,000			30,000
C-8						30,000	30,000	
D-9					35,000			35,000
D-10					15,000			15,000
D-11					15,000			15,000
	85,000	1,00,000	60,000	57,000	1,20,000	50,000	67,000	1,25,000
	15,000			3,000		70,000		58,000

Solution 16

(a) In the books of Indian Company
Washington Branch Trial Balance (in Rupees)
as on 30th September, 1998

(*Rs. '000*)

Stock (*1-1-19x3*)	*Dr.* *US$*	*Cr.* *US$*	*Con-version rate*	*Dr.* *Rs.*	*Cr.* *Rs.*
Plant an machinery	1,08,000		38	41,04,000	
Depreciation on plant and machinery	12,000		38	4,56,000	
Furniture and Fixtures	7,200		38	2,73,600	
Depreciation on furniture and fixtures	800		38	30,400	
Stock, Oct. 1, 1997	56,000		39	21,84,000	
Purchases	2,40,000		40	96,00,000	
Sales		4,16,000	40		1,66,40,000
Goods from Indian Co. (H.O.)	80,000			39,40,000	
Wages	3,000		40	1,20,000	
Outstanding wages	1,000		41		41,000
Carriage inward	1,000		40	40,000	
Salaries	6,000		40	2,40,000	
Rent, rates and taxes	2,000		40	80,000	
Insurance	1,000		40	40,000	

Head Office A/c		1,14,000			43,00,000
Trade debtors	24,000		41	9,84,000	
Trade creditors		17,000	41	6,97,000	
Cash at bank	5,000		41	2,05,000	
Cash in hand	1,000		41	41,000	
Exchange gain (balancing figure)					7,00,000
				2,23,78,000	2,23,78,000

(b) Washington Branch Trading and Profit and Loss Account for the year ended 30th September, 1998

Particulars	*Amount*	*Particulars*	*Amount*
To Opening stock	21,84,000	By Sales	1,66,40,000
To Purchases	96,00,000	By Closing stock	21,32,000
To Goods from Head Office	39,40,000	(52,000 US $ x 41)	
To Wages	1,20,000		
To Carriage inward	40,000		
To Gross profit c/d	28,88,000		
	1,87,72,000		1,87,72,000
To Salaries	2,40,000	By Gross Profit b/d	28,88,000
To Rent, rates and taxes	80,000		
To Insurance	40,000		
To Trade expenses	40,000		
To Depreciation on plant and machinery	4,56,000		
To Depreciation on furniture and fixtures	30,400		
To Net profit c/d	20,01,600		
	28,88,000		28,88,000
To Net profit	27,01,600	By Net profit b/d	20,01,600
		By Exchange gain	7,00,000
	27,01,600		27,01,600

Balance Sheet of Washington Branch
as on 30th September, 1998

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Head Office A/c	43,00,000		Plant and Machinery		45,60,000
Add: Net profit	27,01,600	71,01,000	*Less:* Depreciation	4,56,000	41,04,000
Trade creditors		6,97,000	Furniture and fixtures	3,04,000	
Outstanding wages		41,000	*Less:* Depreciation	30,400	2,73,600
			Closing stock		21,32,000
			Trade debtors		9,84,000
			Cash in hand		41,000
			Cash at bank		2,05,000
		77,39,600			77,39,600

Note: Depreciation has been calculated at the given depreciation rate of 10% on WDV basis.

Comments

Foreign Branch Accounts – Many candidates erred in applying the conversion rate at the time of preparing the trial balance. The treatment of outstanding wages was also not correct. As a result, profit and loss account and balance sheet were incorrectly prepared.

Solution 17

S & M Ltd.

Sydney Branch Trial Balance (in Rupees) as on 31st March, 1995

(*Rs. '000*)

	Conversion rate per A$	*Dr.*	*Cr.*
Plant & Machinery (cost)	Rs. 18	3,600	
Plant & Machinery Dep. Reserve	Rs. 18		2,340
Debtors/Creditors	Rs. 24	1,440	720
Stock (1.4.94)	Rs. 20	400	
Cash & Bank Balances	Rs. 24	240	
Purchase/Sales	Rs. 22	440	2,706
Goods received from H.O.	—	100	
Wages & Salaries	Rs. 22	990	

Rent Rs. 22	264		
Office expenses	Rs. 22	396	
Commission Receipts	Rs. 22		2,200
H.O. Current A/c			120
	7,870	8,086	
Eloss (balancing figure)		216	
	8,086	8,086	

(b) Trading and Profit & Loss Account
for the year ended 31st March, 1995

(*Rs. '000*)

	H.O.	*Branch*	*Total*		*H.O.*	*Branch*	*Total*
To Opening Stock	100	400	500	By Sales	520	2,706	3,226
To Purchases	240	440	680	By Goods sent to Branch	100	—	100
To Goods sent		100	100				
				By Closing stock	150	75	225
To Gross profit c/d	430	1,841	2,271				
	770	2,781	3,551		770	2,781	3,551
				By Gross profit b/d	430	1,841	2,271
To Wages & Salaries	75	990	1,065	By Commission receipts	256	2,200	2,456
To Rent		264	264				
To Office expenses	25	396	421				
To Provision for doubtful debts @ 5%	14	72	86				
To Depreciation (W. Note 1)	460	252	712				
To Net Profit	112	2,067	2,179				
	686	4,041	4,727		686	4,041	4,727
To Exchange Loss			216	By Net Profit			2,179
To Branch Stock Reserve (W. Note 2)			11				
To Managing Director's remuneration:							
Salary	30						
Commission	41						
(W. Note 3)			71				
To Provision for Income tax							
(W. Note 4)			8,93				
To Balance c/d			9,88				
			2,179				2,179

Working Notes

(1) Calculation of Depreciation (*Rs. '000*)

		H.O.	Branch
A.	Building -Cost	10,00	—

	Less : Dep. Reserve	2,00	—
		8,00	
	Depreciation @ 10%	80	
B.	Plant & Machinery Cost	25,00	36,00
	Less: Dep. Reserve	6,00	23,40
	Depreciation @ 20%	19,00	12,60
		3,80	2,52
	Total Depreciation (A + B)	4,60	2,52

(2) Calculation of Branch Stock Reserve

Closing Stock		75
Reserve on closing stock (75 x 1/5)		15
Less : Branch Stock Reserve (as on .4.99)		4
Additional Reserve required		11

(Rs. '000)

(3) Calculation of Managing Director's Commission

Profit before adjustment		21,79
Add : Provision for doubtful debts		86
		22,65
Less : Branch stock reserve	11	
Less : Exchange loss	2,16	2,27
Profit u/s 349		20,38*
Commission @ 2%		41 (approx.)

(4) Calculation of provision for Income tax

Profit u/s 349 as computed above		20,38
Less : Provision for doubtful debts	86	
Less MD's remuneration	71	1,57
Profit before tax		18,81
Provision for tax @ 47.5%		8,93 (*approx)

Comments:

Final Accounts of Foreign Branch – The common errors were in respect of:

1. Calculation of Managing Director's commission.
2. Provision for taxation.
3. Calculation of stock reserve.
4. Treatment of difference in trial balance.
5. Conversion of foreign branch trial balance.

