

TEST - Branch Accounting

Max. Marks - 40

Time Allowed - 1.5 Hour

Question 1

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2020.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch from head office.

The following details for the year ended 31st March, 2020 are given as follows:

Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March 2020. Show all the steps properly.

10 Marks

Question 2

S & M Ltd. Bombay have a branch in Sydney, Australia. At the end of 31st March, 2002, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office.

	Bombay (₹Thousand)		Sydney (Australian Dollar thousand)	
	Dr. (₹)	Cr. (₹)	Dr. (\$)	Cr. (\$)
Share Capital		2,000		
Reserve & Surplus		1,000		
Land	500			
Building (Cost)	1,000			
Building Dep./ Reserve		200		
Plant & Machinery (Cost)	2,500		200	
Plant & Machinery Dep. Reserve		600		130
Debtors / Creditors	280	200	60	30
Stock (1-4-2001)	100		20	
Branch Stock Reserve		4		
Cash & Bank Balance	10		10	
Purchase & 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 31-3-2002

Bombay 1,50,000

Sydney A\$ 3,125

2) Head Office always sent goods to the branch at cost plus 25%.

3) Provision is to be made for doubtful debts at 5%.

4) Depreciation is to be provided on buildings at 10% and on plant & Machinery at 20% on written down values.

5) The managing director is entitled to 2% commission on net profits.

6) Income tax is to be provided at 47.5%.

You are required :

a) To convert the branch Trial Balance into rupees:

(use the following rates of exchange):

Opening rate	A \$ = ₹20
Closing rate	A \$ = ₹24
Average rate	A \$ = ₹22
For fixed assets	A \$ = ₹18)

b) To prepare the Trading and Profit & Loss account for the year ended 31st March, 2002 showing to the extent possible H.O. results and branch results separately. Assuming Branch is integral foreign operation (Balance Sheet required)

15 Marks

Question 3

Head Office passes adjustment entry at the end of each month to adjust the position arising out of inter - branch transaction during the month. From the following inter - branch transaction in January, 2002, make the entry in the books of Head Office:

(a) Bombay Branch

1. Received goods ₹6,000 from Calcutta Branch, ₹4,000 from Patna Branch.

2. Sent Goods to: ₹10,000 to Patna, ₹8,000 to Calcutta.

3. Received B/R ₹6,000 from Patna.

4. Sent Acceptance ₹4,000 to Calcutta, ₹2,000 to Patna.

(b) Madras Branch (Apart from the above)

5. Received Goods ₹10,000 from Calcutta, ₹4,000 from Bombay.

6. Cash sent ₹2,000 to Calcutta, ₹6,000 to Bombay.

(c) Calcutta Branch (Apart from the above)

7. Sent Goods to Patna ₹6,000

8. Issued B/P ₹4,000 to Patna, ₹4,000 cash top Patna.

5 Marks

Question 4

Widespread Ltd. invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its Debtors and cash sales and remits the balance of cash to head office after withholding ₹10,000 necessary for meeting immediate requirements of cash. On 31st March, 2000 the assets at the branch were as follows :

	₹
Cash in Hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and Fittings	500

During the accounting year ended 31st Mar, 2001 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, 2001 the branch purchased new furniture for ₹1 lakh for which payment was made by head office through a cheque.

On 31st March, 2001 branch expenses amounting to ₹6,000 were outstanding & 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, 2001.

10 Marks