

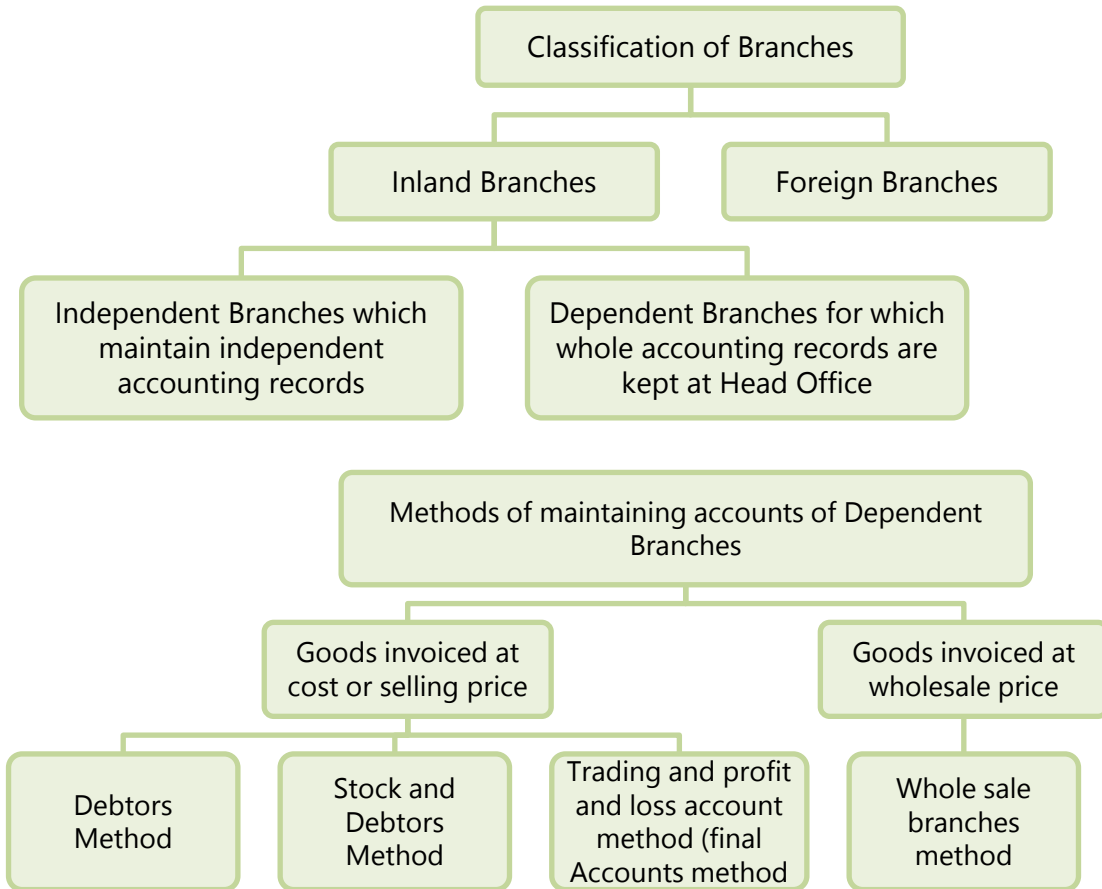
# ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES



## LEARNING OUTCOMES

After studying this unit, you will be able to–

- ❑ Understand concept of branches and their classification from accounting point of view.
- ❑ Distinguish between the accounting treatment of dependent branches and independent branches.
- ❑ Learn various methods of charging goods to branches.
- ❑ Solve the problems, when goods are sent to branch at wholesale price.
- ❑ Prepare the reconciliation statement of branch and head office transactions after finding the reasons for their disagreement.
- ❑ Incorporate branch balances in the head office books.
- ❑ Differentiate between integral and non-integral foreign branches.
- ❑ Learn the techniques of foreign currency translation in case of foreign branches.

**CHAPTER OVERVIEW** 

## 1. 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:

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

## 2. DISTINCTION BETWEEN BRANCH ACCOUNTS AND DEPARTMENTAL ACCOUNTS

Basis of distinction	Branch Accounts	Departmental Accounts
1. Maintenance of accounts	Branch accounts may be maintained either at branch or at head office.	Departmental accounts are maintained at one place only.
2. Allocation of common expenses	No allocation problem arises since the expenses in respect of each branch can be identified.	Common expenses are distributed among the departments concerned on some equitable basis considered suitable in the case.
3. Reconciliation	Reconciliation of head office and branch accounts is necessary in case of Branches maintaining independent accounting records at the end of the accounting year.	No such problem arises.

4. Conversion of foreign currency figures	At the time of finalization of accounts, conversion of figures of foreign branch is necessary.	No such problem arises in departmental accounts.
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### 3. 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. In addition, the Branch Manager is provided with a 'float' for petty expenses which is replenished from time to time on an imprest basis. 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.

## 4. METHODS OF CHARGING GOODS TO BRANCHES

Goods may be invoiced to branches (1) at cost; or (2) at selling price; or (3) in case of retail branches, at wholesale price; or (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.

## 5. ACCOUNTING FOR DEPENDENT BRANCHES

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**

- *If Goods are invoiced at cost or selling price:* Debtors Method; Stock and Debtors Method; Trading and profit and loss account method (Final Accounts method)
- *If Goods are invoiced at wholesale price:* Whole Sale branch method

### **5.1 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: **(i) Debtors Method, (ii) Stock and Debtors method, (iii) Trading and Profit and Loss Account (Final Accounts) Method.**

For finding out the trading results of branch, it is assumed that the branch is an entity separate from the head office. On the basis, a Branch Account is stated in the head office books to which the price of goods or services provided or expenses paid out are debited and correspondingly, the value of benefits and cash received from the branch are credited.

**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. The opening balance of stock, debtors (if any), petty cash (if any), are debited to the Branch Account; the cost of goods sent to branch as well as expenses of the branch paid by the head office, e.g., salaries, rent, insurance, etc., are also debited to it. Conversely, amounts remitted by the branch and the cost of goods returned by the branch are credited. At the end of the year, the value of unsold stock, the total of customers' balances outstanding and that of petty cash are brought into the branch account on the credit side and then the branch account will reveal profit or loss; Debit 'balance' will be the loss suffered by the working of the branch and *vice versa*. If the branch is allowed to make small purchases of goods locally as well as to incur expenses out of its cash receipts, it will be necessary for the branch to supply to the head office a copy of the Cash Account, showing details of cash collections and disbursements. 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		By Bank A/c (Cash remitted)	
Cash		By Return to H.O.	
Stock			
Debtors		By Balance c/d	
Petty Cash		Cash	
Fixed Assets		Stock	
Prepaid Expenses		Debtors	
To Goods sent to Branch		Petty Cash	
To Bank A/c		Fixed Assets	
Salaries		Prepaid Expenses	
Rent			
Sundry Expenses		By Profit and Loss A/c—Loss	
To Profit & Loss A/c—Profit		(if debit side is larger)	
(if credit side is larger)			

**Note:**

1. Having credited the Branch Account by the actual cash received from debtors, it would be wrong to debit the Branch Account, in respect of discount or allowances to debtors.
2. The accuracy of the trading results as disclosed by the Branch Account, so maintained, if considered necessary, can be proved by preparing a Memorandum Branch Trading and Profit & Loss Account, in the usual way, from the balances of various items of income and expenses contained in the Branch Account.

