



# **ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCH**

## **INTRODUCTION**

A branch can be described as any establishment carrying on either the same or substantially the same activity as that carried on by head office of the company. It must also be noted that the concept of a branch means existence of a head office; for there can be no branch without a head office - the principal place of business.

From the accounting point of view, branches may be classified as follows:

1. Inland Branches which can be further classified as:
  - Dependent Branches for which whole accounting records are kept at Head Office
  - Independent Branches which maintain independent accounting records
2. Foreign Branches

## **DEPENDENT BRANCHES**

When the business policies and the administration of a branch are wholly controlled by the head office and its accounts also are maintained by it the branch is described as Dependent branch.

Branch accounts, in such a case, are maintained at the head office out of reports and returns received from the branch. Some of the significant types of branches that are operated in this manner are described below:

- (a) A branch set up merely for booking orders that are executed by the head office. Such a branch only transmits orders to the head office;
- (b) A branch established at a commercial center for the sale of goods supplied by the head office, and under its direction all collections are made by the H.O.; and
- (c) A branch for the retail sale of goods, supplied by the head office.

Accounting in the case of first two types is simple. Only a record of expenses incurred at the branch has to be maintained. But however, a retail branch is essentially a sale agency that principally sells goods supplied by the head office for cash and, if so authorized, also on credit to approved customers. Generally, cash collected is deposited into a local bank to the credit of the head office and the head office issues cheques thereon for meeting the expenses of the branch. If, however, the branch also sells certain lines of goods, directly purchased by it, the branch retains a part of the sale proceeds to pay for the goods so purchased.

**Question 1: Explain Methods of charging goods to branches in case of dependent branches**

**Answer:** Goods may be invoiced to branches

- (1) at cost; or
- (2) at selling price; or
- (3) in case of retail branches, at wholesale price;
- (4) arbitrage price.

Selling price method is adopted where the goods would be sold at a fixed price by the branch. It is suitable for dealers in tea, petrol, ghee, etc. In this way, greater control can be exercised over the working of a branch in as much as that the branch balance in the head office books would always be composed of the value of unsold stock at the branch and remittances or goods in transit. The arbitrary price method is usually adopted if the selling price is not known or when it is not considered desirable to disclose to the branch manager the profit made by the branch.

**Question 2. Explain accounting for dependent branches**

**Answer:** Dependent branch does not maintain a complete record of its transactions. The Head office may maintain accounts of dependent branches in any of the following methods:

**Methods of maintaining accounts of Dependent Branches**

1. **If Goods are invoiced at cost**
  - A. Debtors Method
  - B. Stock and Debtors Method
  - C. Trading and profit and loss account method (Final Accounts method)
  
2. **If goods are invoiced at selling price**
  - A. Debtors Method
  - B. Stock and Debtors Method
  - C. Trading and profit and loss account method (Final Accounts method)
  
3. **If Goods are invoiced at wholesale price: Whole Sale branch method**

**1. When goods are invoiced at cost**

If goods are invoiced to the branch at cost, the trading results of branch can be ascertained by following any of the three methods:

- A. Debtors Method,
- B. Stock and Debtors method,
- C. Trading and Profit and Loss Account (Final Accounts) Method.

**A. Debtors method**

This method of accounting is suitable for small sized branches. Under this method, separate branch account is maintained for each branch to compute profit or loss made by each branch.

To illustrate the various entries which are made in the Branch Account, the proforma of a Branch Account is shown below:

**Proforma Branch Account**

To Balance b/d Cash Stock Debtors Petty Cash Fixed Assets Prepaid Expenses To Goods sent to Branch Less: Returns To Bank A/c Salaries Rent Sundry Expenses To Profit & Loss A/c—Profit (if credit side is larger)		By Bank A/c (Cash remitted) By Return to H.O.  By Balance c/d Cash Stock Debtors Petty Cash Fixed Assets Prepaid Expenses  By Profit and Loss A/c—Loss (if debit side is larger)	
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**B. Stock and Debtors method**

If it is desired to exercise a more detailed control over the working of a branch, the accounts of the branch are maintained under the Stock and Debtors Method. According to this method, the following accounts are maintained by the Head Office:

Account	Purpose
1. Branch Stock Account (or Branch Trading Account)	Ascertainment of shortage or surplus
2. Branch Profit and Loss Account	Calculation of net profit or loss
3. Branch Debtors Account	Ascertainment of closing balance of debtors
4. Branch Expenses Account	Ascertainment of total expenses incurred
5. Goods sent to Branch Account	Ascertainment of cost of goods sent to branch

If the branch is also allowed to purchase goods locally and to incur expenses out of its cash collections, it would be necessary to maintain (i) a Branch Cash Account, and (ii) an independent record of branch assets.

The manner in which entries are recorded in the above method is shown below:

	Transaction	Account debited	Account credited
(a)	Cost of goods sent to the Branch	Branch Stock A/c	Goods sent to Branch A/c
(b)	Remittances for Expenses	Branch cash A/c	(H.O.) Cash A/c
(c)	Any assets (e.g. furniture) provided by H.O.	Br Asset (Furniture) A/c	(i) (H.O.) Cash A/c or (ii) Creditors A/c (iii) (H.O.) Furniture A/c
(d)	Cost of goods returned by the branch	Goods sent to Branch A/c	Branch Stock A/c
(e)	Cash Sales at the Branch	Branch Cash A/c	Branch Stock A/c
(f)	Credit sales at the Branch	Branch Debtors A/c	Branch Stock A/c
(g)	Return of goods by debtors to the Branch	Branch Stock A/c	Branch Debtors A/c
(h)	Cash paid by debtors	Branch Cash A/c	Branch Debtors A/c
(i)	Discount & allowance to debtors, bad debts	Branch Expenses A/c	Branch Debtors A/c
(j)	Remittances to H.O.	(H.O.) Cash A/c	Branch Cash A/c
(k)	Expenses met by H.O.	Branch Expenses A/c	(H.O.) Cash A/c

**Closing Stock:** Credit the Branch Stock Account with the value of closing stock at cost. It will be carried down as opening balance (debit) for the next accounting period. The Balance of the Branch Stock Account, (after adjustment therein the value of closing stock), if in credit, will represent the gross profit on sales and vice versa.

**Other Steps:**

- (l) Transfer Balance of Branch Stock Account to the Branch Profit and Loss Account.
  - (m) Transfer Balance of Branch Expenses Account to the debit of Branch Profit & Loss Account.
  - (n) The balance in the Branch P&L A/c will be transferred to the (H.O.) Profit & Loss Account.
- The credit balance in the Goods sent to Branch Account is afterwards transferred to the Head Office Purchase Account or Trading Account (in case of manufacturing concerns), it being the value of goods transferred to the Branch.

**C. Trading and Profit and Loss Account (Final Accounts Method)**

In this method, Trading and Profit and Loss accounts are prepared considering each branch as a separate entity. The main advantage of this method is that, it is easy to prepare and understand. It also gives complete information of all transactions which are ignored in the other methods. It should be noted that Branch Trading and Profit and Loss account is merely a memorandum account and therefore, the entries made there in do not have double entry effect.

**2. When goods are invoiced at selling price**

**A. Stock and Debtors Method**

Under this method, when goods are invoiced at selling price, one additional account ie. 'Branch Adjustment account' is also prepared in addition to all the accounts which are maintained on cost basis.

- When goods are invoiced at selling price, the following points should be kept in mind under this method:

**(i) Journal Entries**

₹ Transactions	Accounts debited	Accounts credited
(a) Sale price of the goods sent from H.O. to the Branch	Branch Stock A/c (at selling price)	(i) Good sent to Branch A/c with cost of the goods sent. (ii) Branch Adjustment A/c (with the loading i.e., Difference between the selling and cost Price.)
(b) Returns of goods by the Branch to H.O.	(i) Goods sent to Branch A/c (with the cost of goods returned). (ii) Branch Adjustment A/c (with the loading)	Branch Stock A/c
(c) Cash sales at the Branch	Cash/Bank A/c	Branch Stock A/c
(d) Credit sales at the Branch	Branch Debtors A/c	Branch Stock A/c
(e) Goods returned to Branch by customers	Branch Stock A/c	Branch Debtors A/c (at selling price)
(f) Goods lost in Transit or stolen	(i) Goods Lost in Transit A/c or Goods Stolen A/c (with cost of the goods) (ii) Branch Adjustment A/c (with the loading)	Branch Stock A/c

**(ii) Closing stock**

The balance in the Branch Stock Account at the close of the year normally should be equal to the unsold stock at the Branch valued at sale price. But quite often the value of stock actually held at the branch is either more or less than the balance of the Branch Stock Account. In that event it will be necessary that the balance in the Branch Stock Account is increased or reduced by debit or credit to Goods Lost Account (at cost price of goods) and Branch Adjustment Account (with the loading). The Stock Account at selling price, thus reveals loss of stock (or surplus) and serves as a check on the branch in this respect.

