

CHAPTER 9

ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCH ACCOUNTS

BASIC CONCEPTS

- Types of branches
 - Dependent branches
 - Independent branches
- Based on accounting point of view, branches may be classified as follows:
 - Branches in respect of which the whole of the accounting records are kept at the head office
 - Branches which maintain independent accounting records, and
 - Foreign Branches.
- System of accounting
 - Debtors System: under this system head office makes a branch account. Anything given to branch is debited and anything received from branch would be credited.
 - Branch trading and profit and loss account method/branch account method: Under this system head office prepares (a) profit and loss account (b) branch account taking each branch as a separate entity.
- Stock and debtors system: Under this system head office opens:
 - Branch stock account
 - Branch debtors account
 - Branch asset account
 - Branch expenses account
 - Branch adjustment account
- Types of Foreign branches :
 - Integral Foreign Operation (IFO): It is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.

Accounting for Branches Including Foreign Branch Accounts

- Non-Integral Foreign Operation (NFO): It is a foreign operation that is not an Integral Foreign Operation. The business of a NFO is carried on in a substantially independent way by accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency.
- Non-Integral Foreign Operation -translation
 - Balance sheet items i.e. Assets and Liabilities both monetary and non-monetary – apply closing exchange rate.
 - Items of income and expenses – At actual exchange rates on the date of transactions
 - Resulting exchange rate difference should be accumulated in a “foreign currency translation reserve” until the disposal of “net investment in non-integral foreign operation”.
- Integral Foreign Operation (IFO) - translation
 - at the rate prevailing on the date of transaction

Question 1

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, 2011 and the additional information given thereafter:

	Dr.	Cr.
	₹ in thousands	
Stock on 1st April, 2010	300	–
Purchases and sales	800	1,200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	–
Rent, rates and taxes	360	–
Sundry charges	160	–
Computers	240	–
Bank balance	420	–
New York office A/c	–	1,620
	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 ₹ 4,20,000 on 31st March, 2011.*

Advanced Accounting

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

- (i) on 1.4.2010 @ ₹ 40 per US \$
- (ii) on 31.3.2011 @ ₹ 42 per US \$
- (iii) average exchange rate for the year @ ₹ 41 per US \$
- (iv) conversion in \$ shall be made upto two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2011 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 31.3.011 in New York books and there were no items pending reconciliation. **(May, 1999)**

Answer

Carlin & Co. Ltd.

Mumbai Branch Trial Balance in (US \$)

as on 31st March, 2011

	Conversion	Dr.	Cr.
	rate per US \$	US \$	US \$
	(₹)		
Stock on 1.4.2010	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	—	—	<u>39,609.18</u>
		<u>81,734.62</u>	<u>81,734.62</u>

Trading and Profit & Loss Account for the year ended 31st March, 2011

	US \$		US \$
To Opening Stock	7,500.00	By Sales	29,268.29
To Purchases	19,512.20	By Closing stock	10,000.00

Accounting for Branches Including Foreign Branch Accounts

To Wages and salaries	<u>13,658.54</u>	By Gross Loss c/d	<u>1,402.45</u>
	<u>40,670.74</u>		<u>40,670.74</u>
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 Depreciation on computers (US \$ 6,000 × 0.6)	3,600.00		
	<u>17,685.38</u>		<u>17,685.38</u>

Balance Sheet of Mumbai Branch as on 31st March, 2011

Liabilities		US \$	Assets	US \$	US \$
New York Office A/c	39,609.18		Computers	6,000.00	
Less : Net Loss	<u>17,685.38</u>	21,923.80	Less : Depreciation	<u>3,600.00</u>	2,400.00
Sundry creditors		7,142.86	Closing stock		10,000.00
Bills payable		5,714.29	Sundry debtors		9,523.81
			Bank balance		10,000.00
			Bills receivable		<u>2,857.14</u>
		<u>34,780.95</u>			<u>34,780.95</u>

Note : The above answer has been given on the basis that the Mumbai branch is an integral foreign operation of carlin & Co.

Question 2

An Indian company has a branch at Washington. Its Trial Balance as at 30th September, 2010 is as follows:

	Dr.	Cr.
	US \$	US \$
Plant and machinery	1,20,000	—
Furniture and fixtures	8,000	—
Stock, Oct. 1, 2009	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	—

Advanced Accounting

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	<u>1,000</u>	<u>—</u>
	<u>5,47,000</u>	<u>5,47,000</u>

The following further information is given :

- (1) Wages outstanding – \$ 1,000.
- (2) Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.
- (3) The Head Office sent goods to Branch for ₹ 39,40,000.
- (4) The Head Office shows an amount of ₹ 43,00,000 due from Branch.
- (5) Stock on 30th September, 2010 – \$ 52,000.
- (6) There were no in transit items either at the start or at the end of the year.
- (7) On September 1, 2008, when the fixed assets were purchased, the rate of exchange was ₹ 38 to one \$.

On October 1, 2009, the rate was ₹ 39 to one \$.

On September 30, 2010, the rate was ₹ 41 to one \$.

Average rate during the year was ₹ 40 to one \$.

You are asked to prepare :

- (a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.
- (b) Trading and Profit and Loss Account for the year ended 30th September, 2010 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet .

(November, 1999)

Accounting for Branches Including Foreign Branch Accounts

Answer

(a)

In the books of Indian Company
Washington Branch Trial Balance (in Rupees)
as on 30th September, 2010

	<i>Dr.</i>	<i>Cr. .</i>	<i>Conversion</i>	<i>Dr.</i>	<i>Cr.</i>
	<i>US \$</i>	<i>US \$</i>	<i>rate</i>	<i>(₹ '000)</i>	<i>(₹ '000)</i>
Plant and Machinery	1,08,000		41	44,28,000	
Depreciation on plant and machinery	12,000		41	4,92,000	
Furniture and fixtures	7,200		41	2,95,200	
Depreciation on furniture					
and fixtures	800		41	32,800	
Stock, Oct. 1, 2009	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	
Trade expenses	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)				<u>2,27,62,000</u>	<u>10,84,000</u> <u>2,27,62,000</u>

(b) **Washington Branch Trading and Profit and Loss Account**
for the year ended 30th September, 2010

	₹		₹
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 \$ × 41)	
To Wages	1,20,000		
To Carriage inward	40,000		
To Gross profit c/d	<u>28,88,000</u>		
	<u>1,87,72,000</u>		<u>1,87,72,000</u>
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	4,92,000		
To Depreciation on furniture and fixtures	32,800		
To Net Profit c/d	<u>19,63,200</u>		
	<u>28,88,000</u>		<u>28,88,000</u>

Balance Sheet of Washington Branch

as on 30th September, 2010

Liabilities	₹	₹	Assets	₹	₹
Head Office A/c	43,00,000		Plant and machinery	49,20,000	
Add : Net profit	<u>19,63,200</u>	62,63,200	Less : Depreciation	<u>4,92,000</u>	44,28,000
Foreign currency			Furniture and fixtures	3,28,000	
Translation reserve		10,84,000	Less : Depreciation	<u>32,800</u>	2,95,200
Trade creditors		6,97,000	Closing stock		21,32,000
Outstanding wages		41,000	Trade debtors		9,84,000
			Cash in hand		41,000
			Cash at bank		2,05,000
		<u>80,85,200</u>			<u>80,85,200</u>

Note:(1) Depreciation has been calculated at the given depreciation rate of 10% on WDV basis.