**Illustration 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:*

	₹		₹
Opening balance (1-1-20X1)		Bad Debts	1,000
Imprest Cash	2,000	Discount to Customers	2,000
Sundry Debtors	25,000	Remittances to H.O.	
Stock: Transferred from H.O.	24,000	(recd. by H.O.)	1,65,000
Direct Purchases	16,000	remittances to H.O.	
Cash Sales	45,000	(not recd. by H.O. so far)	5,000
Credit Sales	1,30,000	Branch Exp. directly paid	30,000
Direct Purchases	45,000	by H.O.	
Returns from Customers	3,000	Closing Balance (31-12-20X1)	
Goods sent to branch from H.O.	60,000	Stock: Direct Purchase	10,000
Transfer from H.O. for Petty	4,000	Transfer from H.O.	15,000

Cash expenses		Debtors	?
		Imprest Cash	?
		Petty Cash expenses	4,000

**Solution**

**In the Books of Buckingham Bros, Bombay  
Nagpur Branch Account**

		₹			₹
To	Opening Branch Assets		By	Bank – Remittances received from branch	
	Stock (24,000+16,000)	40,000		Cash Sales	45,000
	Debtors	25,000		Cash from Debtors	1,20,000
	Imprest Cash	2,000		Cash from Debtors in transit	5,000
To	Goods sent to Branch A/c	60,000	By	Stock: Transfer from H.O.	15,000
To	Creditors (Direct Purchases)	45,000		Direct Purchase	10,000
To	Bank (Sundry exp.)	30,000	By	Sundry Debtors (W.N. 2)	24,000
To	Bank (Petty cash exp.)	4,000	By	Imprest Cash (W.N. 3)	2,000
To	Net Profit transferred to General Profit & Loss A/c	15,000			
		2,21,000			2,21,000



**Working Notes:**(1) *Collections from debtors:*

	₹
Total remittances (₹ 1,65,000 + ₹ 5,000)	1,70,000
Less: Cash sales	(45,000)
	1,25,000

(2) *Calculation of Sundry Debtors closing Balance:*

	₹
Opening Balance	25,000
Add: Credit Sales	1,30,000
	1,55,000
Less: Returns, Discount, Bad debts & collections (3,000 + 2,000 + 1,000 + 1,25,000)	(1,31,000)
Closing balance	24,000

(3) *Calculation of closing balance of Imprest Cash*

	₹
Opening Balance	2,000
Add: Transfer from H.O.	4,000
	6,000
Less: Expenses	(4,000)
Closing balance	2,000

**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

- (l) *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

- (m) Transfer Balance of Branch Stock Account to the Branch Profit and Loss Account.
- (n) Transfer Balance of Branch Expenses Account to the debit of Branch Profit & Loss Account.
- (o) 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.

#### Branch 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.

#### Illustration 2

From the information given in the illustration 1, prepare Nagpur Branch Trading and Profit and Loss Account in the books of head office.

#### Solution

**Buckingham Bros. Bombay**  
**Nagpur Branch-Trading and Profit and Loss Account**  
**for the year ending 31st December, 20X1**

		₹			₹	₹
To	Opening Stock	40,000	By	Sales		
To	Goods transferred from Head Office	60,000		Cash	45,000	
				Credit sales	1,30,000	
To	Purchases	45,000			1,75,000	
To	Gross Profit c/d	52,000		Less: Returns	(3,000)	1,72,000
			By	Closing Stock		25,000

		1,97,000				1,97,000
To	Expenses	30,000	By	Gross Profit		52,000
To	Discounts	2,000		b/d		
To	Bad Debts	1,000				
To	Petty Cash Expenses	4,000				
To	Net Profit transferred to General P&L A/c	15,000				
		52,000				52,000

The students may note that Gross Profit and Net Profit earned by the branch are ascertainable in this method and also evaluating the performance of the branch is very much easier in this method than in the 'Debtors method'.

### Solving Illustration by all three methods

Given below is a simple problem, the solution whereto has been prepared in all the three methods so as to show the distinguishing features of these methods.

### Illustration 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. The following is a summary of the transactions entered into at the branch during the year ended December 31, 20X1.*

	₹		₹
<i>Balances as on 1.1.20X1:</i>			
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	<i>Balances as on 31.12.20X1:</i>	
Discount to customers	1,400	Stock	6,500
		Debtors	9,800
		Petty Cash	100

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

### Solution

#### (a) Debtors Method

##### Delhi Branch Account

20X1		₹	₹	20X1		₹	₹
Jan. 1	To Balance b/d			Dec. 31	By Bank		
	Stock	7,000			Cash Sales	17,500	
	Debtors	12,600			Cash from		
	Petty cash	200	19,800		Sundry Debtors	28,500	46,000
Dec. 31	To Goods sent to Branch A/c		26,000		By Goods sent to Branch A/c – Returns to H.O.		1,000
	To Bank:				By Balance c/d		
	Salaries & Wages	6,200			Stock	6,500	
	Rent & Rates	1,200			Debtors	9,800	
	Sundry Exp.	800	8,200		Petty Cash	100	16,400
	To Balance being Profit carried to (H.O.) P & L A/c		9,400				—
			63,400				63,400
Jan. 1, 20X2	To Balance b/d		16,400				

**(b) Stock and Debtors Method****Branch Stock Account**

20X1		₹	20X1			₹	₹
Jan. 1	To Stock	7,000	Dec. 31	By Sales:			
Dec. 31	To Goods Sent to Branch A/c	26,000		Cash		17,500	
	To Branch P&L A/c	19,900		Credit	28,400		
				Less: Return	(500)	27,900	45,400
				By Goods sent to Branch A/c - Return			1,000
				By Balance c/d (Stock)			6,500
		52,900					52,900
20X2 Jan. 1	To Balance b/d	6,500					

**Delhi Branch Debtors Account**

20X1		₹	20X1		₹
Jan. 1	To Balance b/d	12,600	Dec. 31	By Cash	28,500
Dec. 31	To Sales	28,400		By Returns	500
				By Allowances	200
				By Discounts	1,400
				By Bad debts	600
				By Balance c/d	9,800
		41,000			41,000
20X2 Jan. 1	To Balance b/d	9,800			

**Delhi Branch Expenses Account**

20X1		₹	20X1		₹
Dec. 31	To Salaries & Wages	6,200	Dec. 31	By Branch P & L	10,500

To Rent & Rates	1,200		A/c	
To Sundry Expenses	800			
To Petty Cash expenses (200-100)	100			
To Allowances to customers	200			
To Discounts	1,400			
To Bad Debts	600			
	10,500			10,500

### Delhi Branch Profit & Loss Account

20X1		₹	20X1		₹
Dec. 31	To Branch Exp. A/c	10,500	Dec. 31	By Gross Profit b/d	19,900
	To Net Profit to General P & L A/c	9,400			
		19,900			19,900

### (c) Branch Trading and Profit and Loss Account

	₹	₹		₹	₹
To Stock		7,000	By Sales:		
To Goods sent from H.O.	26,000		Cash	17,500	
Less: Returns to H.O.	(1,000)	25,000	Credit	28,400	
To Gross profit c/d		19,900	Less: Returns	(500)	27,900
		51,900	By Closing Stock		6,500
To Salaries & Wages		6,200	By Gross Profit b/d		19,900
To Rent & Rates		1,200			
To Sundry Exp.		800			
To Petty Cash Exp.		100			
To Allowances to Customers		200			

To Discounts		1,400		
To Bad Debts		600		
To Net Profit		9,400		
		19,900		19,900

## 5.2 When goods are invoiced at selling price

It would be obvious that if Branch Account is debited with the sales price of goods and subsequent to the debit being raised there is a change in the sale price, the amount of debit either has to be increased or reduced on a consideration of the quantity of unsold stock that was there at the branch at the time the change took place. Such an adjustment will be necessary as often as the change in sale price occurs.