The discrepancy in the amount of balance in the Branch Stock Account and the value of stock actually in hand, valued at sale price, may be the result of one or more of the under-mentioned factors:

- An error in applying the percentage of loading.
- Goods having been sold either below or above the established selling price.
- A Commission to adjust returns or allowances.
- Physical loss of stock due to natural causes or pilferage.
- Errors in Stock-taking.

For example, the balance brought down in the Branch Stock Account is ₹ 100 in excess of the value of stock actually held by the branch when the goods were invoiced by the head office to the branch at 20% above cost and the discrepancy is either due to pilferage or loss by fire, the actual loss to the firm would be ₹ 80, since 20% of the invoice price would represent the element of profit. The adjusting entry in such a case would be:

		Dr. ₹	Cr. ₹
Goods Lost A/c	Dr.	80	
Branch Adjustment A/c	Dr.	20	
To Branch Stock A/c			100

If on the other hand, a part of the sale proceeds has been misappropriated, then the adjusting entry would be:

		Dr. ₹	Cr. ₹
Loss by theft A/c	Dr.	XX	
Branch Adjustment A/c	Dr.	XX	
To Branch Stock A/c			XX

**Rebates and allowances** allowed to customers are adjusted by debiting the amounts of such allowances to Branch Adjustment Account and crediting Branch Stock Account. But, if the gross amount of sale has been debited to Branch debtors Account, this account would be credited instead of Branch Stock Account, since the last mentioned account would have already received credit for the full value.

**(iii) Elimination of unrealized profit in the closing stock**

The balance in the Branch Stock account would be at the **sale price**; therefore, it would be necessary to eliminate the element of profit included in such closing stock. This is done by creating a reserve against unrealized profit, by debiting the Branch Adjustment Account and crediting Stock Reserve Account with an amount equal to the difference in the cost and selling price of unsold stock.

Sometimes instead of opening a separate account in respect of the reserve, the amount of the difference is credited to Branch Stock Account. In that case, the credited balance of such a reserve is also carried forward separately, along with the debit balance in the Branch Stock Account; the difference between the two would be the value of stock at cost. In either case, the credit balance will be deducted out of the value of closing stock for the purpose of disclosure in the balance sheet, so that the stock is shown at cost.

**An Alternative method:** Where the gross profit of each branch is not required to be ascertained separately, although the selling price is uniform, the amount of goods sent to the branch is recorded only in two accounts namely - Branch Stock Account and Goods Sent to Branch A/c.

In this method, at the end of the year the Branch Stock Account is closed by transfer of the balance representing the value of closing stock, at sale price, to the **Goods Sent to Branch Account**. This has the effect of altogether eliminating from the books the value of stock at the branch. The balance of Goods sent to Branch Account is afterwards transferred to the **Trading Account** representing the net sale price of goods sold at the branch. In that case, the value of closing stock at the branch at cost will be subsequently introduced in the Trading Account together with that of closing stock at the head office.

**B. Debtors Method**

Under this method, the principal accounts that will be maintained are:

- The Branch Account;
- The Goods Sent to Branch Account; and
- The Stock Reserve Account.

Entries in these accounts will be made in the following manner:

	<b>Transaction</b>	<b>Account debited</b>	<b>Account credited</b>
(a)	Goods sent to Branch at selling price	Branch A/c	Goods sent to Branch A/c
(b)	'Loading' being the difference between selling price and cost of goods	Goods sent to Branch A/c	Branch A/c
(c)	Returns to H.O. at selling price	Goods sent to Branch A/c	Branch A/c
(d)	'Loading' in respect of goods returned to H.O.	Branch A/c	Goods sent to Branch A/c
(e)	'Loading' included in the opening stock to reduce it	Stock Reserve A/c	Branch A/c
(f)	Closing stock at selling price	Branch Stock A/c	Branch A/c
(g)	'Loading' included in closing stock to reduce it to cost	Branch A/c	Stock Reserve A/c

It will be observed that entries in the Branch Account in respect of goods sent to a branch or returned by it, as well as those for the opening and closing stock, will be at selling price. In consequence, the Branch Account is maintained at selling price.

Hence the Branch Account will not correctly show the trading profit of the Branch unless these amounts are adjusted to cost. Such an adjustment is effected by making contra entries in 'Goods Sent to Branch A/c' and 'Stock Reserve Account'. In respect of closing stock at branch for the purpose of disclosure in the Balance Sheet, the credit balance in the 'Stock Reserve Account' at the end of the year will be deducted from the value of the closing stock, so as to reduce it to cost; it will be carried forward as a separate balance to the following year, for being transferred to the credit of the Branch Account.

**C. Trading and Profit and Loss Account (Final Accounts) Method**

All items of memorandum Branch Trading and Profit and Loss Account are to be converted into cost price if the goods are invoiced to branch at selling price. Other points will remain same as already discussed for this method if goods are invoiced at cost.



**Question 3: Explain Accounting for Independent Branches**

**Answer:** When the size of the business is big, it is desirable that the branch maintains complete records of its transactions. These branches are called independent branches and each independent branch maintains comprehensive account books for recording their transactions; therefore a separate trial balance of each branch can be prepared. The head office maintains one ledger account for each such branch, wherein all transactions between the head office and the branches are recorded.

Salient features of accounting system of an independent branch are as follows:

1. Branch maintains its entire books of account under double entry system.
2. Branch opens in its books a Head Office account to record all transactions that take place between Head Office and branch. The Head Office maintains a Branch account to record these transactions.
3. Branch prepares its Trial Balance, Trading and profit and loss Account at the end of the accounting period and sends copies of these statements to Head Office for incorporation.
4. After receiving the final statements from branch, Head Office reconciles between the two – Branch account in Head Office books and Head Office account in Branch books.
5. Head office passes necessary journal entries to incorporate branch trial balance in its books.

The Head Office Account in branch books and Branch Account in head office books is maintained respectively.

	<b>Transactions</b>	<b>Head office books</b>		<b>Branch Books</b>	
(i)	Dispatch of goods to branch by H.O.	Branch A/c To Good sent to Branch A/c	Dr.	Goods received from H.O. A/c To Head Office A/c	Dr.
(ii)	When goods are returned by the branch to H.O.	Goods sent to Branch A/c To Branch A/c	Dr.	Head Office A/c To Goods received from H.O. A/c	Dr.
(iii)	Branch Expenses are paid by the Branch	No Entry		Expenses A/c To Bank or Cash A/c	Dr.
(iv)	Branch Expenses paid by H.O.	Branch A/c To Bank or Cash	Dr.	Expenses A/c To Head Office A/c	Dr.
(v)	Outside purchases by the Branch	No Entry		Purchase A/c To Bank or Creditors A/c	Dr.
(vi)	Sales effected by the Branch	No Entry		Cash or Debtors A/c To Sales	Dr.
(vii)	Collection from Debtors of the Branch recd. By H.O.	Cash or Bank A/c To Branch A/c	Dr.	Head office A/c To Sundry Debtors A/c	Dr.

(viii)	Payment by H.O. for purchase made by Branch	Branch A/c To Bank	Dr.	Purchases (or) Sundry Creditors A/c To Head Office	Dr.
(ix)	Purchase of Asset by Branch	No Entry		Sundry Assets To Bank (or) Liability	Dr.
(x)	Asset purchased by the Branch but Asset A/c retained at H.O. books	Branch Asset A/c To Branch A/c	Dr.	Head office To Bank (or) Liability	Dr.
(xi)	Depreciation on (x) above	Branch A/c To Branch Asset	Dr.	Depreciation A/c To Head Office A/c	Dr.
(xii)	Remittance of funds by H.O. to Branch	Branch A/c To Bank	Dr.	Bank A/c To Head Office	Dr.
(xiii)	Remittance of funds by Branch to H.O.	Reverse entry of (xii) above		Reverse entry of (xii) above	
(xiv)	Transfer of goods from one Branch to another branch	(Recipient) Branch A/c To Supplying Branch A/c	Dr.	Supplying Branch H.O. A/c To Goods Received from H.O. A/c Receipt Branch Goods Received from H.O. A/c To Head Office A/c	Dr.   Dr.

**QUESTION NO.1:**

Buckingham Bros, Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the head office.