(2) The above solution has been given assuming that the Washington branch is a non-integral foreign operation of the Indian Company.

Accounting for Branches Including Foreign Branch Accounts

Question 3

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 ₹ 10,000 necessary for meeting immediate requirements of cash. On 31st March, 2010 the assets at the branch were as follows:

	₹ ('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, 2011 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 1 crore 32 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at ₹ 72,000. Other transactions at the branch during the year were as follows :

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

On 1st January, 2011 the branch purchased new furniture for ₹ 1 lakh for which payment was made by head office through a cheque.

On 31st March, 2011 branch expenses amounting to ₹ 6,000 were outstanding and cash in hand was again ₹ 10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 2011.

(May, 2001)

Answer

In the Head Office Books Branch Account for the year ended 31st March, 2011

	₹ '000			₹ '000
To Balance b/d		By	Balance b/d	

Advanced Accounting

Cash in hand	10		Stock reserve ₹ $1,080 \times \frac{1}{6}$	180
Trade debtors	384			
Stock	1,080	By	Goods sent to branch A/c (Returns to H.O.)	72
Furniture and fittings	500			
To Goods sent to branch A/c	13,200	By	Goods sent to branch A/c (Loading on net goods sent to branch – $\left(13,128 \times \frac{1}{6}\right)$)	2,188
To Bank A/c (Payment for furniture)	100			
	245			
To Balance c/d Stock reserve $\left(1,470 \times \frac{1}{6}\right)$		By	Bank A/c (Remittance from branch to H.O.)	11,700
Outstanding expenses	6	By	Balance c/d	
To Profit and loss A/c (Net Profit)	1,096		Cash in hand	10
			Trade debtors	485
			Stock	1,470
			Furniture and fittings	<u>516</u>
	<u>16,621</u>			<u>16,621</u>

Working notes :

1. Invoice price and cost

Let cost be 100

So, invoice price 120

Loading 20

Loading : Invoice price = $20 : 120 = 1 : 6$

2. Invoice price of closing stock in branch

Branch Stock Account

	₹ '000		₹ '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	<u>1,470</u>
	<u>14,382</u>		<u>14,382</u>

Accounting for Branches Including Foreign Branch Accounts

3. Closing balance of branch debtors

Branch Debtors Account

	₹ '000		₹ '000
To Balance b/d	384	By Branch 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	<u>485</u>
	<u>3,524</u>		<u>3,524</u>

4. Closing balance of furniture and fittings

Branch Furniture and Fittings Account

	₹ '000		₹ '000
To Balance b/d	500	By Depreciation (80+4)	84
To Bank	<u>100</u>	By Balance c/d	<u>516</u>
	<u>600</u>		<u>600</u>

5. Remittance by branch to head office

Branch Cash Account

	₹ '000		₹ '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	<u>2,842</u>	By Balance b/d	<u>10</u>
	<u>12,552</u>		<u>12,552</u>

Question 4

On 31st March, 2011 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow :

Debit Balances	₹ in lacs
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6

Advanced Accounting

Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2010	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	<u>7</u>
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	<u>80</u>
	448

Additional Information:

Stock on 31st March, 2011 was valued at ₹ 62 lacs. On 29th March, 2011 the Head Office despatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 2011. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ₹ 1 lac for centralised services for which the branch has not passed the entry.

You are required to:

- Pass Journal Entries in the books of the Branch to make the necessary adjustments
 - Prepare Final Accounts of the Branch including Balance Sheet, and
 - Pass Journal Entries in the books of the Head Office to incorporate the whole of the Branch Trial Balance
- (May, 2002)**

Answer

- (i) **Books of Branch**
Journal Entries

			(₹ in lacs)
		Dr.	Cr.
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1st April, 2011)			

Accounting for Branches Including Foreign Branch Accounts

Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii) **Trading and Profit & Loss Account of the Branch
for the year ended 31st March, 2011**

	₹ in lacs		₹ in lacs
To Opening Stock	60	By Sales	360
To Goods received from		By Closing Stock	62
Head Office	288		
Less : Returns	<u>5</u>		
	283		
To Carriage Inwards	7		
To Gross Profit c/d	<u>72</u>		
	<u>422</u>		<u>422</u>
To Salaries	25	By Gross Profit b/d	72
To Depreciation on Furniture	2		
To Rent	10		
To Advertising	6		
To Telephone, Postage & Stationery	3		
To Sundry Office Expenses	1		
To Head Office Expenses	1		
To Net Profit Transferred to			
Head Office A/c	<u>24</u>		
	<u>72</u>		<u>72</u>

Balance Sheet as on 31st March, 2011

Liabilities	₹ in lacs	Assets	₹ in lacs
Head Office	80	Furniture & Equipment	20
Add : Goods in transit	10	Less : Depreciation	<u>2</u>
Head Office		Stock in hand	62
Expenses	1	Goods in Transit	10
Net Profit	<u>24</u>	Debtors	20
	115	Cash at bank and in hand	8

Advanced Accounting

Outstanding Expenses		<u>3</u>			<u>118</u>
		<u>118</u>			<u>118</u>

(iii)

Books of Head Office

Journal Entries

		₹	₹
		Dr.	Dr.
Branch Trading Account	Dr.	355	
To Branch Account			355
(The total of the following items in branch trial balance debited to branch trading account			
	₹ in lacs		
Opening Stock	60		
Goods received from Head Office	288		
Carriage Inwards	7)		
Branch Account	Dr.	427	
To Branch Trading Account			427
(Total sales, closing stock and goods returned to Head Office credited to branch trading account, individual amount being as follows:			
	₹ in lacs		
Sales	360		
Closing Stock	62		
Goods returned to Head Office	5)		
Branch Trading Account	Dr.	72	
To Branch Profit and Loss Account			72
(Gross profit earned by branch credited to Branch Profit and Loss Account)			
Branch Profit and Loss Account	Dr.	48	
To Branch Account			48
(Total of the following branch expenses debited to Branch Profit & Loss Account			
	₹ in lacs		
Salaries	25		

Accounting for Branches Including Foreign Branch Accounts

Rent	10		
Advertising	6		
Telephone, Postage & Stationery	3		
Sundry Office Expenses	1		
Head Office Expenses	1		
Depreciation on furniture & Equipment	2		
Branch Profit & Loss Account	Dr.	24	
To Profit and Loss Account			24
(Net profit at branch credited to (general) Profit & Loss A/c)			
Branch Furniture & Equipment	Dr.	18	
Branch Stock	Dr.	62	
Branch Debtors	Dr.	20	
Branch Cash at Bank and in Hand	Dr.	8	
Goods in Transit	Dr.	10	
To Branch			118
(Incorporation of different assets at the branch in H.O. books)			
Branch	Dr.	3	
To Branch Outstanding Expenses			3
(Incorporation of Branch Outstanding Expenses in H.O. books)			

Question 5

Show adjustment Journal entry in the books of Head Office at the end of April, 2011 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch accounts in its books.