Q 18. The London Branch of Delhi Export House sent the following Trial Balance as on 31-12-19X3

	£ Dr.	*£ Cr.*
Fixed Assets	17,500	
18%Loan (taken to purchase fixed assets)		13,000
Depreciation	2,500	
Stock 1-1-19X3	8,200	
Goods from H.O.	58,800	
Sales		1,05,200
Salaries & Wages	15,200	
Interest	2,880	
Cash at Bank	1,700	
Debtors	21,200	
H.O. Account		9,780
	1,27,980	1,27,980

Fixed Assets were purchased on 1-1-19X1 when £1 = Rs. 25.50, life was estimated to be 10 years.

Exchange Rates:	Average of 19X1	£ 1 = Rs. 25.70
	31-12-19X1	£ 1 = Rs. 26.10
	Average of 19X2	£ 1 = Rs. 26.20
	31-12-19X2	£ 1 = Rs. 26.40
	Average of 19X3	£ 1 = Rs. 36.50
	31-12-19X3	£ 1 = Rs. 42.20

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

Dr.	£	*Rs.*		£	*Cr. 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 Exchange gain		1,26,446			
		24,57,446			24,57,446

Closing Stock: £ 2,400

You are required to show:

(i) Branch Trial Balance in Rupee Terms,

(ii) Branch P & L A/c

(iii) Adjustment Entries to incorporate branch balances in the H.O. books.

(*Study Material Adapted*)

Solution

Converted Table

Particulars	*Rate*	*$DR*	*$CR*	*Rs DR*	*$ CR*
Fixed Assets	25.5	17,500		4,46,250	
Loan	42.2		13,000		5,48,600
Depreciation	25.5	2,500		63,750	
Stock (1-1-19 × 3)	26.4	8,200		2,16,480	
Sales Executive		36.5	15,200	1,05,200	38,39,800
Salaries & Wages		36.5	15,200	5,54,000	
Interest	36.5	2,880		1,05,120	
Cash at bank	42.2	1,700		71,740	
Debtors	42.2	21.200		8,94,640	
Head office			9,780		4,12,716
Goods send to HO		58,800		21,46,200	
Exchange diff – Less (bf)				3,02,136	
		1,27,980	1,27,980	48,01,116	48,01,116

Closing Stock = $2400 × 42.2=Rs. 1,01,280

Branch Trading & Profit & Loss Account

To opening stock	2,16,480	By Sales	38,39,800
To goods from Head Office	21,46,200	By closing stock (2400 × 4.22)	1,01,280
To Gross Profit	15,78,400		
	39,41,080		39,41,080
To exchange loss	3,02,136	By Gross Profit	15,78,400
To depreciation	63,750		
To salaries & wages	5,54,800		
To investment	1,05,120		
To Net Profit	5,52,594		
	15,78,400		15,78,400

Incorporation – Journal Entries
Books of Head Office

1	Fixed Assets	Dr	4,46,250	
	Stock	Dr	1,01,280	
	Cash	Dr	71,740	
	Debtors	Dr	8,94,640	
	To branch Account			15,13,910
	(being s assets incorporated)			
2	Branch Account	Dr	5,48,600	
	To Loan			5,48,600
	(being s liability incorporated)			
3	Branch Account	Dr	5,52,594	
	To Profit & Loss Account			5,52,594
	(being profit incorporated)			

Working Note

Branch Balance Sheets

Loan	5,48,600	Fixed Assets	4,46,250
Head Office	4,12,716	Cash	71,740
		Debtors	8,94,640
Profit & Loss	5,52,594	Closing Stock	1,01,280
	15,13,910		15,13,910

Q 19. The New York Branch of Fine Textiles Limited, Delhi sent the following Trial Balance as on 31st December, 19X9.

	$	**$**
Fixed Assets	1,20,000	
Stock, 1st January, 19x9	56,000	
Goods from H.O.	3,20,000	
Sales		4,20,000
Expenses	25,000	
Debtors and Creditors	24,000	17,000
Cash at Bank	6,000	
H.O. Account		1,14,000
	5,51,000	5,51,000

In the H.O. Books the Branch Account stood as shown below:

New York Branch Account

	Dr. Rs.		*Cr. Rs.*
To Balance b/d	10,05,000	By Cash	26,08,000
To Goods sent to Branch	24,63,000	By balance c/d	8,60,000
	34,68,000		34,68,000

Goods are invoiced to the Branch at cost plus 10% and Branch has instructions to sell at invoice price plus 25%. Fixed assets were acquired on 1st January 19X1 when $ 100 = Rs. 380. Rates of exchange were:

1st January 19X9	$ 100 = Rs. 760
31st December 19X9	$ 100 = Rs. 770
Average	$ 100 = Rs. 750

Fixed assets have to be depreciated by 10% and the Branch Manager is entitled to commission of 5% on the profit of the Branch (on invoice price basis).

You are required to convert the Branch Trial Balance into rupees and prepare the Branch Trading and Profit & Loss Account and the Branch Account.

(*Study Material*)

Solution

Converted Trial Balance

Particulars	*Rate*	*Dr*	*Cr*	*Rs.* (*Dr*)	*Rs.*(*Cr*)
Fixed Assets	3.8	1,20,000		4,56,000	
Stock opening	7.6	56,000		4,25,600	
Goods from Head office -		3,20,000		24,63,000	
sales		7.5		4,20,000	31,50,000

Particulars	*Rate*	*Dr*	*Cr*	*Rs.* (*Dr*)	*Rs.*(*Cr*)
Expenses	7.5	25,000		1,87,500	
Debtors & Creditors	7.7	24,000	17,000	1,84,800	1,30,900
Cash at Bank	7.7	6,000		46,200	
Head office Account			1,14,000		8,60,000
Exchange diff – loss (bal figure)				3,77,800	
		5,51,000	5,51,000	41,40,900	41,40,900

Branch trading & Profit & Loss Account

To opening stock	4,25,600	By Sales	31,50,000
To Goods from Head office	24,63,000	By Closing Stock (40,000×7.7)	3,08,000
To Gross Profit	5,69,400		
	34,58,0000		34,58,000
To Manager commission o/s	18,095	By Gross Profit	5,69,400
To Depreciation of Fixed Assets	45,600	By Profit & Loss A/C	59,595
To Expenses	1,87,500		
To Exchange diff	3,77,800		
	6,28,995		6,28,995

Branch A/C

To Balance b/d	8,60,000	By Fixed Assets	4,104,00
To Creditors	1,30,900	By Debtors	1,84,800
To Manager commission o/s	1,8095	By Bank	46,200
		By Clearing Stock	3,08,000
		By Profit & Loss A/C	59,595
	10,08,995		10,08,995

Working Note

Branch Balance Sheet

Creditors	1,30,900	Fixed Assets	4,10,400
		Debtors	1,84,800
Head Office	8,60,000	Bank	46,200
Mgr's Commission o/s	18,095	Closing Stock	3,08,000
		Profit & Loss	59,595
	10,08,995		10,08,995