From the following, prepare Nagpur branch account in the books of head office by Debtors method:

Particulars	₹	Particulars	₹
Opening balance (01-01-2019)		Bad Debts	1,000
Imprest Cash	2,000	Discount to Customers	2,000
Sundry Debtors	25,000	Remittances to H.O. (recd. by H.O.)	1,65,000
Stock: Transferred from H.O.	24,000	Remittances to H.O. (not recd. by H.O. so far)	5,000
Direct Purchases	16,000	Branch Exp. directly paid by H.O.	30,000
Cash Sales	45,000	Closing Balance (31-12-2019)	
Credit Sales	1,30,000	Stock: Direct Purchase	10,000
Direct Purchases	45,000	Transfer from H.O.	15,000
Returns from Customers	3,000	Debtors	?
Goods sent to branch from H.O.	60,000	Imprest Cash	?
Transfer from H.O. for Petty Cash expenses	4,000	Petty Cash expenses	4,000

**QUESTION NO.2:**

From the information given in the above question, prepare Nagpur Branch Trading and Profit and Loss Account in the books of head office.

**QUESTION NO.3:**

The Bombay Traders invoiced goods to its Delhi branch at cost. Head Office paid all the branch expenses 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.

**From the following particulars Prepare:**

- Branch Account (Debtors Method),
- Branch Stock Account, Branch Profit & Loss Account, Branch Debtors and Branch Expenses Account by adopting the Stock and Debtors Method and
- Branch Trading and Profit & Loss Account to prove the results as disclosed by the Branch Account.

The following is a summary of the transactions entered into at the branch during the year ended December 31, 2019:

Particulars	₹	Particulars	₹
Balances as on 01.01.2019:			
Stock	7,000	Bad Debts	600
Debtors	12,600	Goods returned by customers	500
Petty Cash,	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 Sundry	
Credit Sales	28,400	Debtors	28,500
Allowances to customers	200	Balances as on 31.12.2019:	
Discount to customers	1,400	Stock	6,500
		Debtors	9,800
		Petty Cash	100

**QUESTION NO.4 :**

XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars prepare branch account in the books of Head Office.

Stock on 1st April 2011 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 2011	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2011	800	Rent	1,800
		Salary	3,200
Office furniture on 1st April, 2011	3,000	Stationery & Printing	800
Goods invoiced from the head office (invoice price)	1,60,000	Petty expenses paid by the branch	600
Goods return to Head Office	2,000	Depreciation to be provided on branch furniture at 10% p.a.	
Goods return by debtors	960		
Cash received from debtors	60,000		
Cash Sales	1,00,000		
Credit sales	60,000	Stock on 31st March, 2012 (at invoice price)	28,000

**QUESTION NO.5 :**

Red and White of Mumbai started a branch at Bangalore on 1.4.2012 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 31.3.2013:

	<b>Rs.</b>
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2013 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2013	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2013	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.

**QUESTION NO.6 :**

Concept, 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, 2013:

	Rs.
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2012 (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 1.4.2012	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 31.3.2013 (Invoice price)	48,000
Branch debtors balance on 31.3.2013	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 Account.

Also compute shortage of Stock at Branch, if any.

**QUESTION NO.7:**

White Ltd. has a retail branch at Gurgaon. Goods sold on 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Kolkata head office to Gurgaon branch at wholesale price. From the following particulars, ascertain the profit made at head office and branch for the year ended 31.12.2010:

	Head office(Rs.)	Branch(Rs.)
Stock on 1.1.2010	1,75,000	-----
Purchases	10,50,000	-----
Goods sent (invoice price)	3,78,000	
Expenses (selling)	56,000	7,000
Sales	10,71,000	3,50,000
Stock on 31.12.2010	4,20,000	63,000

**QUESTION NO.8:**

Harrison of Chennai 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.

Following further details are given for the year ended 31st December, 2019:

		₹
Cost of goods sent to Branch at cost		2,00,000
Goods received by Branch till 31-12-2019 at invoice price		2,20,000
Credit Sales for the year @ invoice price		1,65,000
Cash Sales for the year @ invoice price		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	01-01-2019	31-12-2019
	₹	₹
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

Show necessary ledger accounts in the books of the head office by stock and debtors method and determine the Profit and Loss of the Branch for the year ended 31st December, 2019.

Also prepare branch account following debtors method.

**QUESTION NO.9:**

Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 2020 from the following:

(1) Goods are invoiced to the branch at cost plus 20%.

(2) The sale price is cost plus 50%.

(3) Other information:

	₹
Stock as on 01.04.2019 (invoice price)	2,20,000
Goods sent during the year (invoice price)	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch Ascertain	45,000

(i) The profit earned by the branch during the year.

(ii) Branch stock reserve in respect of unrealized profit.

**QUESTION NO.10:**

Sell Well who carried on a retail business opened a branch X on January 1st, 2020 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost.

The following were the transactions:

	Jan. 2020	Feb. 2020	March 2020
	₹	₹	₹
Goods sent to Branch (Purchase Price)	40,000	50,000	60,000
Sales as shown by the branch monthly report	38,000	42,000	55,000
Cash received from Debtors and remitted to H.O.	20,000	51,000	35,000
Returns to H.O. (Invoice price to Branch)	1,200	600	2,400

The stock of goods held by the branch on March 31, 2020 amounted to ₹ 53,400 at invoice to branch.

Record these transactions in the Head Office books, showing balances as on 31st March, 2020 and the branch gross profit for the three months ended on that date.

All workings should form part of your solution.

**QUESTION NO.11:**

M/s Rahul 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 31.3.2020:

	₹
Stock at the outlet 01.04.2019	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 31.03.2020	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.03.2020

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



**QUESTION NO.12:**

Hindustan Industries Mumbai 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 2019, 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:

	₹
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 Jan., 2019	60,000
Sales in the year — Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st Jan. 2019	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 Expenses	6,000
Stock at Branch on 31st Dec. 2019 at invoice price	1,20,000

Prepare Branch accounts in books of head office by Stock and debtors method.

**QUESTION NO.13:**

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches 25 tins of Oil @ ₹ 1,000 per tin and 15 tins of Ghee @ ₹ 1,500 per tin on 1st of every month. The branch incurs some expenditure which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

		<b>Delhi</b>	<b>Lucknow</b>
		₹	₹
Purchases	Ghee	14,75,000	-
	Oil	29,32,000	-
Direct expenses		3,83,275	-
Expenses paid by H.O.		-	14,250
Sales	Ghee	18,46,350	3,42,750
	Oil	27,41,250	3,15,730
Collection during the year (including Cash Sales)		-	6,47,330
Remittance by Branch to Head Office		-	6,13,250

	<b>(Delhi)</b>	
	01-01-2019	31-12-2019
Balance as on:		
Stock : Ghee	2019	3,12,500
Oil	1,50,000	4,17,250
Debtors	3,50,000	-
Cash on Hand	7,32,750	55,250
Furniture & Fittings	70,520	19,350
Plant/Machinery	21,500	7,73,500
	3,07,250	

	<b>(Lucknow)</b>	
	01-01-2019	31-12-2019
Balance as on:		
Stock : Ghee	2019	13,250
Oil	17,000	44,750
Debtors	27,000	?
Cash on Hand	75,750	12,350
Furniture & Fittings	7,540	5,625
Plant/Machinery	6,250	
	-	

Addition to Plant/Machinery on 01-01-2019 ₹ 6,02,750.

Rate of Depreciation: Furniture / Fittings @ 10% and Plant / Machinery @ 15% (already adjusted in the above figures).

The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of ₹ 2,000 p.m. General expenses incurred by H.O. ₹ 24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (excluding branch transactions).

**QUESTION NO.14:**

Messrs Ramchand & Co., Hyderabad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them.

They, however, do not prepare any Profit & Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the Head Office.

The goods from the Head Office are invoiced at selling prices to give a profit of 20 per cent on the sale price. The goods sent from the branch to Head Office are at cost. From the following prepare Branch Trading and Profit & Loss Account and Branch Assets Account in the Head Office Books.

**Trial Balance of the Delhi Branch as on 31-12-2019**

Particulars	₹	Particulars	₹
Head office opening balance on 01-01-2019	15,000	Sales	1,00,000
Goods from H.O.	50,000	Goods to H.O.	3,000
Purchases	20,000	Head Office Current A/c	15,000
Opening Stock	4,000	Sundry Creditors	3,000
(H.O. supplies goods at invoice prices)	500		
Opening Stock of other goods	7,000		
Salaries	3,000		
Rent	2,000		
Office expenditure	500		
Cash on Hand	4,000		
Cash at Bank	15,000		
Sundry Debtors			
	1,21,000		1,21,000

The Branch balances as on 1st January, 2019, were as under: Furniture ₹ 5,000; Sundry Debtors ₹ 9,500; Cash ₹1,000, Creditors ₹ 30,000. The closing stock at branch of the head office goods at invoice price is ₹3,000 and that of purchased goods at cost is ₹ 1,000.