A. Delhi Branch:

- (1) Received goods from Mumbai – ₹ 35,000 and ₹ 15,000 from Kolkata.
- (2) Sent goods to Chennai – ₹ 25,000, Kolkata – ₹ 20,000.
- (3) Bill Receivable received – ₹ 20,000 from Chennai.
- (4) Acceptances sent to Mumbai – ₹ 25,000, Kolkata – ₹ 10,000.

Advanced Accounting

B. Mumbai Branch (apart from the above) :

(5) Received goods from Kolkata – ₹ 15,000, Delhi – ₹ 20,000.

(6) Cash sent to Delhi – ₹ 15,000, Kolkata – ₹ 7,000.

C. Chennai Branch (apart from the above) :

(7) Received goods from Kolkata – ₹ 30,000.

(8) Acceptances and Cash sent to Kolkata – ₹ 20,000 and ₹ 10,000 respectively.

D. Kolkata Branch (apart from the above) :

(9) Sent goods to Chennai – ₹ 35,000.

(10) Paid cash to Chennai – ₹ 15,000.

(11) Acceptances sent to Chennai – ₹ 15,000.

(May, 2003)

Answer

(a) **Journal entry in the books of Head Office**

Date	Particulars	Dr.	Cr.
		₹	₹
30th April, 2011	Mumbai Branch Account	Dr. 3,000	
	Chennai Branch Account	Dr. 70,000	
	To Delhi Branch Account		15,000
	To Kolkata Branch Account		58,000
	(Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 2011)		

Working Note:

Inter – Branch transactions

		Delhi	Mumbai	Chennai	Kolkata
		₹	₹	₹	₹
A.	Delhi Branch				
(1)	Received goods	50,000 (Dr.)	35,000 (Cr.)		15,000 (Cr.)
(2)	Sent goods	45,000 (Cr.)		25,000 (Dr.)	20,000 (Dr.)
(3)	Received Bills receivable	20,000 (Dr.)		20,000 (Cr.)	

Accounting for Branches Including Foreign Branch Accounts

(4)	Sent acceptance	35,000 (Cr.)	25,000 (Dr.)		10,000 (Dr.)
B.	Mumbai Branch				
(5)	Received goods	20,000 (Cr.)	35,000 (Dr.)		15,000 (Cr.)
(6)	Sent cash	15,000 (Dr.)	22,000 (Cr.)		7,000 (Dr.)
C.	Chennai Branch				
(7)	Received goods			30,000 (Dr.)	30,000 (Cr.)
(8)	Sent cash and acceptances			30,000 (Cr.)	30,000 (Dr.)
D.	Kolkata Branch				
(9)	Sent goods			35,000 (Dr.)	35,000 (Cr.)
(10)	Sent cash			15,000 (Dr.)	15,000 (Cr.)
(11)	Sent acceptances			15,000 (Dr.)	15,000 (Cr.)
		<u>15,000 (Cr.)</u>	<u>3,000 (Dr.)</u>	<u>70,000 (Dr.)</u>	<u>58,000 (Cr.)</u>

Question 6

Give Journal Entries in the books of Branch A to rectify or adjust the following:

- (i) Head Office expenses ₹ 3,500 allocated to the Branch, but not recorded in the Branch Books.
- (ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.
- (iii) Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.
- (iv) H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.
- (v) A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

(November, 2004)

Answer**Books of Branch A****Journal Entries**

	<i>Particulars</i>	<i>Dr.</i>	<i>Cr.</i>
		<i>Amount</i>	<i>Amount</i>
		₹	₹
(i)	Expenses account Dr. To Head office account (Being the allocated expenditure by the head office recorded in branch books)	3,500	3,500
(ii)	Depreciation account Dr. To Head office account (Being the depreciation provided)	1,500	1,500
(iii)	Head office account Dr. To Salaries account (Being the rectification of salary paid on behalf of H.O.)	2,000	2,000
(iv)	Head office account Dr. To Debtors account (Being the adjustment of collection from branch debtors)	10,000	10,000
(v)	No entry in branch books		
(vi)	Head Office account Dr. To Cash account (Being the expenditure on account of Branch B, recorded in books)	3,000	3,000

Question 7

M/s Shah & Co. commenced business on 1.4.2010 with Head Office at Mumbai and a Branch at Chennai. Purchases were made exclusively by the Head Office, where the goods were processed before sale. There was no loss or wastage in processing.

Only the processed goods received from Head Office were handled by the Branch. The goods were sent to branch at processed cost plus 10%.

All sales, whether by Head Office or by the Branch, were at uniform gross profit of 25% on their respective cost.

Accounting for Branches Including Foreign Branch Accounts

Following is the Trial Balance as on 31.3.2011.

	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
	₹	₹	₹	₹
Capital		3,10,000		
Drawings	55,000			
Purchases	19,69,500			
Cost of processing	50,500			
Sales		12,80,000		8,20,000
Goods sent to Branch		9,24,000		
Administrative expenses	1,39,000		15,000	
Selling expenses	50,000		6,200	
Debtors	3,09,600		1,13,600	
Branch Current account	3,89,800			
Creditors		6,01,400		10,800
Bank Balance	1,52,000		77,500	
Head Office Current account				2,61,500
Goods received from H.O.			<u>8,80,000</u>	
	<u>31,15,400</u>	<u>31,15,400</u>	<u>10,92,300</u>	<u>10,92,300</u>

Following further information is provided:

- (i) Goods sent by Head Office to the Branch in March, 2011 of ₹ 44,000 were not received by the Branch till 2.4.2011.
- (ii) A remittance of ₹ 84,300 sent by the Branch to Head Office was also similarly not received upto 31.3.2011.
- (iii) Stock taking at the Branch disclosed a shortage of ₹ 20,000 (at selling price to the branch).
- (iv) Cost of unprocessed goods at Head Office on 31.3.2011 was ₹ 1,00,000.

Prepare Trading and Profit and Loss account in columnar form and Balance Sheet of the business as a whole as at 31.3.2011
(November, 2006)

Advanced Accounting

Answer

In the Books of Shah & Co.