Branch Stock A/s [at I.P)

To opening Stock	5,60,000	By Sales	3,36,000
To goods fr Ho	3,20,000	By Balance c/d	5,44,000
	8,80,000		8,80,000

Branch Trading & Profit & Loss A/c

To opening Stock	56,000	By Sales	9,20,000
To Goods fr HO	3,20,00	by Closing Stock	40,000
To Gross Profit	84,000		
	4,60,000		4,60,000
To Depreciation	12,000	By Gross Profit	84,000
To Expense	25,000		
To Mgr's comm.	2,350		
To Net Profit	44,650		
	84,000		84,000

Profit by manager's Commission = 47,000

Commission = (× 5%) 2,300

5. Foreign Head Office

Q 20. Carlin & Co. has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch furnishes you with its trial balance as on 31st March, 2002 and the additional information given thereafter:

	Dr. *Rupees*	*Cr.* *In thousand*
Stock on 1st April, 2001	300	
Purchases and sales	800	1,200
Sundry debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	1,620
Rent, rates and taxes	360	
Sundry charges	160	
Computers	240	
Bank balance	420	
New York office A/c		
	3,360	3,360

Additional information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Mumbai branch was worth Rs. 4,20,000, on 31st March, 2002.

(c) The rates of exchange may be taken as follows:

(i) On 1.4.2001 @ Rs. 40 per US $

(ii) On 31.3.2002 @ Rs. 42 per US $

(iii) Average exchange rate for the year @ Rs. 41 per US $

(iv) Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2002 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US $ 39609.18 on 31.3.2002 in New York books and there were no items pending reconciliation.

(*May 1999* [*1*]); *10 marks*)

Hint:

Carlin & Co. Ltd.
Mumbai Branch Trial Balance (in US $)
As on 31st March, 2002

	Conversion rate per US $/(Rs.)	*Dr. US $*	*Cr. US $*
Stock on 1-4-2001	40	7,500.00	—
Purchases and sales	41	19,512.20	29,268.29
Sundry debtors and creditors	42	9,523.81	7,142.86
Bills of exchange	42	2,857.14	5,714.29
Wages and salaries	41	13,658.54	—
Rent, rates and taxes	41	8,780.49	—
Sundry charges	41	3,902.44	—
Computers	—	6,000.00	—
Bank balance	42	10,000.00	—
New York Office A/c	—	—	39609.18
		81,734.62	81,734.62

Trading and Profit & Loss Account
For the year ended 31st March, 2002

Particulars	*US $*	*Particulars*	*US $*
To Opening Stock	7,500.00	By Sales	29,268.29
To Purchases	19,512.20	By Closing Stock	10,000.00
To Wages and Salaries	13,658.54	By Gross loss c/d	1,402.45
	40,670.74		40,670.74
To Gross loss b/d	1,402.45	By Net loss	17,685.38
To Rent, rates and taxes	8,780.49		
To Sundry charges	3,902.44		
To Dep. On computer (US$ 6,000 × 0.6)	3,600.00		
	17,685.38		17,685.38

Balance Sheet of Mumbai Branch
As on 31st March, 2002

Liabilities	*US $*	*Assets*	*US $*
New York Office Account 39,609.18		Computer	6,000.00
		Less: Depreciation	3,600.00
Less Net Loss 17,685.38	21,923.80	Closing Stock	2,400.00
Sundry Creditors	7,142.86	Sundry Debtors	10,000.00
Bills Payable	5,714.29	Bank Balance	9,523.81
		Bills Receivable	10,000.00
			2,857.14
	34,780.95		34,780.95

Ans. *Gross loss $ 1,402.45, Net loss $ 17,685.39, Total of Balance Sheet $ 34,780.95.*

Comments

This part of the question was well attempted by most of the candidates. However, some candidates erred in applying conversion rates and could not prepare the revenue statement correctly.

6. Dependent

I. Debtor Method

Q 21. Hindustan Industries Bombay 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.

From the following details, relating to calendar year 2002, prepare the accounts 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.

	Rs.
Goods received from Head Office at invoice price	6,00,000
Returns to Head Office at invoice price	12 ,000
Stock at Cochin as on 1st January, 2002	60,000
Sales in the year – Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st January, 2002	72,000
Cash received from Debtors	3,20,000
Discount allowed to Debtors	6,000
Bad Debts in the year	4,000
Sales returns at Cochin Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expense	6,000
Stock at Branch on 31st December, 2002 at invoice price	1,20,000

(*Study Material*)

Solution

Branch Account

Particulars	*Amount*	*Particulars*	*Amount*
To Balance b/d		By Opening Stock Reserve	12,000
Stock	50,000	By Goods send – load	1,20,000
Debtors	72,000	By Goods return	12,000
To Goods	6,00,000	By remittances	
To Goods received load	2,400	Cash Sales	3,20,000
To Bank		Cash collected from debtor	3,20,000
Rent, rates, taxes	18,000	By Closing stock	
Salary	60,000	Stock	1,20,000
Office expense	6,000	Debtors	94,000
To Closing stock reserve	24,000		
To Net Profit	35,600		
	9,98,000		9,98,000

Memorandum Debtors Account

Particulars		*Amount*	*Particulars*	*Amount*
To Balance b/d		72,000	By Cash	3,20,000
To Sales	3,52,000		By Discount	6,000
(-) return	94,000	2,58,000	By Bad debts	4,000
		3,30,000		3,30,000

Profit/Loss for Branch at Branch = (70,000) loss

Branch Adjustment A/c – I

Particulars	*Amount*	*Particulars*	*Amount*
To Goods return – Load	2400	By opening stock reserve	12,000
To Closing Stock Reserve	24,000	By goods sent -	1,20,000
To Gross Profit	1,05,600		
	1,32,000		1,32,000

Branch Adjustment – II

Particulars	*Amount*	*Particulars*	*Amount*
To rates	18,000	By Gross Profit	1,05,600
To Salary	60,000		
To Office Expense	6,000		
To Discount	6,000		
To Bad debts	4,000		
To Net Profit	35,600		
	1,05,600		1,05,600

(B) STOCK AND DEBTORS A/c

Branch Stock Account(I.P)

Particulars	*Amount*	*Particulars*		*Amount*
To Opening stock	60,000	By Returns to head office		12,000
To Goods received from head office	6,00,000	By Sales	5,60,000	
To Apparent surplus	24,000	(-) Sales Return	8,000	5,52,000
		By Closing stock		1,20,000
	6,84,000			6,84,000

Branch Adjustment Account –I

Particulars	*Amount*	*Particulars*	*Amount*
To Goods received	2,400	By Opening stock	12,000
To Closing stock reserve	24,000	By Goods received	1,20,000
To Gross Profit	1,05,600		
	1,32,000		1,32,000

Branch Adjustment Account II

Particulars	*Amount*	*Particulars*	*Amount*
To Rates	18,000	By Gross Profit	1,05,000
To Salary	60,000	By Apparent Surplus	24,000
To Office expense	6,000		
To Discount	6,000		
To Bad Debts	4,000		
To Net Profit	35,600		
	1,29,000		1,29,000

Q 22. During the year ended 31st December, 2002, X & Co. of Madras sent to their Branch at Bombay goods costing Rs. 1,00,000. They used to invoice to the Branch at a price designed to show a gross profit of 33-1/3 per cent 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:

Cash sales – Rs. 1,21,050

Credit Sales – Rs. 27,600

Goods returned by Customers – Rs. 300

Goods returned to Head Office – Rs. 780 (invoice price)

	On 31-12-2001	*On 31-12-2002*
	Rs.	*Rs.*
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 Profit & Loss Account.