Depreciation is to be provided at 10 per cent on branch assets.

**QUESTION NO.15:**

Ring Bell Ltd. Delhi has a Branch at Bombay where a separate set of books is used. The following is the trial balance extracted on 31st December, 2019.

**Head Office Trial Balance**

	₹	₹
Share Capital (Authorised: Shares 10,000 Equity of ₹ 100 each):		
Issued: 8,000 Equity Shares		8,00,000
Profit & Loss Account - 01-01-2019		25,310
General Reserve		1,00,000
Fixed Assets	5,30,000	
Stock	2,22,470	
Debtors and Creditors	50,500	21,900
Profit for 2019		52,200
Cash Balance	62,730	
Branch Current Account	1,33,710	
	9,99,410	9,99,410

**Branch Trial Balance**

	₹	₹
Fixed Assets	95,000	
Profit for 2019		31,700
Stock	50,460	
Debtors and Creditors	19,100	10,400
Cash Balance	6,550	
Head Office Current Account		1,29,010
	1,71,110	1,71,110

The difference between the balances of the Current Account in the two sets of books is accounted for as follows:

- Cash remitted by the Branch on 31st December, 2019, but received by the Head Office on 1st January 2020 - ₹ 3,000.
- Stock stolen in transit from Head Office and charged to Branch by the Head Office, but not credited to Head Office in the Branch books as the Branch Manager declined to admit any liability (not covered by insurance) - ₹ 1,700.

Give the Branch Current Account in Head Office books after incorporating Branch Trial Balance through journal.

**QUESTION NO.16:**

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

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

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

From the information given below, you are required to prepare for the year ended 31st Dec., 2019 in columnar form.

- (a) A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.  
(b) Balance Sheet as on 31st Dec., 2019 for the entire business.

	H.O.		Branch	
	₹	₹	₹	₹
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 01-01-2019				
Raw materials	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative Salaries	13,900		4,000	
Salesmen Salaries	22,500		6,200	
Other administrative & selling overheads	12,500		2,300	
Inter-unit accounts	5,000			2,000
Capital		50,000		
Sundry Creditors		13,000		
Provision for unrealized profit in stock		1,200		
Sales		2,00,000		65,200
Goods sent to Branch		46,000		
Goods received from H.O.			44,500	
	3,10,200	3,10,200	67,200	67,200

**Notes:**

- (1) On 28th Dec., 2019 the branch remitted ₹ 1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also on the same date, the H.O. dispatched goods to the branch invoiced at ₹ 1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.

- (2) The stock of raw materials held at the H.O. on 31st Dec., 2019 was valued at ₹ 2,300.
- (3) You are advised that:
- there were no stock losses incurred at the H.O. or at the branch.
  - it is KP's practice to value finished goods stock at the H.O. at factory cost.
  - there were no opening or closing stock of work-in-progress.
- (4) Branch employees are entitled to a bonus of ₹156 under a bilateral agreement.

**QUESTION NO.17:**

AFFIX of Kolkata has a branch at Delhi to which the goods are supplied from Kolkata but the cost thereof is not recorded in the Head Office books. On 31st March, 2019 the Branch Balance Sheet was as follows:

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

During the six months ending on 30-09-2019, the following transactions took place at Delhi.

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

Set out the Head Office Account in Delhi books and the Branch Balance Sheet as on 30-09-2019. Also give journal entries in the Delhi books.

**QUESTION NO.18:**

The following Trial balances as at 31st December, 2019 have been extracted from the books of Major Ltd. and its branch at a stage where the only adjustments requiring to be made prior to the preparation of a Balance Sheet for the undertaking as a whole.

	Head Office		Branch	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Share Capital		1,50,000		
Fixed Assets	75,125		18,901	
Current Assets	1,21,809		23,715	(Note 3)
Current Liabilities		34,567		9,721
Stock Reserve, 1st Jan., 2019 (Note 2)		693		
Revenue Account		43,210		10,250
Branch Account	31,536			
Head Office Account				22,645
	2,28,470	2,28,470	42,616	42,616

You are required to record the following in the appropriate ledger accounts in both sets of books:

**Notes:**

1. Goods transferred from Head Office to the Branch are invoiced at cost plus 10% and both Revenue Accounts have been prepared on the basis of the prices charged.
2. Relating to the Head Office goods held by the Branch on 1st January, 2019.
3. Includes goods received from Head Office at invoice price ₹4,565.
4. Goods invoiced by Head Office to Branch at ₹3,641 were in transit at 31st December, 2019, as was also a remittance of ₹ 3,500 from the Branch.
5. At 31st December, 2019, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.

The purchase price of lorry, ₹2,500, which reached the Branch on December 25th; a sum received on December 30, 2019 from one of the Branch debtors, ₹ 750.

**QUESTION NO.19:**

ABC Ltd. has head office at Delhi (India) and branch at New York (U.S.A). New York branch is an integral foreign operation of ABC Ltd. New York branch furnishes you with its trial balance as on 31st March, 2015 and the additional information given thereafter:

	Dr.( \$)	Cr.( \$)
Stock on 1st April, 2014	150	–
Purchases and sales	400	750
Sundry Debtors and creditors	200	150
Bills of exchange	60	120
Sundry expenses	540	–
Bank balance	210	–
Delhi head office A/c	–	540
	1,560	1,560

The rates of exchange may be taken as follows:

- on 1.4.2014 @ Rs. 40 per US \$
- on 31.3.2015 @ Rs. 42 per US \$
- average exchange rate for the year @ Rs. 41 per US \$.

New York branch account showed a debit balance of Rs. 22,190 on 31.3.2015 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York branch in Rs. in the books of ABC Ltd.

**QUESTION NO.20:**

Omega Ltd., an Indian company has a branch at New York (USA). The trial balance of the Branch as at 31<sup>st</sup> March, 2015 is as follows:



Particulars	US\$	
	Dr.	Cr.
Fixed Assets	51,200	
Opening Stock	22,400	
Purchases/Sales	96,000	1,66,400
Goods Sent from HO	32,000	
Carriage Inward	400	
Branch Expenses	4,800	
Head Office Account	-	45,600
Sundry Debtors/Creditors	9,600	6,800
Cash and Bank	2,400	-
	2,18,800	2,18,800

The following further information is given below:

- (1) Expenses outstanding \$ 400.
- (2) Depreciate Fixed Assets @ 10% p.a. at written down value.
- (3) The Head Office sent goods to Branch for Rs. 15,80,000.
- (4) The head office shown an amount of Rs. 20,50,000 due from Branch.
- (5) Closing Stock \$ 21,500.
- (6) There were no transit items either at the start or at the end of the year.
- (7) On April 1, 2013 when the fixed assets were purchased the rate of exchange was Rs. 43 to one \$. On April 1, 2014, the rate was Rs. 47 per \$. On March 31, 2015, the rate was Rs. 50 per \$. Average Rate during the year was Rs. 45 to one \$.

You are required to convert the given USA Branch trail balance in Rs. assuming that the Branch is an Integral Foreign Operation of the Indian Company. Calculate Foreign Exchange gains/loss and show its Accounting Treatment as per AS11.

**QUESTION NO.21:**

From the following particulars relating to Pune branch for the year ending December 31, 2015, prepare Branch Account in the books of Head office:

		Rs.
Stock at Branch on January 1, 2015		10,000
Branch Debtors on January 1, 2015		4,000
Branch Debtors on Dec. 31, 2015		4,900
Petty cash at branch on January 1, 2015		500
Furniture at branch on January 1, 2015		2,000
Prepaid fire insurance premium on January 1, 2015		150
Salaries outstanding at branch on January 1, 2015		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Insurance up to March 31, 2016	600	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31,2015		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing Rs. 1,200 were destroyed on account of fire and a sum of Rs. 1,000 was received from the Insurance Company.

**QUESTION NO.22:**

Ganesh Ltd. has head office at Delhi (India) and branch at New York. New York branch is an integral foreign operation of Ganesh Ltd. New York branch furnishes you with its trial balance as on 31st March, 2016 and the additional information given thereafter:

	Dr.( \$)	Cr.( \$)
Stock on 1st April, 2015	300	–
Purchases and sales	800	1,500
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Sundry expenses	1,080	–
Bank balance	420	–
Delhi office A/c	–	1,080
	3,120	3,120

The rates of exchange may be taken as follows:

- on 1.4.2015 @Rs. 40 per US \$
- on 31.3.2016@Rs. 42 per US \$
- average exchange rate for the year @ Rs. 41 per US \$.

New York branch account showed a debit balance of Rs. 44,380 on 31.3.2016 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York in Rs. in the books of Ganesh Ltd.