Trading and Profit and Loss Account for the year ended 31st March, 2011

Particulars	H.O.	Branch	Total		H.O.	Branch	Total
	₹	₹	₹		₹	₹	₹
To Purchases	19,69,500	—	19,69,500	By Sales	12,80,000	8,20,000	21,00,000
To Cost of processing	50,500	—	50,500	By Goods sent to Branch	9,24,000	—	—
To Goods received from H.O.	—	8,80,000	—	By Stock shortage	—	16,000	14,545
To Gross profit c/d	3,40,000	1,64,000	5,02,545	By Goods in transit			44,000
				By Closing stock:			
				Processed goods	56,000	2,08,000	2,64,000
				Unprocessed goods	<u>1,00,000</u>	—	<u>1,00,000</u>
	<u>23,60,000</u>	<u>10,44,000</u>	<u>25,22,545</u>		<u>23,60,000</u>	<u>10,44,000</u>	<u>25,22,545</u>
To Admn. Expenses	1,39,000	15,000	1,54,000	By Gross profit b/d	3,40,000	1,64,000	5,02,545
To Selling Expenses	50,000	6,200	56,200				
To Stock shortage	—	16,000	14,545				
To Stock reserve	22,909	—	22,909				
To Net profit	<u>1,28,091</u>	<u>1,26,800</u>	<u>2,54,891</u>				
	<u>3,40,000</u>	<u>1,64,000</u>	<u>5,02,545</u>		<u>3,40,000</u>	<u>1,64,000</u>	<u>5,02,545</u>

Balance Sheet as at 31st March, 2011

Liabilities		₹	Assets		₹
Capital	3,10,000		Debtors		
Add: Net profit	<u>2,54,891</u>		H.O.		3,09,600
	5,64,891		Branch		1,13,600
Less: Drawings	<u>55,000</u>	5,09,891	Closing stock:		
Creditors:			Processed goods		
H.O.	6,01,400		H.O.	56,000	
Branch	<u>10,800</u>	6,12,200	Branch	<u>2,08,000</u>	
				2,64,000	
			Less: Stock reserve	<u>18,909</u>	2,45,091
			Unprocessed		1,00,000

Accounting for Branches Including Foreign Branch Accounts

			goods		
			Bank Balance		
			H.O.		1,52,000
			Branch		77,500
			Goods in transit	44,000	
			Less: Stock reserve	<u>4,000</u>	40,000
			Cash in transit		<u>84,300</u>
		<u>11,22,091</u>			<u>11,22,091</u>

Working Notes:

1. Calculation of closing stock:

Stock at Head Office:

	₹
Cost of goods processed ₹ (19,69,500 + 50,500 – 1,00,000)	19,20,000
Less: Cost of goods sent to Branch	
$9,24,000 \times \frac{100}{110}$	8,40,000
Cost of goods sold $12,80,000 \times \frac{100}{125}$	<u>10,24,000</u>
Stock of processed goods with H.O.	<u>56,000</u>

Stock at Branch:

	₹
Goods received from H.O. (at invoice price)	8,80,000
Less: Invoice value of goods sold	
$8,20,000 \times \frac{100}{125}$	6,56,000
Invoice value of stock shortage $20,000 \times \frac{100}{125}$	<u>16,000</u>
Stock at Branch at invoice price	<u>2,08,000</u>

Advanced Accounting

Less: Stock Reserve $2,08,000 \times \frac{10}{110}$	<u>18,909</u>
Stock of processed goods with Branch (at cost)	<u>1,89,091</u>

2. Stock Reserve:

	₹
Unrealised profit on Branch stock $\left(2,08,000 \times \frac{10}{110}\right)$	18,909
Unrealised profit on goods in transit $\left(44,000 \times \frac{10}{110}\right)$	<u>4,000</u>
	<u>22,909</u>

Question 8

Concept & Co., with its Head Office at Mumbai has a branch at Nagpur. Goods are invoiced to the Branch at cost plus 33 1/3%. The following information is given in respect of the branch for the year ended 31st March, 2011:

	₹
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2010 (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 1.4.2010	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 31.3.2011 (Invoice price)	48,000
Branch debtors balance on 31.3.2011	36,500

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

- Nagpur Branch Stock Account
- Nagpur Branch Debtors Account
- Nagpur Branch Adjustment Account.

Also compute shortage of Stock at Branch, if any.

(May, 2006)

Accounting for Branches Including Foreign Branch Accounts

Answer

In the books of head office

Nagpur Branch Stock Account					
		₹			₹
1.4.2010	To Balance b/d	24,000	31.3.11 By Bank A/c (Cash Sales)		1,80,000
31.3.2011	To Goods sent to Branch A/c	4,80,000	By Branch Debtors (Credit Sales)		2,80,000
	To Branch Debtors	6,000	By Stock shortage: Branch P&L A/c 1,500*		
			Branch Adjustment A/c (Loading) 500		2,000
			By Balance c/d		<u>48,000</u>
		<u>5,10,000</u>			<u>5,10,000</u>
Nagpur Branch Debtors Account					
		₹			₹
1.4.2010	To Balance b/d	30,000	31.3.2011 By Bank A/c (Collection)		2,70,000
31.3.2011	To Bank A/c (dishonour of cheques)	5,000	By Branch Stock A/c		6,000
	To Branch Stock A/c	2,80,000*	By Bad debts		1,500
			By Discount allowed		1,000
			By Balance c/d		<u>36,500</u>
		<u>3,15,000</u>			<u>3,15,000</u>

Nagpur Branch Adjustment Account			
	₹		₹
To Branch Stock A/c (loading of loss)	500*	By Stock Reserve A/c	6,000
To Stock Reserve	12,000	By Goods sent to Branch A/c	1,20,000
To Gross Profit c/d	<u>1,13,500</u>		
	<u>1,26,000</u>		<u>1,26,000</u>

Advanced Accounting

To Branch Stock A/c (Cost of loss)	1,500	By Gross Profit b/d	1,13,500
To Branch Expenses	56,000		
To Net Profit (Transferred to General P & L A/c)	<u>56,000</u>		<u> </u>
	<u>1,13,500</u>		<u>1,13,500</u>

*Balancing figure.

Working Notes:

- Credit Sales have not been given in the problem. So, the balancing figure of Branch Debtors Account is taken as credit sales
- Loading is $33\frac{1}{3}\%$ or Cost; i.e. 25% of invoice value
Loading on opening stock = ₹ 24,000 × 25% = 6,000
- Loading on goods sent = ₹ 4,80,000 × 25% = ₹ 1,20,000
- Loading on Closing Stock = ₹ 48,000 × 25% = ₹ 12,000
- Total Branch Expenses = Cash expenses + Bad debt + Discount allowed
= ₹ 53,500 + ₹ 1,500 + ₹ 1,000 = ₹ 56,000
- Gross Profit

Total sales (at invoice price) - Goods returned by customers (at invoice price) × $\frac{33.33}{100 + 33.33}$

{(₹ 1,80,000 + ₹ 2,80,000) - ₹ 6,000} × $\frac{33.33}{133.33}$ = ₹ 1,13,500

Question 9

Red and Co. of Mumbai started a branch at Bangalore on 1.4.2010 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 31.3.2011:

	₹
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2011 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2011	41,600

Accounting for Branches Including Foreign Branch Accounts

Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2011	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.
(May, 2007)

Answer

Branch Debtors A/c

	₹		₹
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	<u>41,600</u>
	<u>1,16,000</u>		<u>1,16,000</u>

Goods Sent to Branch A/c

	₹		₹
To Branch Adjustment A/c	20,000	By Branch Stock A/c	1,20,000
1,00,000x $\frac{20}{100}$			
To Purchases/ Trading A/c	<u>1,00,000</u>		
	<u>1,20,000</u>		<u>1,20,000</u>