(*Study Material*)

Solution

Branch Account

Particulars	*Amount*	*Particulars*	*Amount*
To Balance b/d: Stock	2,250	By Opening stock reserve	750
Debtors	1,320	By Goods sent – load	50,000
To Goods sent to branch	1,50,000	By Goods returned	780
To Goods return	260	By Remittance:	
To Cash from head office Expense	36,780	Cash sales	1,21,050
To Stock reserve	900	Cash from debts	730
		By Collection	26,390
		By Sundry Assets:	
		Stock	2,700
To N/P	13,120	Debtors	2,230
	2,04,630		2,04,630

Q 23. The Empire Store Ltd. invoice goods to their various branches at cost and the branches sell on credit as well as for cash. For the following details relating to the Bombay branch, prepare the necessary accounts in the Head Office books:

(*Misc. Question*)

	Rs.
Debtors, 1st January, 1992	26,200
Debtors, 31st December, 1992	31,100
Cash Balance, 1st January, 1992	300
Stock, 1st January, 1992	15,000
Stock, 31st December, 1992	13,900
Goods received from Head Office	50,800
Cash received from Head Office	1,500
Goods returned to Head Office	700
Cash sales	33,500
Credit Sales	60,000
Allowances to Customers	320
Returns from Customers	580
Discount allowed to Customers	2,400
Bad Debts	600
Remittance to Head Office	74,900
Rent and Rates	1,800
Wages and Salaries	6,000
General Trade Charges	1,300
Normal loss of goods due to wastage	1,200
Abnormal loss of goods due to pilferage	3,000

Solution

Branch account

Particulars		*Amount*	*Particulars*		*Amount*
To Opening Assets			By Remittances		74,900
Debtors	26,200				
Cash	300				
Stock	15,000	41,500			
To goods sent		50,800			
To cash		1,500	By goods Returned		700
To Net profit		29,300	*By closing assets*		
			Debtors	31,100	
			Stock	13,900	
			Cash	2,500	47,500
		1,23,100			1,23,100

- Assumed all expenses are paid by Branch

Memorandum cash account

Particulars	*Amount*	*Particulars*	*Amount*
To Balance b/d	300	By Remittances	74,900
To H.O.	1,500	By rent & rates	1,800
To sales	33,500	By wages salary	6,000
To collection from Debtors	51,200	By general trade charges	1,300
		By Balance c/d	2,500
	86,500		86,500

Debtors A/c

Particulars	*Amount*	*Particulars*	*Amount*
To balance b/d	26,200	By Allowances	320
To sales	60,000	By Patterns	580
		By Discount	2,400
		By Bad debts	600
		By Cash (B.F)	51,200
		By balance c/d	31,100
	86,200		86,200

- Treatment of Load:—Stock reserve should be eliminated stock reserve for opening stock, goods sent, goods returned should be cancelled in Branch Account

Q 24. X Ltd., Bombay, started on 1 April 98, has two branches at Kanpur and Lucknow. All goods sold at the branches are received from the Head Office invoiced at cost plus 25%. All expenses relating to Branches are paid by the H.O. Each branch has it own sales ledger and sends weekly statements. All cash collections are remitted daily to Head Office by the branches.

The following particulars relating to the year ended 31 March 1999 have been extracted from the weekly statements sent by the Branches:

	Kanpur *Rs.*	*Lucknow* *Rs.*
Credit Sales	1,25,200	1,10,000
Cash Sales	78,600	85,200
Sales Returns	2,300	1,200
Sundry Debtors	34,500	23,600
Rent and Rates	3,200	4,500
Bad Debts	6,000	—
Salaries	16,000	18,000
General Expenses	2,600	1,500
Goods received from H.O.	1,50,000	1,25,000
Advertisement	7,500	5,200
Stock on 31 March 1999	45,000	35,000

You are required to prepare the Branch Accounts as they would appear in the books of the Head Office, showing the Profit or Loss for the period and the Trading and Profit and Loss Account separately for each branch.

Solution

Trading and Profit & Loss
Account for the Year ended 31 March 1999

Dr. *Particulars*	*Kanpur Branch Rs.*	*Lucknow Branch Rs.*	*Cr.* *Particulars*	*Kanpur Branch Rs.*	*Lucknow Branch Rs.*
To Goods received from			By Sales (Credit)	1,25,200	1,10,000
Head Office at cost		—	Sales returns	2,300	1,200
(1,50,000 - 30,000)		1,20,000		1,22,900	1,08,800
(1,25,000 - 25,000)		1,00,000	Cash sales	78,600	85,200
To Gross Profit c/d	1,17,500	1,22,000	By Stock at the end	36,000	28,000
	2,37,500	2,22,000	2,37,500	2,22,000	
To Salaries	16,000	18,000	By Gross Profit	1,17,500	1,22,000
To General Expenses	2,600	1,500	c/d		
To Bad Debts	6,000				
To Rent and Rates	3,200	4,500			
To Advertisement	7,500	5,200			
To Net Profit	82,200	92,800			
	1,17,500	1,22,000		1,17,500	1,22,000

Branch Account

Dr. Particulars	*Kanpur Branch Rs.*	*Lucknow Branch Rs.*	*Cr.* Particulars	*Kanpur Branch Rs.*	*Lucknow Branch Rs.*
To Goods sent to Branch A/c	1,50,000	1,25,000	By Bank (remittances)		
To Cash (Expenses):			Cash Sales	78,600	85,200
- Rent and Rates	3,200	4,500	Received from		
- Salaries	16,000	18,000	By Debtors	82,400	85,200
- General Expenses	2,600	1,500	By Goods sent to	30,000	25,000
- Advertisement	7,500	5,200	Branch A/c		
To Stock Reserve	9,000	7,000	By Balance c/d		
			- Debtors	34,500	23,600
To Net Profit	82,200	92,800	- Stock	45,000	35,000
	2,70,500	2,54,000		2,70,500	2,54,000

Memorandum Branch Debtors Account

Dr. Particulars	*Kanpur Branch Rs.*	*Lucknow Branch Rs.*	*Cr.* Particulars	*Kanpur Branch Rs.*	*Lucknow Branch Rs.*
To Sales A/c	1,25,200	1,10,000	Sales Returns A/c	2,300	1,200
			Bad Debts A/c	6,000	—
			Cash (Balancing fig.)	82,400	85,200
			Balance c/d	34,500	23,600
	1,25,200	1,10,000		1,25,000	1,10,000

Q 25. C Ltd. of Delhi has a branch. Goods are invoiced to the branch at cost plus 25%. The branch does not maintain account books and all collections at the branch are remitted to head office. The expenses of the branch are reimbursed by the office. From the following particulars, prepare the branch account in the books of head office for the six months ending on 30th September, 20x1.