Moreover the amount of anticipatory profit, included in the value of unsold stock with the branch at the close of the year will have to be **eliminated** before the accounts of the branch are incorporated with that of the head office. This will be done by creating a reserve.

It may also be necessary to adjust the value of closing stock on account of the physical losses of stock due to either pilferage or wastages which may have occurred during the year. The last mentioned adjustments are made by debiting the cost of the goods to Goods Lost Account and the amount of loading (included in the lost goods), to the Branch Adjustment Account. The three different methods that are usually adopted for maintaining accounts on this basis are described below:

### (i) 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. (Refer para 5.1)

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

### (i) Journal Entries:

₹ Transaction	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) Goods sent to Branches A/c with cost of the goods sent.



(b) Return 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)	(ii) Branch Adjustment A/c (with the loading <i>i.e.</i> , Difference between the selling and cost price). 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.

In the Goods Sent to Branch Account, the cost of the goods sent out to a branch for sale is credited by debiting Branch Stock Account. Conversely, the cost of

goods returned by the branch is debited to this account. As such the balance in the account at the end of the year will be the cost of goods sent to the branch; therefore, it will be transferred either to the Trading Account or to Purchases Account of the head office.

The amount of profit anticipated on sale of goods sent to the branch is credited to the Branch Adjustment Account and conversely, the amount of profit not realized in respect of goods returned by the branch to head office or that in respect to stock remaining unsold with the branch at the close of the year is debited. The balance in this account, at the end of year thus will consist of the amount of Gross Profit earned on sale by the branch. On that account, it will be transferred to the Branch Profit and Loss Account.

### ***(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.

**Illustration 4**

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, 20X1:

		₹
Cost of goods sent to Branch at cost		2,00,000
Goods received by Branch till 31-12-20X1 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
Balances as on		
	1-1-20X1	31-12-20X1
	₹	₹
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 and determine the Profit and Loss of the Branch for the year ended 31st December, 20X1.

**Solution**

**Books of Harrison  
Branch Stock Account**

	₹		₹
To Balance b/d	30,000	By Branch Debtors	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Bank	59,000
To Branch Adjustment A/c (Excess of sale over invoice price)	2,000	By Balance c/d	
		Goods in Transit (₹ 2,40,000 – ₹ 2,20,000)	20,000
		Stock at Branch	28,000
	2,72,000		2,72,000

**Branch Debtors Account**

	₹		₹
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock	1,65,000	By Branch Cash-collection (bal. fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		1,97,750

**Branch Cash Account**

	₹		₹
To Balance b/d	5,000	By Bank Remit to H.O.	2,22,500
To Branch Stock	59,000	By Branch profit & loss A/c (exp. paid by H.O.)	12,000
To Bank (as per contra)	12,000	By Branch profit & loss A/c [Bal. fig. (exp. paid by Branch)]	10,000
To Branch Debtors	1,71,000	By Balance c/d	2,500
	2,47,000		2,47,000

**Branch Adjustment Account**

	₹		₹
To Stock Reserve (on closing stock (48,000 × 1/6))	8,000	By Stock Reserve opening (25000 × 20%)	5,000
To Gross Profit c/d	39,000	By Goods sent to Branch A/c	40,000
		By Branch Stock A/c	2,000
	47,000		47,000

**Branch Profit and Loss Account**

	₹		₹
To Branch Expenses (paid by HO: ₹ 12,000 and paid by Branch ₹ 10,000)	22,000	By Gross Profit b/d	39,000
To Branch Debtors-Bad debts	750		
To Net Profit	16,250		
	39,000		39,000

**Goods Sent to Branch Account**

	₹		₹
To Branch Adjustment A/c	40,000	By Branch to Stock A/c	2,40,000
To Purchase A/c - Transfer	2,00,000		
	2,40,000		2,40,000

**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.

### Illustration 5

Take figures from Illustration 4 and prepare branch account following debtors' method.

### Solution

#### Books of Harrison New Delhi Branch Account

	₹		₹
To Balance b/d		By Balance b/d	
Stock	30,000	Stock Reserve	5,000
Debtors	32,750	By Goods Sent to Branch A/c	40,000
Cash	5,000	By Bank-Remittance	
To Goods Sent to Branch A/c (2,00,000 + 20% of 2,00,000)	2,40,000	received from the Branch:	
To Bank (Exp. paid by H.O.)	12,000	Cash sales	59,000
To Net Profit Transferred to H.O. Profit and Loss A/c	16,250	Debtors Collection	1,63,500
To Balance c/d (Stock reserve on closing stock)	8,000	(W.N.1) (Net of expense)	2,22,500
		By Balance c/d	
		Stock (including Transit)	48,000
		(W.N.2)	
		Debtors	26,000
		Cash	2,500
	3,44,000		3,44,000

**Working Note:**

1. Collection from debtors = Total collection – Cash sales  
= 2,22,500 – 59,000 = 1,63,500
2. Closing stock = Stock at branch + Goods sent by H.O. – Goods received by Branch  
= 28,000 + 2,40,000 – 2,20,000 = 48,000

**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 in Para 5.1 for this method if goods are invoiced at cost.

**Illustration 6**

*Following is the information of the Jammu branch of Best New Delhi for the year ending*

*31<sup>st</sup> March, 20X2 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:*

	₹
<i>Stock as on 01.04.20X1(invoice price)</i>	<i>2,20,000</i>
<i>Goods sent during the year(invoice price)</i>	<i>11,00,000</i>
<i>Sales during the year</i>	<i>12,00,000</i>
<i>Expenses incurred at the branch</i>	<i>45,000</i>

*Ascertain*

- (i) *the profit earned by the branch during the year.*
- (ii) *branch stock reserve in respect of unrealized profit.*



**Solution****(i) Calculation of profit earned by the branch**

**In the books of Jammu Branch  
Trading Account and Profit and Loss Account**

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

**(ii) Stock reserve in respect of unrealised profit**

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

**Working Note:**

	₹	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
<b>Calculation of closing stock at invoice price</b>	₹	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	11,00,000	
	13,20,000	
Less : Cost of goods sold at invoice price	(9,60,000)	[12,00,000 x (120/150)]
Closing stock	3,60,000	

**Illustration 7**

*Sell Well who carried on a retail business opened a branch X on January 1st, 20X1 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. 20X1	Feb. 20X1	March 20X1
	₹	₹	₹
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, 20X1 amounted to ₹ 53,400 at invoice to branch.

Record these transactions in the Head Office books, showing balances as on 31st March, 20X1 and the branch gross profit for the three months ended on that date.

All workings should form part of your solution.