**QUESTION NO.23:**

Beta, 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, 2013:

	Head Office	Branch
	(Rs.)	(Rs.)
Opening stock (as on 1.4.2012)	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, 2013.

**QUESTION NO.24:**

Omega has a branch at Washington. Its Trial Balance as at 30th September, 2012 is as follows:

	<b>Dr.</b>	<b>Cr.</b>
	<b>US \$</b>	<b>US \$</b>
Plant and machinery	1,20,000	–
Furniture and fixtures	8,000	–
Stock, Oct. 1, 2011	56,000	–
Purchases	2,40,000	–
Sales	–	4,16,000
Goods from Omega (H.O.)	80,000	–
Wages	2,000	–
Carriage inward	1,000	–
Salaries	6,000	–
Rent, rates and taxes	2,000	–
Insurance	1,000	–
Trade expenses	1,000	–
Head Office A/c	–	1,14,000
Trade debtors	24,000	–
Trade creditors	–	17,000
Cash at bank	5,000	–
Cash in hand	1,000	–
	<b>5,47,000</b>	<b>5,47,000</b>

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 Rs. 39,40,000.
- (4) The Head Office shows an amount of Rs. 43,00,000 due from Branch.
- (5) Stock on 30th September, 2012 – \$ 52,000.
- (6) There were no in transit items either at the start or at the end of the year.
- (7) On September 1, 2010, when the fixed assets were purchased, the rate of exchange was Rs. 38 to one \$.

On October 1, 2011, the rate was Rs. 39 to one \$.

On September 30, 2012, the rate was Rs. 41 to one \$.

Average rate during the year was Rs. 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, 2012 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

**QUESTION NO.25:**

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 : Rs. 6,000 from Calcutta Branch, Rs. 4,000 from Patna Branch.
- (2) Sent Goods to Rs. 10,000 to Patna, Rs. 8,000 to Calcutta.
- (3) Received B/R : Rs. 6,000 from Patna.
- (4) Sent Acceptance : Rs. 4,000 to Calcutta, Rs. 2,000 to Patna.

(b) Madras Branch (Apart from the above)

- (5) Received Goods : Rs. 10,000 from Calcutta, Rs. 4,000 from Bombay.
- (6) Cash Sent : Rs. 2,000 to Calcutta, Rs. 6,000 to Bombay.

(c) Calcutta Branch (Apart from the above)

- (7) Sent Goods to Patna : Rs. 6,000.
- (8) Paid B/P : Rs. 4,000 to Patna, Rs. 4,000 cash to Patna.

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

**QUESTION NO.26:**

DM Delhi has a branch in London which is an integral foreign operation of DM.

You are required to prepare:

- (1) Trial balance, incorporating adjustments of outstanding and prepaid expenses, converting U.K. pound into Indian rupees.
- (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 on the basis of following information:

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 1st April, 2007)	24,000	
Stock as on 1st 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		96,000
	1,22,000	1,22,000

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

**London Branch A/c**

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

The following further information is 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 Exchange:

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

**QUESTION NO.27:**

Show adjustment Journal entry in the books of Head Office at the end of April, 2014 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch accounts in its books.

A. A.P. Branch:

- (1) Received goods from M.P. – Rs. 30,000 and Rs. 25,000 from U.P.
- (2) Sent goods to W.B. – Rs. 20,000, U.P. – Rs. 30,000.
- (3) Bill Receivable received – Rs. 10,000 from W.B.
- (4) Acceptances sent to M.P. – Rs. 10,000, U.P. – Rs. 20,000.

B. M.P. Branch (apart from the above) :

- (5) Received goods from U.P. – Rs. 20,000, A.P – Rs. 10,000.
- (6) Cash sent to A.P – Rs. 20,000, U.P. – Rs. 10,000.

C. W.B. Branch (apart from the above) :

- (7) Received goods from U.P. – Rs. 40,000.
- (8) Acceptances and Cash sent to U.P. – Rs. 10,000 and Rs. 15,000 respectively.

D. U.P. Branch (apart from the above) :

- (9) Paid cash to W.B. – Rs. 20,000 and M.P. – Rs. 10,000

**QUESTION NO.28:**

M/s. Sandeep having Head Office at Delhi has a Branch at Kolkata. 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 Kolkata wholly engaged in retail trade and the goods are sold at cost to Head Office plus 100%. Following details are furnished for the year ended 31st March, 2014:

	Head Office	Kolkata Branch
	(Rs. )	(Rs. )
Opening Stock (As on 01.04.2013)	1,25,000	-
Purchases	21,50,000	-
Goods sent to Branch (cost to H.O. plus 80%)	7,38,000	-
Sales	23,79,600	7,30,000
Office Expenses	50,000	4,500
Selling Expenses	32,000	3,300
Staff Salary	45,000	8,000

**QUESTION NO.29:**

Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2012 is as follows:

Particulars	US \$	
	Dr.	Cr.
Office equipments	48,000	
Furniture and Fixtures	3,200	
Stock (April 1, 2011)	22,400	
Purchases	96,000	
Sales	---	1,66,400
Goods sent from H.O	32,000	
Salaries	3,200	
Carriage inward	400	
Rent, Rates & Taxes	800	
Insurance	400	
Trade Expenses	400	
Head Office Account	---	45,600
Sundry Debtors	9,600	
Sundry Creditors	---	6,800
Cash at Bank	2,000	
Cash in Hand	400	
	2,18,800	2,18,800

The following further information's are given:

- (1) Salaries outstanding \$ 400.
- (2) Depreciate office equipment and furniture & fixtures @10% p.a. at written down value.
- (3) The Head Office sent goods to Branch for Rs.15,80,000
- (4) The Head Office shows an amount of Rs. 20,50,000 due from Branch.
- (5) Stock on 31st March, 2012 -\$21,500.
- (6) There were no transit items either at the start or at the end of the year.
- (7) On April 1, 2010 when the fixed assets were purchased the rate of exchange was Rs. 43 to one \$. On April 1, 2011, the rate was 47 per \$. On March 31, 2012 the rate was Rs. 50 per \$. Average rate during the year was Rs. 45 to one \$.



**QUESTION NO.30:**

ABCD Ltd., Delhi has a branch in New York, USA, which is an integral foreign operation of the company. At the end of 31st March, 2013, the following ledger balances have been extracted from the books of the Delhi office and the New York Branch:

Particulars	Delhi (\$ thousands)		New York (Rs. thousands)	
	Debit	Credit	Debit	Credit
Share Capital		1,250		
Reserves and Surplus		940		
Land	475			
Building (cost)	1,000			
Buildings Depreciation Reserve		200		
Plant & Machinery (cost)	2,000		100	
Plant & Machinery Depreciation Reserve		500		20
Trade receivables/payables	500	270	60	20
Stock (01-04-2012)	250		25	
Branch Stock Reserve		65		
Cash & Bank Balances	125		4	
Purchases/Sales	275	600	25	125
Goods sent to Branch		1,500	30	
Managing Director's salary	50			
Wages & Salaries	100		18	
Rent			6	
Office Expenses	25		12	
Commission receipts		275		100
Branch/H.O. Current A/c	800			15
	5,600	5,600	280	280

The following information is also available:

(1) Stock as at 31-03-2013

Delhi - Rs. 2,00,000

New York - \$ 10 (all stock received from Delhi)

(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. You are required:

(a) To convert the branch Trial Balance into rupees, using the following rates of exchange:

Opening rate                      1 \$ = Rs. 50, Closing rate                      1 \$ = Rs. 55

Average rate                      1 \$ = Rs. 52, For fixed assets                      1 \$ = Rs. 45

(b) To prepare the Trading and Profit & Loss Account for the year ended 31st March, 2013, showing to the extent possible, Head Office results and Branch results separately.

**QUESTION NO.31:**

Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ Rs. 1,500 per tin and 20 tins of Ghee Rs. 5,000 per tin on 1st of every month. The Branch has incurred expenditure of Rs. 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office. Following are the other details:

	<b>Chennai H.O.</b>	<b>Salem B.O.</b>
	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>
Purchases:		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales:		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year (including Cash Sales)		20,15,000
Remittance by Branch to Head Office		19,50,000

<b>Chennai H.O.</b>		
Balance as on	01-04-2015	31-03-2016
	Amount (Rs.)	Amount (Rs.)
Stock:		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

<b>Salem Brach Office</b>		
Balance as on	01-04-2015	31-03-2016
	Amount (Rs.)	Amount (Rs.)
Stock:		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information:

- (i) Addition to Building on 01-04-2015 Rs. 2,41,600 by H.O.
- (ii) Rate of depreciation: Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)
- (iii) The Branch Manager is entitled to 10% commission on overall organisational profits after charging such commission.
- (iv) The General Manager is entitled to a salary of Rs. 20,000 per month.
- (v) General expenses incurred by Head Office is Rs. 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2016.