	Rs.		*Rs.*
Opening Stock		Bad debts	400
(at cost to head office)	55,000	Trade discount to customers	
Opening Debtors	15,000	(already taken into account while	
Opening Furniture	12,000	invoicing)	12,000
Opening Petty Cash	500	Goods sent to branch on 27.9.X1.	
Transactions for six months:		Received by branch on 5.10.X1	1,500
Goods received from head office	2,25,000	Cash sent to branch for expenses	10,500

	Rs.		*Rs.*
Cash sales	1,95,000	Cash discount allowed to customers	800
Credit sales	80,000	Balances on 30.9.20X1	
Goods returned to head office	12,750	Stock	5,600
Normal loss	1,000	Debtors	?
Sales return by customers to branch	500	Petty cash	500
Cash received from debtors	50,000	Depreciate Furniture @ 20%	
Bills receivable received from Customers at branch	15,000		

Solution

Branch Account

Particulars	*Amount*	*Particulars*		*Amount*
To Sundry Assets: Stock	68,750	By Opening stock reserve		13,750
Debtors	15,000	By Remittance		
Furniture	12,000	Cash sales	1,95,000	
Petty cash	500	Cash from debt	50,000	2,45,000
To Goods received from HO	2,26,500			
To Goods sent – load	2,550	By Goods send – load		45,300
To Cash from expense	10,500	By Goods received		12,750
To Depreciation	1,200			
To Closing stock reserve	1,420			
To N/P	40,080	*By Sundry Assets*		
Bills Receivable	15,000	Goods in Transit		1,500
		Stock		5,600
		Petty Cash		500
		Furniture		4,600
		Debtors		28,300
	3,78,500			3,78,500

Memorandum Debtors Account

Particulars	*Amount*	*Particulars*	*Amount*
To Balance b/d	15,000	By Sales return	500
To Sales return	80,000	By Bad debts	400
		By Cash discount	800
		By Bills Receivable	15,000
		By Cash	50,000
		By Balance c/d	28,300
	95,000		95,000

Q 26. Widespread Ltd. invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding Rs. 10,000 necessary for meeting immediate requirements of cash. On 31st March, 2001 the assets at the branch were as follows:

	Rs. (*'000*)
Cash in Hand	10
Trade Debtors	384
Stock at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st March, 2002 the invoice price of goods dispatched by the head office to the branch amounted to Rs. 1 crore 32 lakh. Out of the goods received by it, the branch sent back to head office goods invoiced at Rs. 72,000. Other transactions at the branch during the year were as follows:

	Rs. (*'000*)
Cash Sales	9,700
Credit Sales	3,140
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842
Cash Collected from Debtors	2,842

On 1st January, 2002 the branch purchased new furniture for Rs. 1 lakh for which payment was made by head office through a cheque.

On 31st March 2002 branch expenses amounting to Rs. 6,000 were outstanding and cash in hand was, again Rs. 10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balances method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2002. (*May 2001* [4]*; 16 marks*)

Solution

In the Head Office Books
Branch Account
for the year ended 31st March, 2001

Dr.			*Cr.*
Particulars	*Rs. '000*	*Particulars*	*Rs. '000*
To Balance b/d	10	By Balance c/d	
Cash in hand		Stock Reserve (Rs.1080×1÷6)	180
Trade debtors	384	By Goods sent to branch A/c	72
Stock	1,080	(Returns to H.O.)	

Dr. Particulars	Rs. '000	Particulars	*Cr.* Rs. '000
Furniture and fittings	500	By Goods sent to branch A/c	2,188
To Goods sent to branch A/c	13,200	(Loading on net goods sent	
To Bank A/c (Payment for furniture)	100	to branch - Rs. 13,128 × 1÷6)	
To Balance c/d		By Bank A/c	
Stock reserve (Rs.1,470 × 1 ÷6)	245	(Remittance form branch to H.O)	11,700
Outstanding expenses	6	By Balance C/d	
To Profit and loss A/c	1,096	Cash in hand	10
(Net profit)		Trade debtors	485
		Stock	1,470
		Furniture and fittings	516
	16,621		16,621

Working Notes:

1. Invoice price and cost

1. Invoice price and cost	100
Let cost be	120
So, invoice price	20
Loading	
Loading: Invoice price = 20 : 120	= 1 : 6

2. Invoice price of closing stock in branch

Branch Stock Account

Particulars	*Rs. '000*	*Particular*	*Rs. '000*
To Balance b/d	1,080	By Goods sent to branch	72
To Goods sent to branch	13,200	By Branch Cash	9,700
To Branch debtors	102	By Branch debtors	3,140
		By Balance c/d	1,470
	14,382		14,382

3. Closing balance of branch debtors

Branch Debtors Account

Particulars	*Rs. '000*	*Particular*	*Rs. '000*
To Balance b/d	384	By Branch	2,842
To branch stock	3,140	By Branch expenses discount	58
		By Branch stock (Returns)	102
		By Branch expenses (Bad debts)	37
		By Balance b/d	485
	3,524		3,524

4. Closing balance of furniture and fittings

Branch Furniture and Fittings Account

Particulars	*Rs. '000*	*Particular*	*Rs. '000*
To Balance b/d	500	By Depreciation (80 + 4)	84
To Bank	100	By Balance c/d	516
	600		600

5. Remittance by branch to head office

Branch Cash Account

Particulars	*Rs. '000*	*Particular*	*Rs. '000*
To Balance b/d	10	By Branch expenses	842
To Branch stock	9,700	By Remittances to H.O.	11,700
To Branch debtors	2,842	By Balance b/d	10
	12,552		12,552

Comments

***Branch Accounts* –** The performance of the candidates was average in this question. Most of the candidates could not arrive at the closing values of stock, debtors, furniture and the amount remitted by the branch to the head office. Very few have correctly found out the profits of the branch. Some of the candidates prepared the branch profit and loss account and other irrelevant accounts instead of preparing branch account as required in the question.

Q 27. Red and Co. of Mumbai started a branch at Bangalore on 1.4.2006 to which goods were sent at 20% above cost. The branch makes both cash sales and credit 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 the year ending on 31.3.2007:

	Rs.
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2007 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2007	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2007	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment A/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit.