### Solution

#### Books of Sell Well Branch Account

	₹		₹
To Goods sent to Branch A/c [ $\frac{110}{100} \times 1,50,000$ ]	1,65,000	By Cash-collected from debtors	1,06,000
To Stock Reserve (W.N.2)	4,855	By Goods sent to Branch-returns	4,200
To Profit (bal.) transferred to General Profit & Loss A/c	37,363	By Goods sent to Branch (W.N. 1)	14,618
		By Balance c/d	
		Stock	53,400
		Debtors	29,000
	2,07,218		82,400
			2,07,218

**Memorandum Branch Debtors Account**

	₹		₹
To Balance b/d	—	By Cash/Bank	1,06,000
To Sales	1,35,000	By Balance c/d	29,000
	1,35,000		1,35,000

**Goods Sent to Branch Account**

	₹		₹
To Branch A/c (Returns)	4,200	By Branch A/c	1,65,000
To Branch A/c (Loading) (W.N.1)	14,618		
To Purchases A/c	1,46,182		
	1,65,000		1,65,000

**Working Notes:**

1. Loading on Goods sent to Branch =  $1/11$  of  $(₹ 1,65,000 - ₹ 4,200) = ₹ 14,618$
2. Stock Reserve =  $1/11$  of  $53,400 = ₹ 4,855$

**Illustration 8**

*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 20X1, 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., 20X1	60,000
Sales in the year - Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st Jan. 20X1	72,000
Cash received from Debtors	3,20,000

<i>Discount allowed to Debtors</i>	6,000
<i>Bad debts in the year</i>	4,000
<i>Sales returns at Cochin Branch</i>	8,000
<i>Rent, Rates, Taxes at Branch</i>	18,000
<i>Salaries, Wages, Bonus at Branch</i>	60,000
<i>Office Expenses</i>	6,000
<i>Stock at Branch on 31st Dec. 20X1 at invoice price</i>	1,20,000

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

### Solution

#### Books of Hindustan Industries, Mumbai Cochin Branch Stock Account

	₹		₹
To Balance b/d	60,000	By Bank A/c (Cash sales)	2,00,000
To Goods sent to Branch A/c	6,00,000	By Branch Debtors (Cr. sales)	3,60,000
To Branch Debtors A/c (sales return)	8,000	By Goods sent to Branch (Returns to H.O.)	12,000
To Branch P & L A/c (surplus)	24,000	By Balance c/d (closing stock)	1,20,000
	6,92,000		6,92,000

#### Cochin Branch Stock Adjustment Account

	₹		₹
To Goods sent to Branch A/c (1/5 of ₹ 12,000) (on returns)	2,400	By Balance b/d (1/5 of ₹ 60,000)	12,000
To Branch P & L A/c (Profit on sale at invoice price)	1,05,600	By Goods sent to Branch A/c (1/5 of ₹ 6,00,000)	1,20,000
To Balance c/d (1/5 of ₹ 1,20,000)	24,000		
	1,32,000		1,32,000

**Goods Sent to Branch Account**

	₹		₹
To Cochin Branch Stock Adjustment A/c	1,20,000	By Cochin Branch Stock A/c	6,00,000
To Cochin Branch Stock A/c (Returns)	12,000	By Cochin Branch Stock Adj. A/c	2,400
To Purchases A/c	4,70,400		
	6,02,400		6,02,400

**Branch Debtors Account**

	₹		₹
To Balance b/d	72,000	By Bank	3,20,000
To Branch Stock A/c	3,60,000	By Branch P & L A/c	
		Discount	6,000
		Bad Debts	<u>4,000</u> 10,000
		By Branch Stock (Sales Returns.)	8,000
		By Balance c/d	94,000
	4,32,000		4,32,000

**Branch Expenses Account**

	₹		₹
To Bank A/c (Rent, Rates & Taxes)	18,000	By Branch Profit & Loss A/c (Transfer)	84,000
To Bank A/c (Salaries & Wages)	60,000		
To Bank A/c (office exp.)	6,000		
	84,000		84,000

**Branch Profit & Loss Account for the year ending 31st Dec. 20X1**

	₹		₹
To Branch Expenses A/c (60,000+6,000+18,000) Discount	84,000	By Branch Stock Adj. A/c	1,05,600
		By Branch stock A/c	24,000

Bad debts	6,000		(Sale over invoice price)	
To Net Profit transferred to Profit & Loss A/c	<u>4,000</u>	10,000		
		35,600		
		1,29,600		1,29,600

### Illustration 9

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:

		Delhi	Lucknow
		₹	₹
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

	(Delhi)	
	1-1-20X1	31-12-20X1
Balance as on:		
Stock : Ghee	1,50,000	3,12,500
Oil	3,50,000	4,17,250
Debtors	7,32,750	-
Cash on Hand	70,520	55,250
Furniture & Fittings	21,500	19,350
Plant/Machinery	3,07,250	7,73,500

	(Lucknow)	
	1-1-20X1	31-12-20X1
Balance as on:		
Stock : Ghee	17,000	13,250
Oil	27,000	44,750
Debtors	75,750	?
Cash on Hand	7,540	12,350
Furniture & Fittings	6,250	5,625
Plant/Machinery	-	

Addition to Plant/Machinery on 1-1-20X1 ₹ 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).

### Solution

#### In the books of Arnold Lucknow Branch Account

	₹		₹
To Balance b/d		By Bank (Remittance to H.O.)	6,13,250
Opening stock:		By Balance c/d	
Ghee	17,000	Closing stock:	
Oil	27,000	Ghee	13,250
Debtors	75,750	Oil	44,750
Cash on hand	7,540	Debtors (W.N. 1)	86,900
Furniture & fittings	6,250	Cash on hand (W.N. 2)	12,350
To Goods sent to Branch A/c		Furniture & fittings	5,625
Ghee (15 x 1500 x 12)	2,70,000		

Oil (25 x 1000 x 12)	3,00,000		
To Bank (Expenses paid by H.O.)	14,250		
To Branch Manager commission (₹ 58,335 × 1/11)	5,303		
To Net Profit transferred to General P & L A/c	53,032		
	7,76,125		7,76,125

**Arnold****Trading and Profit and Loss account for the year ended 31st December, 20X1  
(Excluding branch transactions)**

	₹		₹
To Opening Stock:		By Sales:	
Ghee	1,50,000	Ghee	18,46,350
Oil	3,50,000	Oil	27,41,250
To Purchases:		By Closing Stock:	
Ghee 14,75,000		Ghee	3,12,500
Less: Goods sent to Branch (2,70,000)	12,05,000	Oil	4,17,250
Oil 29,32,000			
Less: Goods sent to Branch (3,00,000)	26,32,000		
To Direct Expenses	3,83,275		
To Gross Profit	5,97,075		
	53,17,350		53,17,350
To Manager's Salary	24,000	By Gross Profit	5,97,075
To General Expenses	24,000	By Branch Profit transferred	53,032
To Depreciation Furniture @ 10% 2,150			



Plant & Machinery @ 15% (W.N.3) 1,36,500	1,38,650		
To General Manager's Commission @ 10% (i.e., 4,63,457 × 1/11)	42,132		
To Net profit	4,21,325		
	6,50,107		6,50,107

**Working Notes:****(1) Debtors Account**

	₹		₹
To Balance b/d	75,750	By Cash Collections	6,47,330
To Sales made during the year:		By Balance c/d	86,900
Ghee	3,42,750		
Oil	3,15,730		
	7,34,230		7,34,230

**(2) Branch Cash Account**

	₹		₹
To Balance b/d	7,540	By Remittance	6,13,250
To Collections	6,47,330	By Exp. (Balance fig.)	29,270
		By Balance c/d	12,350
	6,54,870		6,54,870

**(3) Depreciation on Plant & Machinery**

$$3,07,250 \times 15\% + 6,02,750 \times 15\%$$

**5.3 Goods invoiced at wholesale price to retail branches**

Under this method, the Head Office (particularly, the manufacturing concern) supplies goods to its retail branches at wholesale price which is cost plus wholesale profit. The profit attributable to such branches is the difference between the sale proceeds of goods at the shops and the wholesale price of the goods sold. For the purpose, it is assumed that the manufacturer would always be

able to sell the goods on wholesale terms and thereby realizes profit equal to the difference between the wholesale price and the cost. Many concerns, therefore, invoice goods to such shops at wholesale price and determine profit or loss on sale of goods on this basis. Accordingly, Branch Stock Account or the Trading Account is debited with:

- (a) the value of opening stock at the Branch; and
- (b) price of goods sent during the year at wholesale price.