Branch Cash A/c

	₹		₹
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

Advanced Accounting

To	Branch Stock A/c		By	Balance c/d	4,000
	- Cash Sales				
	(balancing figure)	<u>34,000</u>			<u> </u>
		<u>1,14,000</u>			<u>1,14,000</u>

Branch Stock A/c					
		₹			₹
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
		<u>1,74,000</u>			<u>1,74,000</u>

Branch Expenses A/c					
		₹			₹
To	Branch Cash A/c	<u>24,000</u>	By	Branch P&L A/c	<u>24,000</u>

Branch Adjustment A/c					
		₹		₹	
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 (Balancing figure)	<u>70,000</u>			—
		74,000			<u>74,000</u>

Branch P & L A/c					
		₹		₹	
To	Branch Expenses A/c	24,000	By	Branch Adjustment A/c	70,000
To	Bad Debts	400			
To	Net Profit (transferred to General P&L A/c)	45,600			
		<u>70,000</u>			<u>70,000</u>

Accounting for Branches Including Foreign Branch Accounts

Working Notes:

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

Question 10

The Washington branch of XYZ Limited, Mumbai sent the following trial balance as on 31st December, 2010:

	\$	\$
Head office A/c	—	22,800
Sales	—	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	—
Cash at bank	1,200	—
Stock, 1 January, 2010	11,200	—
Goods from H.O.	64,000	—
Expenses	<u>5,000</u>	<u>—</u>
	<u>1,10,200</u>	<u>1,10,200</u>

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

	₹		₹
To Balance b/d	8,10,000	By Cash	28,76,000
To Goods sent to branch	<u>29,26,000</u>	By Balance c/d	<u>8,60,000</u>
	<u>37,36,000</u>		<u>37,36,000</u>

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2005, when \$ 1.00 = ₹ 40.

Rates of exchange were:

1 st January, 2010	\$ 1.00	=	₹ 46
31 st December, 2010	\$ 1.00	=	₹ 48
Average	\$ 1.00	=	₹ 47

Advanced Accounting

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

- (i) Prepare the Branch Trading & Profit & Loss A/c in dollars.
- (ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office. **(May, 2008)**

Answer

- (i) **In the Books of Head Office**
Branch Trading and Profit & Loss A/c (in Dollars)
for the year ended 31st December, 2010

Particulars	\$	Particulars	\$
To Opening stock	11,200	By Sales	84,000
To Goods from H.O.	64,000	By Closing stock (W.N.2)	8,000
To Gross profit c/d	<u>16,800</u>		
	<u>92,000</u>		<u>92,000</u>
To Expenses	5,000	By Gross profit b/d	16,800
To Depreciation	2,400		
To Manager's commission (W.N.1)	470		
To Net profit c/d	<u>8,930</u>		
	<u>16,800</u>		<u>16,800</u>

- (ii) (a) **Converted Branch Trial Balance (into Indian Currency)**

Particulars	Rate per \$	Dr. (₹)	Cr. (₹)
Machinery	40	9,60,000	—
Stock January 1, 2010	46	5,15,200	—
Goods from head office	Actual	29,26,000	—
Sales	47	—	39,48,000
Expenses	47	2,35,000	—
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	—
Head office A/c	Actual	—	8,60,000
Difference in exchange rate		<u>47,000</u>	
		<u>49,71,200</u>	<u>49,71,200</u>
Closing stock \$ 8,000 (W.N. 2)	48		₹ 3,84,000

Accounting for Branches Including Foreign Branch Accounts

(b) Branch Trading and Profit & Loss A/c for the year ended 31st December, 2010

	₹		₹
To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N.2)	3,84,000
To Gross profit c/d	<u>8,90,800</u>		
	<u>43,32,000</u>		<u>43,32,000</u>
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10% on ₹ 9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission (W.N.1)	22,560		
To Net Profit c/d	<u>4,90,240</u>		
	<u>8,90,800</u>		<u>8,90,800</u>

(c) Branch Account

	₹		₹
To Balance b/d	8,60,000	By Machinery	9,60,000
To Net profit	4,90,240	Less: Depreciation	<u>96,000</u>
To Creditors	1,63,200	By Closing stock	3,84,000
To Outstanding commission	22,560	By Debtors	2,30,400
		By Cash at bank	<u>57,600</u>
	<u>15,36,000</u>		<u>15,36,000</u>

Working Notes:

1. Calculation of manager's commission @ 5% on profit

i.e.	5% of \$[16,800 – (5,000 + 2,400)]
Or	5% × \$9,400 = \$ 470
Manager's commission in Rupees = \$ 470 × ₹ 48 = ₹ 22,560	

Advanced Accounting

2. Calculation of closing stock	\$
Opening stock	11,200
Add: Goods from head office	<u>64,000</u>
	75,200
Less: Cost of goods sold (at invoice price)	
i.e. $\frac{100}{125} \times 84,000$	<u>67,200</u>
Closing stock	<u>8,000</u>
Closing stock in Rupees = \$8,000 x ₹ 48 = ₹ 3,84,000.	

Question 11

Neo Ltd., with headquarters at Mumbai, maintains a branch at Goa . Goods are invoiced at cost plus 25%. In respect of Goa branch, the following information pertaining to the year ended 31st March, 2011 are made available to you:

	₹
Goods sent to Branch (at Invoice price)	6,75,000
Goods returned by branch during the year (at Invoice price)	24,000
Cash sales effected by branch	1,85,000
Discount allowed to customers	2,500
Amount received from branch debtors	3,25,000
Cheques of customers which got dishonoured	8,000
Branch expenses met in cash	72,500
Sales return at Goa branch	10,000
Bad debts	5,500

	On 31 st March, 2011	On 31 st March, 2010
Branch debtors	1,05,000	50,000
Stock at branch (at Invoice price)	2,36,000	1,50,000

Adopting the Stock and debtors system, you are required to prepare the following Ledger accounts, as appearing in the books of the Head Office:

- Goa branch debtors account;
- Goa branch adjustment account;
- Goa branch profit and loss account.