(*PE-II, May 2007; Marks 16*)

Solution

Branch Debtors A/c

Particulars	*Amount*	*Particulars*	*Amount*
To Branch Stock A/c	1,16,000	By Branch Cash A/c (balancing figure)	74,000
		By Bad Debts (written off)	400
		By Balance c/d	41,600
	1,16,000		1,16,000

Goods Sent to Branch A/c

Particulars	*Amount*	*Particulars*	*Amount*
To Branch Adjustment A/c	20,000	By Branch Stock A/c (1,00,000 × 20/100)	1,20,000
To Purchase/ Trading A/c	1,00,000		
	1,20,000		1,20,000

Branch Cash A/c

Particulars	*Amount*	*Particulars*	*Amount*
To Branch Debtors A/c	74,000	By Branch Expenses A/c	24,000
To H.O. A/c (cash remittance)	6,000	By H.O. (cash remittance)	86,000
To Branch Stock A/c		By Balance c/d	4,000
- Cash Sales (balancing figure)	34,000		
	1,14,000		1,14,000

Branch Stock A/c

Particulars	*Amount*	*Particulars*	*Amount*
To Goods sent to branch A/c	1,20,000	By Branch Debtors A/c	1,16,000
To Branch Adjustment A/c	54,000	By Branch Cash A/c (Sales)	34,000
(Excess profit over normal loading-balancing figure)		By Goods in Transit (1,20,000-1,08,000)	12,000
		By Balance c/d	12,000
	1,74,000		1,74,000

Branch Expenses A/c

Particulars	*Amount*	*Particulars*	*Amount*
To Branch Cash A/c	24,000	By Branch P&L A/c	24,000

Branch Adjustment A/c

Particulars	*Amount*	*Particulars*	*Amount*
To Stock Reserve A/c	2,000	By Goods sent to Branch A/c	20,000
To Goods in transit Reserve A/c	2,000	By Branch Stock A/c	54,000
To Branch P&L A/c	70,000		
(Balancing figure)			
	74,000		74,000

Working Notes:

1. Loading is 20% of cost i.e. 16.67% (1/6th) of invoice value.
   Loading on closing stock = Rs. 1/6th of Rs. 12,000 = Rs. 2,000
2. Loading on goods sent to branch = 1/6th of Rs. 1,20,000 = Rs. 20,000
3. Loading on goods in transit = 1/6th of Rs. 12,000 = Rs. 2,000

II. Stock & Debtor Method

Q 28. The Bombay Trading Company invoiced goods to its Delhi branch at cost. Head Office paid all the branch expense s from its bank account except petty cash expenses which were met by the Branch. All the cash collected by the branch was banked on the same day to the credit of the Head Office. The following is a summary of the transactions entered into at the branch during the year ended December 31, 2002

	Rs.		*Rs.*
Stock January 1	7,000	Bad Debts	600
Debtors, January 1	12,600	Goods returned by customers	500
Petty Cash, January 1,	200	Salaries & Wages	6,200
Goods sent from H.O.	26,000	Rent & Rates	1,200
Goods returned to H.O.	1,000	Sundry Expenses	800
Cash Sales	17,500	Cash received from	28,500
Credit Sales	28,400	Sundry Debtors	6,500
Allowances to customers	200	Stock, Dec. 31	9,800
Discount to customers	1,400	Debtors, Dec. 31	100
		Petty Cash, Dec. 31	

Prepare: (a) Branch Account (Debtors Method), (b) Memorandum Branch Trading and Profit & Loss Account to prove the results as disclosed by the Branch Account and (c) Branch Stock Account, Branch Profit & Loss Account, Branch Debtors and Branch Expenses Account by adopting the Stock and Debtors Method. (*Study Material*)

Solution

Branch Account

Particulars		*Amount*	*Particulars*	*Amount*
To Opening Balance			By Remittances	
Stock	7,000		Cash Sales	17,500
Debtors	12,600		Cash from Debtors	28,500
Petty cash	200	19,800	By Goods returned	1,000
To Goods sent		26,000	By Closing balance	
To Cash from head office			Stock	6,500
Salary & wages		6,200	Debtors	9,800
Rent & rates		1,200	Petty cash	100
Sundry Expense		800		
To Net Profit		9,400		
		63,400		63,400

Memorandum Debtors A/c (not required)

Particulars	*Amount*	*Particulars*	*Amount*
		By Allowances	200
To Balance b/d	12,600	By Disallowances	1400
To Sales	28,400	By Bad Debts	600
		By Goods return	500
		By Cash	28,500
		By balance c/d	980

Q 29. Harrison Ltd., Madras has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

	Rs.
Cost of goods sent to Branch at cost	2,00,000
Goods received by Branch till 31-12-2002 at invoice price	2,20,000
Credit Sales for the year	1,65,000
Cash Sales for the year	59,000
Cash Remitted to head office	2,22,500
Expenses paid by H.O.	12,000
Bad Debts written off	750

Balance as on	*1-1-2002*	*31-12-2002*
	Rs.	*Rs.*
Stock	(Cost) 25,000	(Invoice Price) 28,000
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 2002. (*Study Material*)

Solution

Branch Stock Account

Particulars	*Amount*	*Particulars*	*Amount*
To balance b/d	30,000	By sales	2,24,000
To Apparent surplus	2,000	By goods in transit	20,000
		By Balance c/d	28,000

Branch Debtors

Particulars	*Amount*	*Particulars*	*Amount*
To balance b/d	32,750	By bad debts	750
To credit + sales	1,65,000	By cash (B. F.)	1,71,000
		By c/d	26,000
	1,97,750		1,97,750

Cash Account

Particulars	*Amount*	*Particulars*	*Amount*
To b/d	5,000	By cash remitted	2,22,500
To cash sales	59,000	By exp. Paid (B.F.	10,000
To collection	1,71,000	By c/d	2,500
	2,35,000		2,35,000

Branch Adjustment Account

Particulars	*Amount*	*Particulars*	*Amount*
To closing stock	8,000	By opening stock reserve	5,000
Reserve (48,000 ×1 ÷ 6)	(30,000 × 1 ÷ 6)		
To Gross Profit	39,000	By goods sent (2,40,000 ×1 ÷ 6)	40,000
		By Apparent surplus	2,000
	47,000		47,000

Branch P&L A/c

Particulars	*Amount*	*Particulars*	*Amount*
To Expenses	12,000	By Gross Profit	39,000
To Bad debts	750		
To Expenses by Branch	10,000		
To Net profit	16,250		
	39,000		39000

Q 30. M invoices goods to its Kanpur branch at 20% less than the list price which is cost plus 100% with instructions that cash sales were to be made at invoice price and credit sales at list price.

From the following particulars available from Kanpur branch, prepare

(a) Branch Stock Account

(b) Branch Debtors Account and

(c) Kanpur Branch Account to reveal the profit for the year.

	Rs.
Stock in beginning at invoice price	18,000
Debtors in the beginning	10,000
Personal computer (P.C.) at branch	50,000
Goods received from HO at invoice price	1,80,000
Cash Sales	82,000
Credit Sales	1,20,000
Goods in transit at the end	10,000
Cash sent to branch for expenses	32,000
Actual Expenses at branch	30,000
Stock at the end at invoice price	16,000
Bad debts written off	400
Goods returned by customers direct to HO at list price	1,500
Debtors at the end	8,100
Depreciate personal computer by	20%

Verify profit by preparing branch adjustment account and branch profit and loss account.