It is credited by:

- (a) sales effected at the shop; and
- (b) closing stock of goods valued at wholesale price.

The value of goods lost due to accident, theft etc. also is credited to the Branch Stock Account or Trading Account calculated at the **wholesale price**. At this stage, the Branch Stock or Trading Account will reveal the amount of gross profit (or loss). It is transferred to the Branch Profit and Loss Account. On further being debited with the expenses incurred at the shop and the wholesale price of goods lost, the Branch Profit and Loss Account will disclose the net profit (or loss) at the shop.

Since the closing stock at the branch has to be valued at wholesale price, it would be necessary to create a stock reserve equal to the difference between its wholesale price and its cost (to the head office) by debiting the amount in the *Head Office Profit and Loss Account*. This Stock Reserve is carried down to the next year and then transferred to the credit of the (Head Office) Profit and Loss Account.

### Illustration 10

*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 31.3.20X2:*

	₹
Stock at the outlet 1.4.20X1	30,000
Goods invoiced to the outlet during the year	3,24,000
Gross profit made by the outlet	60,000

Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.20X2	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.20X2 :

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

### Solution

#### Outlet Stock Account

	₹		₹
To Balance b/d	30,000	By Sales (Working Note 1)	3,60,000
To Goods sent to outlet	3,24,000	By Goods lost by fire (b.f.)	18,000
To Gross Profit c/d	60,000	By Balance c/d	36,000
	4,14,000		4,14,000

#### Outlet Profit & Loss Account

	₹		₹
To Expenses	20,000	By Gross Profit b/d	60,000
To Goods lost by fire (W.N. 2)	18,000		
To Profit transferred	22,000		
	60,000		60,000

#### Stock Reserve Account

	₹		₹
To HO P & L A/c – Transfer	6,000	By Balance b/d	6,000
To Balance c/d (Stock Res. required)	7,200	By HO P&L A/c (W.N. 3)	7,200
	13,200		13,200

**Working Notes :**

		₹
(1)	Wholesale Price	100+25 = 125
	Retail Price	125 + 20% = 150
	Gross Profit at the outlet	
	Wholesale Price – Retail Price (150 – 125)	25
	Retail sales value = 60,000 × $\frac{150}{125}$	= ₹ 3,60,000
(2)	Goods lost by fire	
	Opening Stock + Goods Sent + Gross Profit – Sales – Closing Stock	
	30,000 + 3,24,000 + 60,000 – 3,60,000 – 36,000	= ₹ 18,000
(3)	Stock Reserve	
	Opening Stock	= 30,000 × $\frac{25}{125}$ = ₹ 6,000
	Closing Stock	= 36,000 × $\frac{25}{125}$ = ₹ 7,200

## 6. ACCOUNTING FOR INDEPENDENT BRANCHES

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.

	Transactions	Head office books		Branch books	
(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 made by the Branch	No Entry		Purchases 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 Recipient Branch Goods Received from H.O. A/c To Head Office A/c	Dr.   Dr.

Students may find a few further practical situations and it is hoped that they can pass entries on the basis of accounting principles explained above.

The final result of these adjustments will be that so far as the Head Office is concerned, the branch will be looked upon either as a debtor or creditor, as a debtor if the amount of its assets is in excess of its liabilities and as a creditor if the position is reverse.

A debit balance in the Branch Account should always be equal to the net assets at the branch. The important thing to remember, when independent sets of accounts are maintained, is that the branch and head office books are connected with each other only through the medium of the Branch and the Head Office Account which are converse of each other.; also when accounts of the branch and head office are consolidated both the Branch and Head Office Accounts will be eliminated.



## 7. ADJUSTMENT AND RECONCILIATION OF BRANCH AND HEAD OFFICE ACCOUNTS

If the branch and the head office accounts, converse of each other, do not tally, these must be **reconciled** before the preparation of the final accounts of the concern as a whole.

For example if Head Office has sent goods worth ₹ 50,000 but the branch has received till the closing date goods only ₹ 40,000, then the branch should treat ₹ 10,000 as goods in transit and should pass the following entry :

	Dr.	Cr.	
Goods in transit A/c	Dr.	10,000	
To Head Office A/c			10,000

However, there will be no entry in Head office books being the point where the event has been recorded in full, hence no further entries in Head office books.

### 7.1 Reasons for Disagreement

Following are the possible reasons for the disagreement between Branch A/c in Head office books and Head office A/c in Branch books on the closing date:

- Goods dispatched by the Head office not received by the branch. These goods may be in transit or loss in transit.
- Goods returned by the branch to Head Office may have been received by the H.O. Again, these goods may be in transit or lost in transit.
- Amount remitted by Head office to branch or *vice versa* remaining in transit on the closing date.
- Receipt of income or payment or expenses relating to the Branch transacted by the head office or *vice versa*, hence not recorded at the respective ends wherein they are normally to be recorded.

The technique of reconciliation has been illustrated through the example given below :

	Head office		Branch	
	Dr.	Cr.	Dr.	Cr.
Goods sent to Branch		1,50,000	-	

Goods recd. from H.O. A/c		-	1,40,000	
Branch A/c	1,12,000			
Head office A/c	-	-	-	78,500

On analysis of Branch A/c in Head office books and Head office A/c in branch books, you find:

- Goods valued ₹10,000 sent by head office has not been received by branch, hence not recorded in the branch books.
- ₹15,000 remitted by the branch has not been received, hence not recorded in the head office books.
- Direct collection of ₹10,500 from a customer of the branch by Head office not informed to the branch, hence not recorded by the branch.
- A sum of ₹14,500 paid by branch to the suppliers of head office not recorded at Head office.
- Head office expenditure allocation to the branch ₹12,000 not recorded in the branch.
- ₹7,500 being FD interest of head office received by the branch on oral instructions from H.O., not recorded in the head office books.

			Head Office Books			Branch Books	
			Dr. ₹	Cr. ₹		Dr. ₹	Cr. ₹
(i)	Goods in transit (₹10,000)		-	-	Goods in Transit A/c	10,000	
					To Head office A/c		10,000
(ii)	Cash in Transit:	Cash in Transit A/c	15,000		(No Entry)		
		To Branch A/c		15,000			
(iii)	Direct Collection by H.O. on behalf of the Branch				Head Office A/c	10,500	
					To Debtors A/c		10,500
(iv)	Direct payment	Sundry Crs.	14,500				



(v)	of ₹ 14,500 by Branch on behalf of H.O	A/c To Branch A/c		14,500	Branch A/c	Exp.	12,000	
	Expenditure Allocated to Branch				To H.O. A/c			12,000
(vi)	Fixed Deposit interest of ₹ 7,500 directly received by the Branch	Branch A/c To Sundry Income	7,500	7,500				

**In Branch Books  
Head Office Account**

	₹		₹
To Sundry Debtors A/c	10,500	By Balance b/d	78,500
To Balance c/d	90,000	By Goods in transit	10,000
		By Branch expenses	12,000
	1,00,500		1,00,500
		By Balance b/d	90,000

**In the Books of Head Office  
Branch A/c**

	₹		₹
To Balance b/d	1,12,000	By Cash in Transit	15,000
To Sundry Income	7,500	By Sundry Creditors	14,500
		By Balance c/d	90,000
	1,19,500		1,19,500
To Balance b/d	90,000		

Important Points to be noted:

- (i) the balance of Head Office A/c in Branch books and Branch A/c in Head Office books have tallied.