**QUESTION NO.32:**

On 31st March, 2012, the following ledger balances have been extracted from the books of Washington branch office of A Ltd whose Head Office is in Mumbai:

Ledger Accounts	\$
Building	180
Stock as on 1.4.2011	26
Cash and Bank Balances	57
Purchases	96
Sales	110
Commission receipts	28
Debtors	46
Creditors	65

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

Use the following rates of exchange:

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

**QUESTION NO.33:**

On 31<sup>st</sup> December, 2019 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

	Amount in ₹	Amount in ₹
Stock on 1st Jan., 2019	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

- A. Stock on 31st December, 2019 was ₹6,37,500.  
 B. Branch account in New York books showed a debit balance of \$ 13,400 on 31st December, 2019 and Furniture appeared in the Head Office books at \$ 1,750.  
 C. The rate of exchange for 1 \$ on 31st December, 2018 was ₹ 52 and on 31st December, 2019 was ₹ 51. The average rate for the year was ₹50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch assuming integral foreign operation.

**QUESTION NO.34:**

S & M Ltd., Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M Ltd. At the end of 31st March, 2020, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office:

	Bombay (₹ thousands )		Sydney (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 (01.04.2019)	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	–
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 31.3.2020:  
 Bombay ₹ 1,50,000  
 Sydney A \$ 3,125

You are required to convert the Sydney 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.

**QUESTION NO.35:**

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch is an integral foreign operation of Carlin & Co. Mumbai branch furnishes you with its trial balance as on 31st March, 2020 and the additional information given thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2019	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, 2020.
- (c) The rates of exchange may be taken as follows:
  - on 1.4.2019 @ ₹ 40 per US \$
  - on 31.3.2020 @ ₹ 42 per US \$
  - average exchange rate for the year @ ₹ 41 per US \$
  - 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, 2020 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 31.03.2020 in New York books and there were no items pending reconciliation.

**QUESTION NO.36 :**

M/s Heera & Co. has head office at U.S.A. and branch in Patna (India). Patna branch is an integral foreign operation of Heera & Co.

Patna branch furnishes you with its trial balance as on 31st March, 2016 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2015	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Plant	240	-
Bank Balance	420	-
New York Office A/c	-	1,620
	3,360	3,360

Information:

(a) Plant was acquired from a remittance of US \$ 6,000 received from USA head office and paid to the suppliers. Depreciate Plant at 60% for the year.

(b) Unsold stock of Patna branch was worth Rs. 4,20,000 on 31st March, 2016.

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

- On 01.04.2015 @ Rs. 55 per US \$
- On 31.03.2016 @ Rs. 60 per US \$
- Average exchange rate for the year @ Rs.58 per US \$
- 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, 2016 and the balance sheet as on that date of Patna branch as would appear in the books of USA head office of Heera & Co. You are informed that Patna branch account showed a debit balance of US \$ 29845.35 on 31.3.2016 in USA books and there were no items pending reconciliation.

**QUESTION NO.37:**

LMN is having branch at Mumbai. Goods are invoiced to the branch at 25% profit on sale. Branch has been instructed to send all cash daily to head office.

All expenses are paid by head office except petty expenses, which are met by the Branch.

From the following particulars, prepare branch account in the books of head office:

Particulars	Amount	Particulars	Amount
	(Rs. )		(Rs. )
Stock as on 1st April, 2013 (Invoice price)	40,000	Discount allowed to debtors	300
Sundry Debtors as on 1st April, 2013	25,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2013	1,000	Salary	4,000
Office furniture as on 1st April, 2013	4,000	Staff Welfare	750
Goods invoiced from head office (invoice price)	1,80,000	Telephone Expenses	1,200
Goods return to head office	6,000	Other Misc. Expenses paid by branch	700
Goods return by debtors	1,250	Stock as on 31st March, 2014 (at invoice price)	35,000
Cash received from Debtors	65,000	Depreciation to be provided on branch furniture	10% p.a.
Cash sales	1,20,000		
Credit sales	70,000		



**QUESTION NO.38:** Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

- (i) Expenses of Rs. 2,800 allocated to the Branch by Head Office but not recorded in the Branch books.
- (ii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for Rs. 1,000.
- (iii) Branch paid Rs. 3,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
- (iv) Branch incurred travelling expenses of Rs. 5,000 on behalf of other Branches, but not recorded in the books of Branch.
- (v) A remittance of Rs. 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
- (vi) Head Office allocates Rs. 75,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.
- (vii) Head Office collected Rs. 30,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now.
- (viii) Goods dispatched by the Head office amounting to Rs. 10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

**QUESTION NO.39 :**

Pawan, 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 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 1.4.2012	1,64,000
Stock at invoice price on 31.3.2013	1,92,000
Debtors as on 1.4.2012	63,400
Debtors as on 31.3.2013	84,300
Furniture & fixtures as on 1.4.2012	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 1.10.2012(payment was made by thebranch from cash sales and collection from debtors)	5,000

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

**QUESTION NO.40 :**

Raju Industries, Kolkata has a branch in Delhi 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 branch has to remit all cash received to the Head office Bank Account.

From the following details, relating to calendar year 2014, 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.

Particulars	Amount in Rs.
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head Office at Invoice Price	12,000
Stock at Delhi as on 1st Jan. 2014	60,000
Sales during the year – Cash	1,80,000
- Credit	3,80,000
Sundry Debtors at Delhi as on 1st Jan., 2014	72,000
Discount allowed to debtors	8,000
Bad Debts in the year	6,000
Sales returns at Delhi Branch	6,000
Rent, Rates, Taxes at Branch	16,000
Salaries, Wages, Bonus at Branch	62,000
Office Expenses	6,000
Stock at Branch on 31st December, 2014	1,20,000

**MULTIPLE CHOICE QUESTIONS**

1. If goods are invoiced to branches at cost, trading results of branch can be ascertained by
  - (a) Debtors method.
  - (b) Stock and debtors method.
  - (c) Either (a) or (b).
2. Under branch trading and profit loss account method
  - (a) H.O. prepares profit and loss account.
  - (b) Each branch is treated separated entity.
  - (c) Both (a) and (b)
3. Goods may be invoiced to branch at
  - (a) Cost or Selling price.
  - (b) Wholesale price.
  - (c) Both (a) and (b).
4. Under debtors method, opening balance of debtors is
  - (a) Debited to branch account.
  - (b) Credited to branch account.
  - (c) Debited to H.O account.
5. Cost of goods returned by branch will have the following effect
  - (a) Goods sent to branch account will be debited.
  - (b) Branch stock account will be credited
  - (c) (a) and (b).
6. Assets and liabilities of a non-integral foreign operation should be converted at
  - (a) Closing exchange rate.
  - (b) Average exchange rate.
  - (c) Opening exchange rate.
7. All of the following are examples of monetary assets except:
  - (a) Trade Payables.
  - (b) Inventory.
  - (c) Trade Receivables.
8. If asset of an integral foreign operation carried at cost, cost and depreciation of tangible fixed assets is translated at
  - (a) Average exchange rate.
  - (b) Closing exchange rate.
  - (c) Exchange rate at the date of purchase of asset.
9. Incomes and expenses of a NFO is translated at
  - (a) Average rate that approximates the actual exchange rates.
  - (b) Exchange rate at the date of transaction.
  - (c) Either (a) or (b).

10. AS 11 classifies foreign branches are classified as
- (a) Autonomous branches and non-autonomous branches.
  - (b) Uncontrolled and fully controlled branches.
  - (c) Integral and non-integral foreign operations.

**Answers:**

**1. (c) 2. (c) 3. (c) 4. (a) 5. (c) 6. (a) 7. (b) 8. (c) 9. (c) 10. (c)**

**Question 1:** Why goods are marked on invoice price by the head office while sending goods to the branch?

**Solution:**

Goods are marked on invoice price to achieve the following objectives:

- (i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and
- (ii) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.
- (iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

**Question 2:** Differentiate Branch Accounts with Departmental accounts.

**Answer:** Refer answer given in the chapter.

## PRACTICE PROBLEM

### **Problem 1**

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.

### **Problem 2**

Alpha having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.03.2020, it was found that the goods dispatched by head office for ₹ 2,00,000 was received by the branch only to the extent of ₹ 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

### **Problem 3**

Show adjustment journal entry in the books of head office at the end of April, 2019 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.

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 ₹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.

### **Problem 4**

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.
- (vi) Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

**Problem 5**

Widespread 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, 2019 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, 2020 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, 2020 the branch purchased new furniture for ₹ 1 lakh for which payment was made by head office through a cheque.