Solution

Working Notes:

Cost Price = 100 List Price = 200 Invoice Price = 160

(a) Kanpur Branch Stock Account

Dr. Particulars	Amount	Particulars	*Cr.* Amount
To Balance b/d	18,000	By Cash Sale	82,000
To Goods Sent to Branch A/c	1,80,000	By Credit Sale	1,18,500
To Apparent Surplus	23,700	By Goods Sent to HO A/c	1,200
		(Direct return by credit customers)	
		By Shortage (balance figure)	4,000
		By Balance c/d:	
		Stock at branch	16,000
	2,21,700		2,21,700

(b) Kanpur Branch Debtor Account

Dr. Particulars	Rs.	*Cr.* Particulars	Rs.
To Balance b/d	10,000	By Bad Debt A/c	400
To Credit Sale	1,20,000	By Branch Stock A/c	1,200
		By Branch Adjustment A/c	300
		By Branch Cash A/c (balancing figure)	1,20,000
		By Balance c/d	8,100
	1,30,000		1,30,000

Kanpur Branch Adjustment Account

Dr. Particulars	Rs.	Particulars	*Cr.* Rs.
To Shortage	1,500	By Stock Reserve	6,750
To closing debtors	6,000	(loading on opening stock)	
To goods returned	450	By Goods received from Branch A/c	67,500
To gross profit	66,300		
	74,250		74,250

Kanpur Branch Profit & Loss Account

Dr. Particulars	Rs.	Particulars	*Cr.* Rs.
To depreciation on personal computer	10,000	By Gross profit b/d	66,300
		By Apparent Surplus	23,700

Dr. Particulars	*Rs.*	Particulars	*Cr.* *Rs.*
To Branch stock A/c (cost of loss)	2,500	To Branch expense A/c	30,000
To Bad debts	400		
To Net profit	47,100		
	90,000		90,000

(c) Kanpur Branch Account

Dr. Particulars	*Rs.*	Particulars	*Cr.* *Rs.*
To Balance b/d			
Branch Stock	18,000	By Balance b/d	
Branch Debtor	10,000	Stock reserve (on opening stock)	6,750
Personal Computer	50,000	By Goods Sent to Branch A/c	71,250
To Goods Sent to Branch A/c	1,90,000	(loading on goods sent)	
To Goods Sent to Branch A/c	450	By Goods Sent to Branch A/c	1,200
(loading on goods returned)		By Cash A/c	2,04,000(1)
To Branch Cash A/c (expenses)	32,000	By Balance c/d:	
To Stock Reserve	6,000	Branch Stock	16,000
(on closing stock)		Branch Debtor	8,100
To Stock reserve	3,750	Personal Computer	40,000(2)
(on goods-in-transit)		Goods-in-Transit	10,000
To Net Profit (balancing figure)	47,100		
	3,57,300		3,57,300

Working Notes

(1) Calculation of cash remitted by branch to HO.

Kanpur Branch Cash Account

Dr. Particulars	*Rs.*	Particulars	*Cr.* *Rs.*
To Cash Sale	82,000	By Branch Expenses A/c	30,000
To Cash A/c	32,000	By Cash A/c	
To Branch Debtor A/c	1,20,000	(balancing figure)	2,04,000
	2,34,000		2,34,000

(2) Calculation of closing balance of personal computer.

Personal Computer Account

Dr. Particulars	Rs.	Particulars	*Cr.* Rs.
To Balance b/d	50,000	By Depreciation A/c (20% of 50,000)	10,000
		By Balance c/d (balancing figure)	40,000
	50,000		50,000

Q 31. Hero Ltd. has two branches, in Cochin and Bangalore. During the year ended 31st March, 20X2, 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 book of account but the following figures are available to the year ending on 31st March, 20X2.

Particulars	*Cochin Rs.*	*Bangalore Rs.*
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 H.O.	15,000	15,000
Goods returned by branch	3,000	—
Opening Cash	2,000	1,000
Closing Cash	1,000	500
Goods returned by Customers at branch at selling price	5,000	4,000
Expenses at branch in Cash	9,000	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. The Bangalore branch remitted Rs. 2,000 to the 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 not closing stock at the Bangalore branch.

Prepare Branch Stock Account, Branch Stock Adjustment Account, Goods sent to Branch Account, Branch Cash Account and Branch Profit and Loss Accounts in the Head Office books ignoring depreciation.

Solution

Branch Stock Account

	Cochin	*Bangalore*		*Cochin*	*Bangalore*
To Opening stock	10,000	10,000	By Goods return	3,000	
To Goods sent to br	60,000	50,000	By Goods t/f to b'lore	6,000	
To Goods sent to br		6,250	By Sales (net)	71,000	69,500
To App surplus	34,000	3,250	By Balance c/d	24,000	
	1,04,000	69,500		1,04,000	69,500

Branch adjustment Account

	C	*B*		*C*	*B*
To Goods returned–load	500		By Stock reserve	1667	2,000
To Closing stock	4,000		By Goods sent load	10,000	10,000
By Goods return	1,000		By Goods sent	1,250	
To Gross Profit	6,167	13,250			
	11,667	13,250		11,667	13,250

Goods sent to branch Account

	C	*B*		*C*	*B*
To Trading Account	60,000	50,000	By Branch Account	60,000	50,000

Branch Cash Account

	C	*B*		*C*	*B*
To Opening balance	2,000	1,000	By Remittances	80,000	80,000
To Cash from head office	15,000	15,000	By Expense	5,000	3,000
To Cash from Bangalore	2,000		By Fixed Assets	4,000	
To Sales	76,000	73,500	By Sales return	5,000	4,000
			By Remittance to cochin	2,000	
			By Closing Balance	1,000	500
	95,000	89,500		95,000	89,500

Branch Profit & Loss Account

	C	*B*		*C*	*B*
To Expenses	5,000	3,000	By Branch Adj. A/c	6,167	13,250
To Net Profit	35,167	13,500	By App Surplus	34,000	3,250
	40,167	16,500		40,167	16,500

Q 32. Concept & Co., with its Head Office at Mumbai has a branch at Nagpur. Goods are invoiced to the Branch at cost plus 33.33%. The following information is given in respect of the branch for the year ended 31st March, 2006:

	Rs.
Goods Sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2005 (Invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the Branch	6,000
Branch expenses (paid in cash)	53,500
Branch debtors balance on 1.4.2005	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch debtors cheques returned dishonoured	5,000
Stock at Branch on 31.03.2006 (Invoice price)	48,000
Branch debtors balance on 31.03.2006	36,500

Prepare, under the Stock and Debtors system, the following Ledger Accounts in the books of the Head Office:

(i) Nagpur Branch Stock Account

(ii) Nagpur Branch Debtors Account

(iii) Nagpur Branch Adjustment.