(November, 2009)

Accounting for Branches Including Foreign Branch Accounts

Answer

In the books of Neo Ltd. (Head Office)

Goa Branch Debtors Account

<i>Date</i>	<i>Particulars</i>	<i>₹</i>	<i>Date</i>	<i>Particulars</i>	<i>₹</i>
1.4.2010	To Balance b/d	50,000	31.3.2011	By Bank (Collection from debtors)	3,25,000
31.3.2011	To Bank A/c (Dishonour of cheques)	8,000		By Branch Stock (Goods returned by customers)	10,000
	To Branch Stock A/c (Credit sales)	3,90,000		By Bad debts	5,500
				By Discount allowed	2,500
				By Balance c/d	1,05,000
		4,48,000			4,48,000

Goa Branch Adjustment Account

<i>Date</i>	<i>Particulars</i>	<i>₹</i>	<i>Date</i>	<i>Particulars</i>	<i>₹</i>
31.3.2011	To Goods sent to Goa Branch A/c (goods returns to H.O.)	4,800	1.4.2010	By Balance b/d (Opening stock reserve)	30,000
	To Branch P & L A/c (Profit on sale at invoice price) (Bal. Fig.)	1,13,000	31.3.2011	By Goods sent to Goa Branch A/c (Loading)	1,35,000
	To Balance c/d (Closing stock reserve)	47,200			
		1,65,000			1,65,000

Goa Branch Profit and Loss Account

for the year ending 31st March, 2011

<i>Particulars</i>	<i>Amount</i> <i>₹</i>	<i>Particulars</i>	<i>Amount</i> <i>₹</i>
To Branch Expenses A/c	72,500	By Branch Adjustment A/c	1,13,000
To Branch Debtors - Discount	2,500		
Bad debts	5,500		

Accounting for Branches Including Foreign Branch Accounts

Following details are furnished for the year ended 31st March, 2011:

	Head Office (₹)	Branch (₹)
Opening stock (as on 1.4.2010)	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, 2011. (November, 2007)

Answer

Trading and Profit and Loss A/c For the year ended 31st March 2011

	Head office ₹	Branch ₹		Head office ₹	Branch ₹
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	<u>16,60,000</u>	<u>95,000</u>		<u>44,35,000</u>	<u>10,49,000</u>
	<u>44,35,000</u>	<u>10,49,000</u>		<u>44,35,000</u>	<u>10,49,000</u>
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	<u>13,89,000</u>	<u>68,200</u>			
	<u>16,60,000</u>	<u>95,000</u>		<u>16,60,000</u>	<u>95,000</u>

Advanced Accounting

Working Notes:

(1)	Calculation of closing stock of head office:	₹
	Opening Stock of head office	2,25,000
	Goods purchased by head office	<u>25,50,000</u>
		27,75,000
	Less: Cost of goods sold $[37,35,000 \times 100/180]$	<u>20,75,000</u>
		<u>7,00,000</u>
(2)	Calculation of closing stock of branch:	₹
	Goods received from head office [At invoice value]	9,54,000
	Less: Invoice value of goods sold $[9,50,000 \times 180/200]$	<u>8,55,000</u>
		<u>99,000</u>
(3)	Calculation of unrealized profit in branch stock:	
	Branch stock ₹ 99,000	
	Profit included 80% of cost	
	Hence, unrealized profit would be = ₹ 99,000 $\times 80/180 =$	₹ 44,000

Question 14

Goods worth ₹ 50,000 sent by head office but the branch has received till the closing date goods for worth ₹ 40,000 only. Give journal entry in the books of H.O. and branch for goods in transit.
(November, 2008)

Answer

Journal entry in the books of Head Office

No entry

Journal entry in the books of Branch

		₹	₹
Goods-in-transit account	Dr.	10,000	
To Head Office account			10,000
(Being goods sent by head office is still in transit)			

Question 15

Pawan & Co. of Delhi has a branch at Jaipur. Goods are invoiced to the branch at cost plus 25%. The branch is instructed to deposit the receipts everyday in the head office account with

* ₹ 27,81,000 + ₹ 9,54,000

Accounting for Branches Including Foreign Branch Accounts

the bank. All the expenses are paid through cheque by the head office except petty cash expenses which are paid by the Branch.

From the following information, you are required to prepare Branch Account in the books of Head office:

	₹
Stock at invoice price on 1.4.2010	1,64,000
Stock at invoice price on 31.3.2011	1,92,000
Debtors as on 1.4.2010	63,400
Debtors as on 31.3.2011	84,300
Furniture & fixtures as on 1.4.2010	46,800
Cash sales	8,02,600
Credit sales	7,44,200
Goods invoiced to branch by head office	12,56,000
Expenses paid by head office	2,64,000
Petty expenses paid by the branch	20,900
Furniture acquired by the branch on 1.10.2010 (payment was made by the branch from cash sales and collection from debtors)	5,000

Depreciation to be provided on branch furniture & fixtures @ 10% p.a. on WDV basis.

(November, 2009)

Answer

In the Books of Pawan & Co., Delhi (Head Office) Jaipur Branch Account

	₹		₹
To Opening balances:		By Branch stock reserve	32,800
Branch stock A/c	1,64,000	By Bank A/c (W.N.4)	15,00,000
Branch debtors A/c	63,400	By Goods sent to branch A/c (Loading)	2,51,200
Branch furniture A/c	46,800		
To Goods sent to branch	12,56,000	By Closing Balances:	
To Bank A/c (branch expenses)	2,64,000	Branch stock A/c	1,92,000
To Branch stock reserve A/c	38,400	Branch debtors A/c	84,300

Advanced Accounting

To Profit and loss A/c (Bal. Fig.)	<u>2,74,570</u>	Branch furniture A/c (W.N.2)	<u>46,870</u>
	<u>21,07,170</u>		<u>21,07,170</u>

Working Notes:

1. Depreciation on furniture

	₹
10% p.a. on ₹ 46,800	4,680
10% p.a. for 6 months on ₹ 5,000	<u>250</u>
	<u>4,930</u>

2. Closing balance of branch furniture as on 31.3.2011

	₹
Branch furniture as on 1.4.2008	46,800
Add: Acquired during the year	<u>5,000</u>
	51,800
Less: Depreciation (W.N.1)	<u>4,930</u>
Branch furniture as on 31.3.2011	<u>46,870</u>

3. Collection from branch debtors

Branch Debtors Account

	₹		₹
To Balance b/d	63,400	By Bank A/c (Bal.Fig.)	7,23,300
To Sales	<u>7,44,200</u>	By Balance c/d	<u>84,300</u>
	<u>8,07,600</u>		<u>8,07,600</u>

4. Cash remitted by the branch to head office

Cash sales + Collection from debtors – Petty expenses – Furniture acquired by branch

₹ 8,02,600 + ₹ 7,23,300 (W.N. 3) – ₹ 20,900 – ₹ 5,000 = ₹ 15,00,000

Question 16

DM Ltd., Delhi has a branch in London branch is an intergral foreign operation of DM Ltd. At the end of the year 31st March, 2011, the branch furnishes the following trial balance in U.K. Pound:

Particulars	£	£
	Dr.	Cr.
Fixed assets (Acquired on 1 st April, 2007)	24,000	

Accounting for Branches Including Foreign Branch Accounts

Stock as on 1 st April, 2010	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		<u>96,000</u>
	<u>1,22,000</u>	<u>1,22,000</u>

In head office books, the branch account stood as shown below:

London Branch A/c

Particulars	Amount ₹	Particulars	Amount ₹
To Balance B/d	20,10,000	By Bank A/c	52,16,000
To Goods sent to branch	<u>49,26,000</u>	By Balance C/d	<u>17,20,000</u>
	<u>69,36,000</u>		<u>69,36,000</u>

The following further information are given:

(a) Fixed assets are to be depreciated @ 10 % p.a on straight line basis.