### (3) Head office Expenses charged to Branch

Usually the head office devotes considerable time in attending to the affairs of the branch; on that account, it may decide to raise a charge against the branch in respect of the cost of such time. In such a case the amount is debited to the branch as 'Expenses' and is credited to appropriate revenue head such as Salaries Accounts, General Charges Account, Entertainment Account etc. The branch credits the H.O. Account and debits Expenses Account.

## 8. INCORPORATION OF BRANCH BALANCE IN HEAD OFFICE BOOKS

The method that will be adopted for incorporating the trading result of the branch with that of the head office would depend on whether it is desired to prepare separate Profit & Loss Account and Balance Sheet of the branch and the Head Office or consolidated statement of account of both branch and head office.

In the first-mentioned case, the amount of profit or loss shown by the Profit & Loss Account of the branch only will be transferred to Head office Account in the branch books and a converse entry will be passed in the Head Office books by debit to the Branch Account. This method has already been illustrated above. In such a case, not only the Profit & Loss Account of the branch and that of the head office would be prepared separately but also there would be separate Balance Sheet for the branch and the head office. The branch Balance Sheet would show the amount advanced by the head office to it, as capital. In the head office Balance Sheet, the same amount would be shown as an advance to the branch.

If however, it is desired to prepare a consolidated Profit & Loss Account and Balance Sheet, individual balances of all the revenue accounts would be separately transferred to the Head Office Account by debit or credit in the branch books and the converse entries would be passed in the head office books. The effect thereof will be similar to the amount of net profit or loss of the branch having been transferred since it would be composed of the balances that have been transferred. In case it is also desired that consolidated balance sheet of the branch and the head office should be prepared, it will also be necessary to transfer the balance of assets and liabilities of the branch to the head office. The adjusting entries that would be passed in this respect are shown below:

(a) Head Office Account	Dr.
To Asset (individual) Account	



Opening Stock of other goods	500		
Salaries	7,000		
Rent	3,000		
Office expenditure	2,000		
Cash on Hand	500		
Cash at Bank	4,000		
Sundry Debtors	15,000		
	1,21,000		1,21,000
	0		

The Branch balances as on 1st January, 20X1, 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.

### Solution

#### Delhi Branch Trading and Profit & Loss Account for the year ended 31st Dec., 20X1

		₹		₹	
To Opening Stock:				By Sales	1,00,000
Head office	3,200			By Goods from	3,000
Goods				Branch	
(4,000 x 80%)				By Closing Stock :	
Others	500	3,700		Head Office	2,400
				goods	
				(3,000 x 80%)	
To Goods to		40,000		Others	1,000
Branch					3,400
(50,000 x 80%)					
To Purchases		20,000			
To Gross Profit c/d		42,700			
		1,06,400			1,06,400
To Salaries		7,000	By Gross profit b/d		42,700
To Rent		3,000			

To Office Expenses		2,000			
To Dep. on furniture @ 10%		500			
To Net profit		30,200			
		42,700			42,700

### Branch (Fixed) Assets Account (In Head Office Books)

20X1			₹	20X1			₹
Jan. 1	To	Balance b/d	5,000	Dec. 31	By	Delhi Branch A/c (Depreciation)	500
					By	Balance c/d	4,500
			5,000				5,000
20X2							
Jan. 1	To	Balance b/d	4,500				

### Working Notes:

#### Cash/Bank Account (Branch Books)

	₹	₹		₹
To Balance b/d		1,000	By Salaries	7,000
To Cash Received from Debtors **		94,500	By Rent	3,000
			By Office Exp.	2,000
			By Creditors*	47,000
			By Head Office (Balancing fig.)	32,000
			By Cash Balance	500
			By Bank Balance	4,000
		95,500		95,500

\*Opening Balance + Purchases – Closing balance = Payment

$$₹ 30,000 + ₹ 20,000 - ₹ 3,000 = ₹ 47,000.$$

\*\* Opening Balance + Sales – Closing balance = Received

$$₹ 9,500 + ₹ 1,00,000 - ₹ 15,000 = ₹ 94,500$$

#### Trial Balance of Delhi Branch as on 1-1-20X1

		Dr.	Cr.
		₹	₹
Debtors		9,500	
Cash		1,000	
Stock	H.O. Goods		4,000
	Others		500
		4,500	
Creditors			30,000
Head Office Account		15,000	
		30,000	30,000

#### Head Office Account

	₹		₹
To Balance (transfer)	15,000	By Goods from Head Office	50,000
To Cash	32,000		
To Goods sent	<u>3,000</u>		
	<u>50,000</u>		<u>50,000</u>

Credit balance in Head Office Account before this transfer will be ₹ 15,000 credit.

**Note :** Furniture A/c is maintained in Head office books; it is not a part of either opening or closing balance.

#### Illustration 12

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, 20X1.

#### Head Office Trial Balance

	₹	₹
Share Capital (Authorised: 10,000 Equity Shares of ₹ 100 each):		
Issued: 8,000 Equity Shares		8,00,000

<i>Profit &amp; Loss Account - 1-1-20X1</i>		25,310
<i>General Reserve</i>		1,00,000
<i>Fixed Assets</i>	5,30,000	
<i>Stock</i>	2,22,470	
<i>Debtors and Creditors</i>	50,500	21,900
<i>Profit for 20X1</i>		52,200
<i>Cash Balance</i>	62,730	
<i>Branch Current Account</i>	1,33,710	
	9,99,410	9,99,410

#### Branch Trial Balance

	₹	₹
<i>Fixed Assets</i>	95,000	
<i>Profit for 20X1</i>		31,700
<i>Stock</i>	50,460	
<i>Debtors and Creditors</i>	19,100	10,400
<i>Cash Balance</i>	6,550	
<i>Head Office Current Account</i>		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, 20X1, but received by the Head Office on 1st January 20X2 - ₹ 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.

### Solution

The Branch Current Account in the Head Office Books and Head Office Current Account in the Branch Books do not show the same balances. Therefore, in order



to reconcile them, the following journal entries will be passed in the Head Office books :

### Journal Entries

		Dr.	Cr.
20X1		₹	₹
Dec., 31	Cash in Transit A/c To Branch Current A/c (Cash sent by the Branch on 31st Dec., 20X1 but received at H.O. on 1st Jan., 20X2)	Dr. 3,000	3,000
	Loss by theft A/c To Branch Current A/c (Stock lost in transit from H.O. to Branch)	Dr. 1,700	1,700

In order to incorporate, in the H.O. books, the given Branch trial balance which has been drawn up after preparing the Branch Profit & Loss Account, the following journal entries will be necessary:

### Journal Entries

20X1			₹	₹
Dec. 31	Branch Current Account To Profit & Loss Account (Branch Profit for the year)	Dr.	31,700	31,700
	Branch Fixed Assets Branch Stock Branch Debtors Branch Cash To Branch Current Account (Branch assets brought into H.O. Books)	Dr. Dr. Dr. Dr.	95,000 50,460 19,100 6,550	1,71,110
	Branch Current A/c To Branch Creditors (Branch creditors brought into H.O. Books)	Dr.	10,400	10,400

**Branch Current Account**

	₹		₹
To Balance b/d	1,33,710	By Cash in transit	3,000
To Profit & Loss A/c	31,700	By Loss of theft	1,700
To Branch Creditors	10,400	By Sundry Branch Assets	1,71,110
	1,75,810		1,75,810

**Profit and Loss Account for 20X1**

	₹		₹
To Loss by Theft	1,700	By Balance b/d	25,310
To Balance c/d	1,07,510	By Year's Profit : H.O.	52,200
		Branch	31,700
	1,09,210		1,09,210

**Illustration 13**

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., 20X1 in columnar form.