Also compute shortage of Stock at Branch, if any. (*May 2006; 16 Marks*)

Solution

Nagpur Branch Stock Account

To bal. b/d	24,000	By Cash sales	1,80,000
		By Branch debtors	2,80,000
To goods sent to branch	4,80,000	By Shortage	2,000
TBranch debtors	6,000	By Balance c/d	48,000
	5,10,000		5,10,000

Nagpur Branch Debtors A/c

To balance b/d	30,000	By bad debt	1,500
To cheque/ cash	5,000	By D/A	1,000
To branch stock A/c	2,80,000	By bank	2,70,000
(balancing figure)		By branch stock	6,000
		By bal. c/d	36,500
	3,15,000		3,15,000

Branch Adj. A/c

To Loading loss	500	By Stock Reserve	6,000
To Stock Reserve	12,000	By G/sent to branch	1,20,000
To G/Profit	1,13,500		
	1,26,000		1,26,000
To Branch Stock A/c (cost of loss)	1,500	By G/Profit	1,13,500
To Branch Expenses	56,000		
To Net Profit	56,000		
	1,13,500		1,13,500

Working Note:

1. Credit Sales have not been given in the problem. So, the balancing figure of Branch Debtors Account is taken as credit sales.
2. Loading is 331/3% or cost; i.e. 25% of invoice value Loading on opening stock = 24,000 × 25% = 6,000
3. Loading on goods sent = 4,80,000 × 25% = Rs. 1,20,000
4. Loading on Closing Stock = Rs. 48,000 × 25% = Rs. 12,000
5. Total Branch Expenses = Cash expenses + Bad debt + Discount allowed = Rs. 53,500 + Rs. 1,500 + Rs. 1,000 = Rs. 56,000

Comments

The overall performance was poor in this question. Except few, all of the candidates failed to attempt the question correctly. Most of the candidates failed to calculate the stock shortage. They did not provide working notes for calculation of loading and branch expenses in their answers.

III. Whole Sale Branch

Q 33. New Textiles Limited 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 2002 at Shop No. 143: (*Study Material*)

	Rs.
Stock at shop on January 1, 2002	15,000
Goods invoiced to shop during 2002	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

Solution

Cost Price = 100 Invoice Price = 120 Sales Price = 132

Shop Trading Account

Particulars	*Amount*	*Particulars*	*Amount*
To Opening stock	15,000	By Sales	1,54,770
To Goods received from H.O.	1,40,000	By Loss	600
To Gross profit	14,070	By Closing Stock	13,700
	1,69,070		1,69,070

Shop P&L Account

Particulars	*Amount*	*Particulars*	*Amount*
To Expenses	7,200	By Gross Profit	14,070
To Loss by fire	600		
To Net profit	6,270		
	14,070		14,070

Q 34. 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 31-3-2002:

	Rs.
Stock at the outlet 1-4-2001	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 31-3-2002	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31-3-2002:

(a) Outlet Stock Account.

(b) Outlet Profit & Loss Account.

(c) Stock Reserve Account. (*May 1997* [*1*]*; 10 marks*)

Comments

Many candidates have wrongly calculated goods lost by fire and sales price. Preparation of ledger accounts especially stock reserve account was wrong. They have mixed stock reserve account with stock outlet account.

Solution

Outlet Stock Account

Particulars	*Amount*	*Particulars*	*Amount*
To Balance b/d	30,000	By Sales (Working note 1)	3,60,000
To Goods sent to outlet	3,24,000	By Goods Lost by fire	18,000
To Gross Profit c/d	60,000	By Balance c/d	36,000
	4,14,000		4,14,000

Outlet profit & Loss Account

Particulars	*Amount*	*Particulars*	*Amount*
To Expenses	20,000	By Gross Profit b/d	60,000
To Goods lost by fire (Working Note 2)	18,000		
To Profit Transferred	22,000		
	60,000		60,000

Stock Reserve Account

Particulars	*Amount*	*Particulars*	*Amount*
To P & L A/c-Transfer	6,000	By Balance b/d	6,000
To Balance c/d	7,200	By HO P & L A/c(Working Note 3) (Stock Res. required)	7,200
	13,200		13,200

Working Notes:

			Rs.
(1)	Wholesale Price	100+25 =	125
	Retail Price	125+20% =	150
	Gross Profit at the outlet		
	Wholesale Price - Retail Price	(150 - 125) =	25
	Retail Sales value	(60,000 ×150 ÷ 25) =	Rs.3,60,000
(2)	Goods lost by fire		
	Opening Stock + Goods Sent + Gross Profit - Sales - Closing Stock = 30,000 + 3,24,000 + 60,000 - 3,60,000 - 36,000		= Rs.18,000
(3)	Stock Reserve		
	Opening Stock	= (30,000 × 25 ÷ 125)	= Rs. 6,000
	Closing Stock	= (36,000 × 25 ÷ 125)	= Rs. 7,200

IV. Final Account

Q 35. Ganga 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 branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st March, 2009:

	Head Office (*Rs.*)	*Branch* (*Rs.*)
Opening stock (as on 1.4.2008)	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, 2009.

Solution

Trading and Profit and Loss A/c
For the year ended 31st March 2009

	Head office *Rs.*	*Branch* *Rs.*		*Head office* *Rs.*	*Branch* *Rs.*
To Opening stock	2,25,000	—	By Sales	27,81,000	9,50,000
To Purchases	25,50,000	—	By Goods sent to branch		9,54,000
To Goods received from head office	—	9,54,000	By Closing stock (W.N.1 & 2)	7,00,000	99,000
To Gross profit c/d	16,60,000	95,000			
	44,35,000	10,49,000		44,35,000	10,49,000
To Office expenses	90,000	8,500	By Gross profit b/d	16,60,000	95,000
To Selling expenses	72,000	6,300			
To Staff salaries	65,000	12,000			
To Branch Stock Reserve (W.N.3)	44,000	—			
To Net Profit	13,89,000	68,200			
	16,60,000	95,000		16,60,000	95,000

Working Notes:

(1) Calculation of closing stock of head office:

	Rs.	
Opening Stock of head office	2,25,000	
Goods purchased by head office	25,50,000	
	27,75,000	
Less: Cost of goods sold [37,35,000* × 100/180]	20,75,000	7,00,000

(2)	Calculation of closing stock of branch:		Rs.
	Goods received from head office [At invoice value]		9,54,000
	Less: Invoice value of goods sold [9,50,000 × 180/200]		8,55,000
			99,000
(3)	Calculation of unrealized profit in branch stock:		
	Branch stock	Rs.99,000	
	Profit included	80% of cost	
	Hence, unrealized profit would be = Rs. 99,000 × 80/180	=	Rs.44,000

Q 36. A Bombay merchant opens a new branch in Delhi, which trades independently of the Head Office. The transactions of the year ended 31st March, 2006 are as under:

		Rs.
Goods supplied by Hade Office		2,00,000
Purchases from outsiders:		
Credit	1,55,500	
Cash	30,000	1,85,500
Sales:		
Credit	2,50,500	
Cash	46,000	2,96,500
Cash received from Customers		3,04,500
Cash paid to Creditors		1,42,500
Expenses paid by Branch		89,500
Furniture purchased by Branch on credit		35,000
Cash received from Head Office initially		40,000
Remittances to Head Office		1,10,000

Prepare the Branch Final Account and the Branch Account in the Head Office Books on of the Branch trial balance in the Head Office Books, after taking the following into consideration:

(1) The accounts of the Branch fixed assets are maintained in the Head Office books.

(2) Write off Depreciation on Furniture at 5 per cent per annum for full year.

(3) A remittance of Rs. 20,000 from the Branch to the Head Office is in transit.

(4) The Branch values its closing stock at Rs. 1,20,000.