(b) On 31st March, 2010 :

Expenses outstanding	-	£ 400
Prepaid expenses	-	£ 200
Closing stock	-	£ 8,000

(c) Rate of Exchanges :

1 st April, 2007	-	₹ 70 to £ 1
1 st April, 2010	-	₹ 76 to £ 1
31 st March, 2011	-	₹ 77 to £ 1
Average	-	₹ 75 to £ 1

You are required to prepare:

(1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.

Advanced Accounting

- (2) Trading and profit and loss account for the year ended 31st March, 2011 and the Balance Sheet as on that date of London branch as would appear in the books of Delhi head office of DM Ltd.
(November, 2009)

Answer

Trial Balance of London Branch as on 31st March, 2011

Particulars	U.K. Pound	Rate Per U.K. Pound	Dr. (₹)	Cr. (₹)
Fixed Assets	24,000	70	16,80,000	
Stock (as on 1 st April, 2010)	11,200	76	8,51,200	
Goods from Head Office	64,000	-	49,26,000	
Sales	96,000	75		72,00,000
Purchases	12,000	75	9,00,000	
Expenses (4,800 + 400 – 200)	5,000	75	3,75,000	
Debtors	4,800	77	3,69,600	
Creditors	3,200	77		2,46,400
Outstanding Expenses	400	77		30,800
Prepaid expenses	200	77	15,400	
Cash at Bank	1,200	77	92,400	
Head office Account		-		17,20,000
Difference in Exchange				<u>12,400</u>
			<u>92,09,600</u>	<u>92,09,600</u>

Closing stock will be $(8,000 \times 77) = ₹ 6,16,000$

Trading and Profit & Loss A/c for the year ended 31st March, 2011

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	8,51,200	By Sales	72,00,000
To Purchases	9,00,000	By Closing Stock	6,16,000
To Goods from H.O.	49,26,000		
To Gross Profit	<u>11,38,800</u>		
	<u>78,16,000</u>		<u>78,16,000</u>
To Expenses	3,75,000	By Gross Profit	11,38,800
To Depreciation	1,68,000	By Profit due to Exchange	12,400

Accounting for Branches Including Foreign Branch Accounts

To Net Profit	<u>6,08,200</u>	difference	<u>11,51,200</u>
	<u>11,51,200</u>		<u>11,51,200</u>

Balance Sheet as on 31st March, 2011

Liabilities	₹	₹	Assets	₹	₹
Head office Balance	17,20,000		Fixed Assets	16,80,000	
Add: Net Profit	<u>6,08,200</u>	23,28,200	Less: Depreciation	<u>1,68,000</u>	15,12,000
Outstanding expenses		30,800	Debtors		3,69,600
Creditors		2,46,400	Cash at bank		92,400
		<u>26,05,400</u>	Prepaid expenses		15,400
			Closing stock		<u>6,16,000</u>
					<u>26,05,400</u>

Working Note:

Since London Branch is an integral foreign operation. Hence,

- (1) Fixed assets (cost and depreciation) are translated using the exchange rate at the date of purchase of the assets.
- (2) Exchange difference arising on translation of the financial statement is charged to Profit and Loss Account.

Question 17

On 31st March, 2010, the following ledger balances have been extracted from the books of Washington branch office:

Ledger Accounts	\$
Building	180
Stock as on 1.4.2009	26
Cash and Bank Balances	57
Purchases	96
Sales	110
Commission receipts	28
Debtors	46
Creditors	65

Advanced Accounting

You are required to convert above Ledger balances into Indian Rupees.

Use the following rates of exchange:

	₹ per \$
Opening rate	46
Closing rate	50
Average rate	48
For fixed assets	42

(May, 2010)

Answer

Conversion of ledger balances (in Dollars) into Rupees

	\$	Rate per \$	Amount in ₹
Building	180	42	7,560
Stock as on 01.04.2009	26	46	1,196
Cash and bank balances	57	50	2,850
Purchases	96	48	4,608
Sales	110	48	5,280
Commission receipts	28	48	1,344
Debtors	46	50	2,300
Creditors	65	50	3,250

Question 18

Ram Limited of Chennai has a branch at Nagpur to which office, goods are invoiced at cost plus 25%. The branch makes sales 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 at Nagpur.

From the following details, relating to the year 2011, prepare the accounts in Head Office Ledger and ascertain Branch Profit as per stock and debtors method. Branch does not maintain any books of accounts, but sends weekly returns to head office:

	₹
Goods received from head office at invoice price	1,20,000
Returns to head office at invoice price	2,400

Accounting for Branches Including Foreign Branch Accounts

Stock at Nagpur branch on 1.1.2011 at invoice price	12,000
Sales during the year – Cash	40,000
Credit	72,000
Debtors at Nagpur branch as on 1.1.2011	14,400
Cash received from debtors	64,000
Discounts allowed to debtors	1,200
Bad debts during the year	800
Sales returns at Nagpur branch	1,600
Salaries and wages at branch	12,000
Rent, rates and taxes at branch	3,600
Office expenses at Nagpur branch	1,200
Stock at branch on 31.12.2011 at invoice price	24,000

(May, 2010)

Answer

Nagpur Branch Stock Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	12,000	By Goods sent to branch A/c (Returns)	2,400
To Goods sent to branch A/c	1,20,000	By Bank A/c (Cash sales)	40,000
To Branch debtors A/c (Returns)	1,600	By Branch debtors A/c (credit sales)	72,000
To Branch adjustment A/c (Surplus over invoice price)	<u>4,800</u>	By Balance c/d	24,000
	<u>1,38,400</u>		<u>1,38,400</u>

Nagpur Branch Adjustment Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock reserve - 20% of ₹ 24,000 (closing stock)	4,800	By Stock reserve - 20% of ₹ 12,000 (Opening stock)	2,400
To Branch profit & loss A/c (Gross profit)	25,920	By Goods sent to branch A/c – 20% of ₹ 1,17,600	23,520

Advanced Accounting

	<u> </u>	By Branch stock A/c	<u>4,800</u>
	<u>30,720</u>		<u>30,720</u>

Branch Profit & Loss Account

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Particulars</i>	<i>Amount (₹)</i>
To Branch expenses A/c	16,800	By Branch adjustment A/c (Gross Profit)	25,920
To Branch debtors A/c (Discount)	1,200		
To Branch debtors A/c (Bad Debts)	800		
To Net profit (transferred to Profit & Loss A/c)	<u>7,120</u>		<u> </u>
	<u>25,920</u>		<u>25,920</u>

Branch Expenses Account

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Particulars</i>	<i>Amount (₹)</i>
To Bank A/c (Rent, rates & taxes)	3,600	By Branch profit and loss A/c (Transfer)	16,800
To Bank A/c (Salaries & wages)	12,000		
To Bank A/c (Office expenses)	<u>1,200</u>		<u> </u>
	<u>16,800</u>		<u>16,800</u>