- A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.
- Balance Sheet as on 31st Dec., 20X1 for the entire business.

	<b>H.O.</b>		<b>Branch</b>	
	₹	₹	₹	₹
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1-1-20X1				
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., 20X1 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., 20X1 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.

### Solution

**In the books of KP**  
**Trading and Profit & Loss Account for the year ended 31st Dec., 20X1**

	H.O.	Branch	Total		H.O.	Branch	Total
	₹	₹	₹		₹	₹	₹
To Material consumed (W.N.1)	34,500	-	34,500	By Sales	2,00,000	65,200	2,65,200
To Wages	1,08,500	-	1,08,500	By Goods Sent to Branch	46,000	-	-
To Factory Overheads	39,000	-	39,000	By Closing stock including transit (W.N.2)	15,000	9,560	24,560
To Opening stock of finished goods	13,000	9,200	22,200				
To Goods from H.O.		46,000					
To Gross Profit c/d (W.N.3)	66,000	19,560	85,560				
	2,61,000	74,760	2,89,760		2,61,000	74,760	2,89,760
To Admn. Salaries	13,900	4,000	17,900	By Gross Profit b/d	66,000	19,560	85,560
To Salesmen Salaries	22,500	6,200	28,700				
To Other Admn. & selling Overheads	12,500	2,300	14,800				

To Stock Reserve (W.N.4)	47	-	47				
To Bonus to Staff	-	156	156				
To Net Profit	17,053	6,904	23,957				
	66,000	19,560	85,560		66,000	19,560	85,560

**Balance Sheet as on 31st Dec., 20X1**

		₹	H.O. ₹	Branch ₹	Total ₹		H.O. ₹	Branch ₹	Total ₹
Capital			50,000	-	50,000	Fixed Assets	-	-	-
Profit :	H.O.	17,053				Current Assets:			
	Branch	6,904	23,957		23,957	Raw material	2,300		2,300
Trade Creditors			13,000		13,000	Finished Goods	15,000	9,560	23,313*
Bonus Payable				156	156	(Less Stock Res.)			
H.O. Account*				10,404		Debtors	37,000	-	37,000
Stock Reserve (W.N.4)			1,247			Cash (including transit item)	23,500	1,000	24,500
						Branch A/c	10,404*		
			88,204	10,560	87,113		88,204	10,560	87,113

\*9,560 × 100/115 i.e., (8,313 + 15,000) = ₹ 23,313

\*\* (5,000 + 6,904) – 1500 = ₹ 10,404.

**Working Notes:**

(1) Material Consumed

Opening raw material + Raw Material Purchased – Closing raw material  
= 1,800 + 35,000 - 2,300 = 34,500

(2) Closing stock at head office

(a) Calculation of total factor cost = Material consumed + Wages + Factory overhead

$$= 34,500 + 1,08,500 + 39,000 = 1,95,000$$

- (b) Cost (factory cost) of goods sold = Sales – Gross profit  
 $= 2,00,000 - 2,00,000 \times 70\% = 1,40,000$
- (c) Stock transferred to branch =  $46,000 \times 100/115 = 40,000$
- (d) Closing stock =  $1,95,000 - 1,40,000 - 40,000 = 15,000$
- (3) Gross profit of Branch = Sales x Gross profit ratio  
 $= 65,200 \times 30\% = 19,560$
- (4) Closing stock reserve =  $9,560 \times 15/115 = 1,246$   
 Charge to profit and loss =  $1,247 - 1,200 = 47$



## 9. INCOMPLETE INFORMATION IN BRANCH BOOKS

If it is desired that profitability of the branch should be kept secret from the branch staff, the head office would hold back some key information from the branch, e.g., amount of opening stock, cost of goods sent to the branch, etc. The head office, in such a case would maintain a record of goods sent to the branch by passing the entry:

Goods Supplied to the Branch Account	Dr.
To Purchases Account	

The value of the closing stock will also be adjusted only in head office books.

In such a case, for closing its books at the end of the year, the branch will simply transfer various revenue accounts to the head office without drawing up a Trading and Profit & Loss Account.

On that basis, supplemented by the record of transactions maintained at the head office, it will be possible to construct the Trading and Profit & Loss Account of the branch.

### Illustration 14

*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, 20X1 the Branch Balance Sheet was as follows :*

<b>Liabilities</b>	₹	<b>Assets</b>	₹
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 30-9-20X1, 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 30-9-20X1. Also give journal entries in the Delhi books.

### Solution

#### Journal Entries

20X1		Dr.	Cr.
30 Sept.		₹	₹
Salary Advance A/c	Dr.	2,000	
To Salaries A/c			2,000
(The amount paid as advance adjusted by debit to Salary Advance Account)			
Prepared Insurance A/c (3,200 x 6/12)	Dr.	1,600	
To Fire Insurance A/c			1,600
(Six months premium transferred to the Prepaid Insurance A/c)			

Head Office Account	Dr.	88,400	
To Purchases A/c			48,000
To Wages A/c			20,000
To Salaries A/c (6,400 – 2,000)			4,400
To General Expenses A/c			1,600
To Fire Insurance A/c (3,200 x 6/12)			1,600
To Manager's Salary A/c			4,800
To Discount Allowed A/c			8,000
(Transfer of various revenue accounts (Dr.) to the H.O. Account for closing the accounts)			
Sales Accounts	Dr.	2,40,000	
Discount Earned A/c	Dr.	1,200	
To Head Office A/c			2,41,200
[Revenue accounts (Cr.) transferred to H.O.]			
Head Office Account	Dr.	4,000	
To Building Account			4,000
(Transfer of amounts spent on building extension to H.O. A/c)			

### Head Office Account

20X1		₹	20X1		₹
Sep. 30	To Cash-remittance	38,400	April 1	By Balance b/d	1,68,000
	To Sundries (Revenue A/cs)	88,400	Sep. 30	By Sundries (Revenue A/cs)	2,41,200
	To Building A/c	4,000			
	To Balanced c/d	2,78,400			
		4,09,200			4,09,200

### Balance Sheet of Delhi Branch as on Sept. 30, 20X1

Liabilities	₹	Assets	₹
Creditors Balances	26,800	Debtors Balances	2,72,000
Head Office Account	2,78,400	Salary Advance	2,000
		Prepaid Insurance	1,600
		Building Extension A/c	



		transferred to H.O.	—
		Cash in Hand	1,600
		Cash at Bank	28,000
	3,05,200		3,05,200

**Cash and Bank Account**

	₹		₹
To Balance b/d	8,000	By Wages	20,000
To Collection from Debtors	1,60,000	By Salaries	6,400
		By Insurance	3,200
		By General Exp.	1,600
		By H.O. A/c	38,400
		By Manager's Salary	4,800
		By Creditors	60,000
		By Building A/c	4,000
		By Balance c/d	
		By Cash in Hand	1,600
		By Cash at Bank	<u>28,000</u>
	1,68,000		1,68,000

**Debtors Account**

	₹		₹
To Balance b/d	2,00,000	By Cash Collection	1,60,000
To Sales	2,40,000	By Discount (allowed)	8,000
		By Balance c/d	2,72,000
	4,40,000		4,40,000
To Balance b/d	2,72,000		

**Creditors Account**

	₹		₹
To Cash	60,000	By Balance b/d	40,000
To Discount (earned)	1,200	By Purchases	48,000
To Balance c/d	26,800		
	88,000		88,000
		By Balance b/d	26,800

**Illustration 15**

The following Trial balances as at 31st December, 20X1 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., 20X1 (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, 20X1.
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, 20X1, as was also a remittance of ₹ 3,500 from the Branch.
5. At 31st December, 20X1, 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, 20X1 from one of the Branch debtors, ₹ 750.