On 31st March, 2020 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, 2020.

**Answer:** Net Profit: 1,59,000

**Problem 6**

On 31st March, 2020 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow:

<b>Debit Balances</b>	<b>₹ in lacs</b>
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 2019	60
Goods Received from Head Office	288
Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
<b>Credit Balances</b>	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

**Additional Information:**

Stock on 31st March, 2020 was valued at ₹62 lacs. On 29th March, 2020 the Head Office dispatched goods costing ₹10 lacs to its branch. Branch did not receive these goods before 1st April, 2020. 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 centralized services for which the branch has not passed the entry.

You are required to:

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

**Answer: Net Profit: 24 lakhs**

**Problem 7**

The Washington branch of XYZ Mumbai sent the following trial balance as on 31st December, 2019:

	\$	\$
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, 2019	11,200	–
Goods from H.O.	64,000	–
Expenses	5,000	–
	1,10,200	1,10,200

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

**Washington Branch A/c**

	₹		₹
To Balance c/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 1<sup>st</sup> January, 2019, when \$ 1.00 = ₹ 40.

Rates of exchange were:

1 <sup>st</sup> January, 2019	\$ 1.00	=	₹ 46
31 <sup>st</sup> December, 2019	\$ 1.00	=	₹ 48
Average	\$ 1.00	=	₹ 47

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.

**Answer:** Net Profit: 4,90240

**Problem 8: Mock test Nov-2019 (New Course)**

M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2020, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.



	Lucknow office (₹ In thousand)		Canberra Branch (Aust.) Dollars in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep. Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 01-04-2019	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2020

Lucknow ₹1,50,000

Canberra A\$ 3125 (all stock are out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value. You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A \$ = ₹ 50
Closing rate	1 A \$ = ₹ 53
Average rate	1 A \$ = ₹ 51.00
For Fixed Assets	1 A \$ = ₹ 46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2020 showing to the extent possible H.O. results and Branch results separately.

**Answer:** Net Profit after commission: 4,668.625

# SOLUTIONS TO PRACTICE PROBLEM

**Solution 1:**

**Journal entry in the books of Head Office**

**No entry**

**Journal entry in the books of Branch**

		₹	₹
Goods-in-transit account <span style="float: right;">Dr.</span>		10,000	
To Head Office account			10,000
(Being goods sent by head office is still in transit)			

**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 <span style="float: right;">Dr.</span>	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:**

**(a)**

**Journal entry in the books of Head Office**

Date	Particulars		Dr. ₹	Cr. ₹
30th April 2019	Mumbai Branch Account <span style="float: right;">Dr.</span>		3,000	
	Chennai Branch Account <span style="float: right;">Dr.</span>		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, 2019)				

**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.)	
(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.)
		15,000 (Cr.)	3,000 (Dr.)	70,000 (Dr.)	58,000 (Cr.)

**Solution 4:**

**Books of Branch A  
Journal Entries**

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

**Note:** Entry (vi) Inter branch transactions are routed through Head Office.]

**Solution 5:**

**In the Head Office Books  
Branch Account  
for the year ended 31st March, 2020**

Particulars	₹ ('000)	Particulars	₹ ('000)
To Balance b/d		By Balance b/d	
Cash in hand	10	Stock reserve ₹ 1,080 × 1/6	180
Trade debtors	384	By Goods sent to branch A/c	
Stock	1,080	(Returns to H.O.)	72
Furniture and fittings	500	By Goods sent to branch A/c	
To Goods sent to branch A/c	13,200	>Loading on net goods sent to	2,188
To Bank A/c (Payment for furniture)	100	branch – 13,128 × 1/6)	
To Balance c/d		By Bank A/c (Remittance From branch	
Stock reserve (1,470 × 1/6)	245	to H.O.) (W.N.5)	11,700
To Outstanding expenses	6	By Balance c/d	
To Cash expenses	842	Cash in hand	10
To Discount to debtors	58	Trade debtors (W.N.3)	485
To Bad Debts	37	Stock (W.N. 2)	1,470
To Net profit transferred to General	159	Furniture and fittings (W.N.4)	516
P/L account	16,621		16,621

**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**

Particulars	₹ '000	Particulars	₹ '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	₹ '000	Particulars	₹ '000
To Balance b/d	384	By Branch cash	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	₹ '000	Particulars	₹ '000
To Balance b/d	500	By Depreciation	84
To Bank	100	[(500 x 16%) + (100 x 16% x 3/12)]	
		By Balance c/d	516
	600		600

**Note:** Since the new furniture was purchased on 1st Jan 2020 depreciation will be for 3 months.

**5. Remittance by branch to head office**

**Branch Cash Account**

Particulars	₹ '000	Particulars	₹ '000
To Balance b/d	10	By Branch expenses	842
To Branch stock	9,700	By Remittances to H.O. (b. f.)	11,700
To Branch debtors	<u>2,842</u>	By Balance b/d	<u>10</u>
	12,552		12,552

**Note:** The Branch Trading Account will show the following Profit:

	₹ '000
Net Profit as per Branch Account	1,096
Less: Cash Expenses	842
Less: Discount to Debtors	58
Less: Bad Debts	37
Net Profit Transferred to General P / L Account	159

**Solution 6:**

**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 1 <sup>st</sup> April, 2020)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

**Trading and Profit & Loss Account of the Branch  
for the year ended 31st March, 2020**

	₹ in lacs		₹ in lacs
To Opening Stock	60	By Sales	360
To Goods received from Head Office (288+10) = 298	293	By Closing Stock including transit (62+10)	72
Less: Returns (5)	72		
To Carriage Inwards	432		432
To Gross Profit c/d	25	By Gross Profit b/d	72
To Salaries	10		
To Depreciation on Furniture	6		
To Rent	3		
To Advertising	1		
To Telephone, Postage & Stationery	1		
To Sundry Office Expenses			
To Head Office Expenses (centralized services)	24		
To Net Profit Transferred to Head Office A/c			
	72		72

**Balance Sheet as on 31st March, 2020**

<b>Liabilities</b>	<b>₹ in lacs</b>		<b>Assets</b>	<b>₹ in lacs</b>	
Head Office	80		Furniture & Equipment	20	
Add : Goods in transit	10		Less : Depreciation	<u>(2)</u>	18
Head Office Expenses	1		Stock in hand		62
Net Profit	<u>24</u>	115	Goods in Transit		10
Outstanding Expenses		3	Debtors		20
			Cash at bank and in hand		8
		118			118

**Books of Head Office**

**Journal Entries**

<b>Particulars</b>	<b>Dr. ₹</b>	<b>Cr. ₹</b>
Branch Trading Account <span style="float: right;">Dr.</span>	365	
To Branch Account		365
(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	
Goods purchased but not received	10	
Carriage Inwards	7	
Branch Account <span style="float: right;">Dr.</span>	437	
To Branch Trading Account		437
(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 in transit	10	
Goods returned to Head Office	5	
Branch Trading Account <span style="float: right;">Dr.</span>	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 To Branch Account (Total of the following branch expenses debited to Branch Profit & Loss Account)	Dr.	48	48
		₹ in lacs	
Salaries		25	
Rent		10	
Advertising		6	
Telephone, Postage & Stationery		3	
Sundry Office Expenses		1	
Head Office Expenses		1	
Depreciation on furniture		2	
Branch Profit & Loss Account To Profit and Loss Account (Net profit at branch credited to (general) Profit & Loss A/c)	Dr.	24	24
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 (Incorporation of different assets at the branch in H.O. books)			118
Branch To Branch Outstanding Expenses (Incorporation of Branch Outstanding Expenses in H.O. books)	Dr.	3	3

**Solution 7:**

(i)

**In the Books of Head Office  
Branch Trading and Profit & Loss A/c (in Dollars)  
for the year ended 31st December, 2019**



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	16,800		
	92,000		92,000
To Expenses	5,000	By Gross Profit b/d	16,800
To Depreciation (24,000 x 10%)	2,400		
To Manager's commission (W.N.1)	470		
To Net profit c/d	8,930		
	16,800		16,800

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

Particulars	Rate per \$	Dr. (₹)	Cr. (₹)
Machinery	40	9,60,000	—
Stock January 1, 2019	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 (b.f.)		47,000	—
		49,71,200	49,71,200
Closing stock \$ 8,000 (W.N. 2)	48		₹ 3,84,000

**(b) Branch Trading and Profit & Loss A/c for the year ended 31<sup>st</sup> December, 2019**

Particulars	₹	Particulars	₹
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	8,90,800		
	43,32,000		43,32,000
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	4,90,240		
	8,90,800		8,90,800

**(c) Branch Account**

Particulars	₹	Particulars		₹
To Balance b/d	8,60,000	By Machinery	9,60,000	
To Net profit	4,90,240	By Less: Depreciation	(96,000)	8,64,000
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		57,600
	15,36,000			15,36,000

**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	

**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. 100/125 × 84,000	<u>(67,200)</u>
Closing stock	<u>8,000</u>
Closing stock in Rupees = \$8,000 × ₹ 48 = ₹ 3,84,000.	