Branch Debtors Account

<i>Particulars</i>	<i>Amount (₹)</i>	<i>Particulars</i>	<i>Amount (₹)</i>
To Balance b/d	14,400	By Bank A/c	64,000
To Branch stock A/c	72,000	By Branch profit and loss A/c (Bad debts and discount)	2,000
		By Branch stock A/c (Sales returns)	1,600
	<u> </u>	By Balance c/d (bal.fig.)	<u>18,800</u>
	<u>86,400</u>		<u>86,400</u>

Accounting for Branches Including Foreign Branch Accounts

Goods sent to Branch Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch stock A/c	2,400	By Branch stock A/c	1,20,000
To Branch adjustment A/c	23,520		
To Purchases A/c	<u>94,080</u>		
	<u>1,20,000</u>		<u>1,20,000</u>

Question 19

Following is the information of the Jammu branch of Best Ltd., New Delhi for the year ending 31st March, 2010 from the following:

- (1) Goods are invoiced to the branch at cost plus 20%.
- (2) The sale price is cost plus 50%.
- (3) Other informations:

	₹
Stock as on 01.04.2009	2,20,000
Goods sent during the year	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000
Ascertain	
(i) the profit earned by the branch during the year	
(ii) branch stock reserve in respect of unrealized profit.	(November, 2010)

Answer

- (i) Calculation of profit earned by the branch

In the books of Jammu Branch Trading Account

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Gross profit	<u>1,95,000</u>		
	<u>15,60,000</u>		<u>15,60,000</u>

Advanced Accounting

(ii) Stock reserve in respect of unrealised profit

$$= ₹ 3,60,000 \times (20/120) = ₹ 60,000$$

Working Note:

Cost Price	100
Invoice Price	120
Sale Price	150

Calculation of closing stock at invoice price

	₹
Opening stock at invoice price	2,20,000
Goods received during the year at invoice price	<u>11,00,000</u>
	13,20,000
Less : Cost of goods sold at invoice price	<u>(9,60,000)</u> [12,00,000 x (120/150)]
Closing stock	<u>3,60,000</u>

Note : It is assumed that all figures given in the questions is at invoice price.

EXERCISES

1. S & M Ltd., Bombay, have a branch in Sydney, Australia. At the end of 31st March, 2011, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office :

	Bombay		Sydney	
	(₹ thousands)		(Austr dollars thousands)	
	Debit	Credit	Debit	Credit
Share Capital	—	2,000	—	—
Reserves & Surplus	—	1,000	—	—
Land	500	—	—	—
Buildings (Cost)	1,000	—	—	—
Buildings Dep. Reserve	—	200	—	—
Plant & Machinery (Cost)	2,500	—	200	—
Plant & Machinery Dep. Reserve	—	600	—	130
Debtors / Creditors	280	200	60	30
Stock (1.4.2010)	100	—	20	—
Branch Stock Reserve	—	4	—	—
Cash & Bank Balances	10	—	10	—
Purchases / Sales	240	520	20	123
Goods sent to Branch	—	100	5	—
Managing Director's salary	30	—	—	—
Wages & Salaries	75	—	45	—

Accounting for Branches Including Foreign Branch Accounts

Rent	–	–	12	–
Office Expenses	25	–	18	–
Commission Receipts	–	256	–	100
Branch / H.O. Current A/c	120	–	–	7
	4,880	4,880	390	390

The following information is also available :

- (1) Stock as at 31.3.2011 :
 Bombay ₹ 1,50,000
 Sydney A \$ 3,125
- (2) Head Office always sent goods to the Branch at cost plus 25%.
- (3) Provision is to be made for doubtful debts at 5%.
- (4) Depreciation is to be provided on buildings at 10% and on plant and machinery at 20% on written down values.
- (5) The Managing Director is entitled to 2% commission on net profits.
- (6) Income-tax is to be provided at 47.5%.

You are required :

- (a) To convert the Branch Trial Balance into rupees;
 (use the following rates of exchange :
 Opening rate A \$ = ₹ 20
 Closing rate A \$ = ₹ 24
 Average rate A \$ = ₹ 22
 For Fixed Assets A \$ = ₹ 18).
- (b) To prepare the Trading and Profit & Loss Account for the year ended 31st March, 2011 showing to the extent possible H.O. results and Branch results separately. (Balance Sheet not required.)

(Hints: Exchange loss (balancing figure) in Sydney Branch Trial Balance ₹ 2,16,000; Net profit as per profit and loss account ₹ 9,88,000)

2. Head Office passes adjustment entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in January, 2011, make the entry in the books of Head Office :
 (a) Bombay Branch
 - (1) Received Goods : ₹ 6,000 from Calcutta Branch, ₹ 4,000 from Patna Branch.
 - (2) Sent Goods to ₹ 10,000 to Patna, ₹ 8,000 to Calcutta.
 - (3) Received B/R : ₹ 6,000 from Patna.

Advanced Accounting

- (4) Sent Acceptance : ₹ 4,000 to Calcutta, ₹ 2,000 to Patna.
- (b) Madras Branch (Apart from the above)
- (5) Received Goods : ₹ 10,000 from Calcutta, ₹ 4,000 from Bombay.
- (6) Cash Sent : ₹ 2,000 to Calcutta, ₹ 6,000 to Bombay.
- (c) Calcutta Branch (Apart from the above)
- (7) Sent Goods to Patna : ₹ 6,000.
- (8) Paid B/P : ₹ 4,000 to Patna, ₹ 4,000 cash to Patna.

(Hints: Madras Branch and Patna Branch debited by ₹ 6,000 and ₹ 16,000 respectively. Bombay branch and Calcutta Branch credited by ₹ 6,000 and ₹ 16,000 respectively.)

3. 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 31.3.2011:

	₹
Stock at the outlet 1.4.2010	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 31.3.2011	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.2011 :

- (a) Outlet Stock Account.
- (b) Outlet Profit & Loss Account.
- (c) Stock Reserve Account.

(Hints: Gross Profit as per Outlet Stock Account ₹ 60,000; Profit balance Outlet Profit & Loss Account ₹ 22,000)

4. T of Calcutta has a branch at Dibrugarh. The branch does not maintain separate books of accounts. The branch has the following assets and liabilities on 31st August, 2010 and 30th September, 2010 :

	31st August, 2010	30th September, 2010
	₹	₹
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

Accounting for Branches Including Foreign Branch Accounts

During the month, Dibrugarh branch :

- (a) received by electronic mail transfer ₹ 10,00,000 from Calcutta head office;
- (b) purchased tea worth ₹ 12,00,000;
- (c) sent tea costing ₹ 12,30,000 to Calcutta, freight of ₹ 80,000 being payable at the destination by the receiver;
- (d) spent ₹ 25,000 on office expenses;
- (e) paid ₹ 3,00,000 as advance to suppliers;
- (f) paid ₹ 6,50,000 to suppliers in settlement of outstanding dues.

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

(Hints: Balances in Dibrugarh Tea Stock Account ₹ 1,50,000; Advance to Supplier's Account ₹ 4,50,000; Supplier's Account ₹ 1,50,000; bank account ₹ 1,00,000; Expenses Account ₹ 21,000;)