**Note:** Manager is entitled to commission on profits earned at the end of the year.

**Solution 8:**

**M & S Co. Ltd.**  
**Canberra, Australia Branch Trial Balance**  
**As on 31st March 2020**

	(\$ 'thousands)			('₹' thousands)	
	Dr.	Cr.	Conversion rate per \$	Dr.	Cr.
Plant & Machinery (cost)	200		₹ 46	9,200	
Plant & Machinery Dep. Reserve		130	₹ 46		5,980
Trade receivable/payable	60	30	₹ 53	3,180	1,590
Stock (1.4.2019)	20		₹ 50	1,000	
Cash & Bank Balances	10		₹ 53	530	
Purchase / Sales	20	123	₹ 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		₹ 51	2,295	
Rent	12		₹ 51	612	
Office expenses	18		₹ 51	918	
Commission Receipts		100	₹ 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063
Closing stock	3.125		53	165.625	

**Trading and Profit & Loss Account for the year ended 31st March, 2020**

(₹'000)							
	H.O	Branch	Total		H.O.	Branch	Total
To Opening Stock	100	1,000.000	1,100.00	By Sales	520	6,273.00	6,793.00
			0			0	0
To Purchases	240	1,020.000	1,260.00	By Goods sent to Branch	100	—	100.000
			0				
To Goods received from Head Office	—	100.000	100.000	By Closing Stock	150	165.625	315.625
To Wages & Salaries	75	2,295.000	2,370.00				
			0				
To Gross profit c/d	355	2,023.625	2,378.62				
			5				

	770	6,438.625	7,208.62		770	6,438.62	7,208.62
			5			5	5
To Rent	–	612.000	612.000	By Gross profit b/d	355	2,023.62	2,378.62
						5	5
To Office expenses	25	918.000	943.000	By Commission receipts	256	5,100.00	5,356.00
						0	0
To Provision for doubtful debts @ 5%	14	159.000	173.000				
To Depreciation (W. N.)	460	644.000	1,104.00				
			0				
To Balance c/d	112	4,790.62	4,902.62				
			5				
	611	7,123.62	7,734.62		611	7,123.62	7,734.62
			5			5	5
To Managing Partner's Salary			30.000	By Balance b/d			4,902.62
							5
To Exchange Loss			208.000	By Branch stock reserve			4.000
To Balance c/d			4,668.62				
			5				
			4,906.62				4,906.62
			5				5

**Working Notes:**

**Calculation of Depreciation**

	H.O ₹ '000	Branch ₹ '000
Building – Cost	1,000	
Less: Dep. Reserve	<u>(200)</u>	
	<u>800</u>	
Depreciation @ 10% (A)	<u>80</u>	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	<u>(600)</u>	<u>(5,980)</u>
	<u>1,900</u>	<u>3,220</u>
Depreciation @ 20% (B)	<u>380</u>	<u>644</u>
Total Depreciation (A+B)	460	644

**Note:** As the closing stock of Branch does not consist any stock transferred from M& S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&L A/c.

# EXAMINATION QUESTIONS

May 2019 (New course)

**Question 3 (b)**
**(8 Marks)**

M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co. Delhi branch furnishes you with its Trial Balance as on 31st March, 2020 and the additional information thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1 <sup>st</sup> April, 2019	600	–
Purchases and sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	–
Rent, rates and taxes	720	–
Sundry Expenses	320	–
Computers	600	–
Bank Balance	520	–
Singapore Office A/c	–	<u>3,040</u>
Total	6,520	6,520

**Additional information:**

- (a) Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.
- (b) Closing Stock of Delhi branch was ₹ 15,60,000 on 31st March, 2020.
- (c) The Rates of Exchange may be taken as follows :
  - (i) on 01.04.2019 @ ₹ 50 per Singapore Dollar
  - (ii) on 31.03.2020 @ ₹ 52 per Singapore Dollar
  - (iii) Average Exchange Rate for the year @ ₹ 51 per Singapore Dollar.
  - (iv) Conversion in Singapore Dollar shall be made upto two decimal accuracy.
- (d) Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2020 in the Head office books and there were no items pending for reconciliation.

In the books of Head office you are required to prepare:

- (1) Revenue statement for the year ended 31st March, 2020 (in Singapore Dollar)
- (2) Balance Sheet as on that date. (in Singapore Dollar)

**Answer:**

**Revenue Statement  
for the year ended 31st March, 2020**

	Singapore dollar		Singapore dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To purchase	31,372.55	By Closing stock	30,000.00
To wages	21,960.78	(15,60,000/52)	
To Gross profit c/d	<u>11,725.49</u>		_____
	<u>77,058.82</u>		<u>77,058.82</u>
To Rent, rates and taxes	14,117.65	By Gross profit b/d	11,725.49
To Sundry Expenses	6,274.51	By Net loss	13,466.67
To Depreciation on computers (Singapore dollar 12,000 x 0.4)	<u>4,800.00</u>		_____
	<u>25,192.16</u>		<u>25,192.16</u>

**Balance Sheet of Delhi Branch  
as on 31st March, 2020**

Liabilities		Singapore dollar	Assets	Singapore dollar	Singapore dollar
Singapore office A/c	59,897.43		Computers	12,000.00	
Less: Net loss	<u>(13,466.67)</u>	46,430.76	Less: Depreciation	<u>(4,800.00)</u>	7,200.00
Sundry creditors		11,538.46	Closing stock		30,000.00
Bills payable		9,230.77	Sundry debtors		15,384.61
			Bank Balance		10,000.00
			Bills receivable		4,615.38
		<u>67,199.99</u>			<u>67,199.99</u>

**Working Note:**

**M/s Rani & Co.**  
**Delhi Branch Trial Balance in (Singapore \$)**  
**as on 31st March, 2020**

			Conversion	Dr.	Cr.
			Rate per Singapore dollar	Singapore dollar	Singapore dollar
			(₹)		
Stock on 1.4.19	6,00,000.00		50	12,000.00	-
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and Creditors	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46
	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Bills of exchange	11,20,000.00		51	21,960.78	-
Wages	7,20,000.00		51	14,117.65	-
Rent, rates and taxes	3,20,000.00		51	6,274.51	-
Sundry Expenses	6,00,000.00		-	12,000.00	-
Computers	5,20,000.00		52	10,000.00	-
Bank balance			-		59,897.43
Singapore office A/c					
				1,27,725.48	1,27,725.48

**May-2018 (New Course)**

**Question 3. (b)**

**(10 Marks)**

Ayan Ltd. invoices goods to its branch at cost plus  $33\frac{1}{3}\%$ . From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

	₹
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including goods invoiced at ₹ 48,000 to Branch on 31.03.2020 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31<sup>st</sup> March, 2020

**Answer :**

**In the Books of Head Office**

**Branch Stock Account**

Particulars	₹	Particulars	₹
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment A/c – balancing fig. (Surplus)***	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
		By Branch Adjustment A/c* (₹ 24,000 x 25/100)	6,000
		By Branch P&L A/c * (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (Invoice price of normal loss)	36,000
		By Balance c/d:	2,88,000
		In hand	<u>48,000</u>
	<u>27,96,000</u>	In transit	<u>27,96,000</u>

\*Alternatively, combined posting for the amount of ₹ 24,000 may be passed through Goods pilfered account. \*\*Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.

\*\*\*It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

**Branch Stock Adjustment Account**

Particulars	₹	Particulars	₹
To Branch Stock A/c (Loading on Abnormal Loss)	6,000	By Stock Reserve A/c (₹ 3,60,000 x 25/100)	90,000
To Branch Stock A/c (Normal Loss)	36,000	By Goods Sent to Branch A/c (₹ 24,00,000 – ₹ 1,20,000) x 25/100	5,70,000
To Stock Reserve A/c (₹ 3,36,000 x 25/100)	84,000	By Branch Stock A/c (Surplus)	36,000
To Gross Profit t/f to P&L A/c	5,70,000		
	<u>6,96,000</u>		<u>6,96,000</u>

**Branch Profit and Loss Account**

Particulars	₹	Particulars	₹
To Branch Stock A/c (Cost of Abnormal Loss)	18,000	By Branch Adjustment A/c (Gross Profit)	5,70,000
	<u>5,52,000</u>		
To Net Profit t/f to General P&L A/c	<u>5,70,000</u>		<u>5,70,000</u>