## Solution

**H.O. Books**  
**Branch Account**

20X1		₹	20X1		₹
Dec. 31	To Balance b/d	31,536	Dec. 31	By Cash in transit	3,500
				By Balance b/d	28,036
		31,536			31,536

**Cash in transit Account**

20X1		₹	20X1		₹
Dec. 31	To Branch A/c	3,500	Dec. 31	By Balance c/d	3,500

**Stock Reserve Account**

20X1		₹	20X1		₹
Dec. 31	To Balance c/d	746	Jan. 1	By Balance c/d	693
	(4,565+3,641) x 10/110			By Revenue A/c (b.f.)	53
		746			746

**Revenue Account**

20X1		₹	20X1		₹
Dec. 31	To Stock Reserve	53	Dec. 31	By Balance b/d	43,210
	To Balance c/d	43,157			
		43,210			43,210

**Branch Books**  
**Head Office Account**

20X1		₹	20X1		₹
Dec. 31	To Current Assets	750	Dec. 31	By Balance b/d	22,645
	To (Debtors)	28,036		By Goods in transit	3,641
	Balance c/d			By Motor Vehicle	2,500
		28,786			28,786

**Goods in Transit Account**

20X1		₹	20X1		₹
Dec. 31	To Head Office	3,641	Dec. 31	By Balance c/d	3,641

**Motor Vehicle Account**

20X1		₹	20X1		₹
Dec. 31	To Head Office	2,500	Dec. 31	By Balance c/d	2,500

**Sundry Current Assets A/c**

20X1		₹	20X1		₹
Dec. 31	To Balance b/d	23,715	Dec. 31	By H.O. (Remittance by Debtor)	750
				By Balance c/d	22,965
		23,715			23,715

**10. FOREIGN BRANCHES**

Foreign branches generally maintain independent and complete record of business transacted by them in currency of the country in which they operate. Thus problems of incorporating balances of foreign branches relate mainly to translation of foreign currency into Indian rupees. This is because exchange rate of Indian rupee is not stable in relation to foreign currencies due to international demand and supply effects on various currencies. The accounting principles which apply to inland branches also apply to a foreign branch after converting the trial balance of the foreign branch in the Indian currency.

**11. ACCOUNTING FOR FOREIGN BRANCHES**

For the purpose of accounting, AS 11 (revised 2003) classifies the foreign branches may be classified into two types:

- Integral Foreign Operation;
- Non- Integral Foreign Operation.

Let us discuss these two types of foreign branches in detail.

### 11.1. Integral Foreign Operation (IFO)

It is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. The business of IFO is carried on as if it were an extension of the reporting enterprise's operations. For example, sale of goods imported from the reporting enterprise and remittance of proceeds to the reporting enterprise.

### 11.2. Non-Integral Foreign Operation (NFO)

It is a foreign operation that is not an Integral Foreign Operation. The business of a NFO is carried on in a substantially independent way by accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. An NFO may also enter into transactions in foreign currencies, including transactions in the reporting currency. An example of NFO may be production in a foreign currency out of the resources available in such country independent of the reporting enterprise.

The following are the indicators of Non- Integral Foreign Operation-

- *Control by reporting enterprises* - While the reporting enterprise may control the foreign operation, the activities of foreign operation are carried independently without much dependence on reporting enterprise.
- Transactions with the reporting enterprises are not a high proportion of the foreign operation's activities.
- Activities of foreign operation are mainly financed by its operations or from local borrowings. In other words it raises finance independently and is in no way dependent on reporting enterprises.
- Foreign operation sales are mainly in currencies other than reporting currency.
- All the expenses by foreign operations are primarily paid in local currency, not in the reporting currency.
- Day-to-day cash flow of the reporting enterprises is independent of the foreign enterprises cash flows.
- Sales prices of the foreign enterprises are not affected by the day-to-day changes in exchange rate of the reporting currency of the foreign operation.
- There is an active sales market for the foreign operation product.

The above are only indicators and not decisive/conclusive factors to classify the foreign operations as non-integral, much will depend on factual information,

situations of the particular case and, therefore, judgment is necessary to determine the appropriate classification.

Controversies may arise in deciding the foreign branches of the enterprises into integral or non-integral. However, there may not be any controversy that subsidiary associates and joint ventures are non-integral foreign operation.

In case of branches classified as independent for the purpose of accounting are generally classified as non-integral foreign operations.

## 12. CHANGE IN CLASSIFICATION

When there is a change in classification, accounting treatment is as under-

### 12.1. Integral to Non-Integral

- (i) Translation procedure applicable to non-integral shall be followed from the date of change.
- (ii) Exchange difference arising on the translation of non-monetary assets at the date of re-classification is accumulated in foreign currency translation reserve.

### 12.2. Non-Integral to Integral

- (i) Translation procedure as applicable to integral should be applied from the date of change.
- (ii) Translated amount of non-monetary items at the date of change is treated as historical cost.
- (iii) Exchange difference lying in foreign currency translation reserve is not to be recognized as income or expense till the disposal of the operation even if the foreign operation becomes integral.

## 13. TECHNIQUES FOR FOREIGN CURRENCY TRANSLATION

### 13.1. Integral Foreign Operation (IFO)

Following are the standard recommendations for foreign currency translation:

- (1) All transactions of IFO be translated at the rate prevailing on the date of transaction. This will require date wise details of the transaction entered by

that operation together with the rates. Weekly or monthly average rate is permitted if there are no significant variations in the rate.

- (2) Translation at the balance sheet date-
- (i) Monetary items<sup>1</sup> at closing rate;
  - (ii) Non-monetary items<sup>2</sup>: The cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If tangible fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation.
  - (iii) The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing rate.
  - (iv) Exchange difference arising on the translation of the financial statement of integral foreign operation should be charged to profit and loss account.

### 13.2.Non-Integral Foreign Operation

Accounts of non-integral foreign operation are translated using the following principles:

- Balance sheet items i.e. Assets and Liabilities both monetary and non-monetary – apply closing exchange rate.
- Items of income and expenses – At actual exchange rates on the date of transactions. However, accounting standard allows average rate subject to materiality.
- Resulting exchange rate difference should be accumulated in a “foreign currency translation reserve” until the disposal of “net investment in non-integral foreign operation”.

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<sup>1</sup> Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. Cash, receivables and payables are examples of monetary items.

<sup>2</sup> Non-monetary items are assets and liabilities other than monetary items. Fixed assets, investments in equity shares, inventories are examples of non-monetary assets.

**Illustration 16**

On 31<sup>st</sup> December, 20X2 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., 20X2	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

Stock on 31<sup>st</sup> December, 20X2 was ₹6,37,500.

Branch account in New York books showed a debit balance of \$ 13,400 on 31<sup>st</sup> December, 20X2 and Furniture appeared in the Head Office books at \$ 1,750.

The rate of exchange for 1 \$ on 31<sup>st</sup> December, 20X1 was ₹ 52 and on 31<sup>st</sup> December, 20X2 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.

**Solution**

**In the books of English Firm (Head Office in New York)  
Chennai Branch Profit and Loss Account  
for the year ended 31st December, 20X2**

	\$		\$
To Opening stock	4,500	By Sales	46,875
To Purchases	31,250	By Closing stock	12,500
To Gross profit c/d	23,625	(6,37,500 / 51)	
	59,375		59,375
To Salaries	2,000	By Gross profit b/d	23,625



To Rent, rates and taxes	2,125		
To Exchange translation loss	2,000		
To Net Profit c/d	17,500		
	23,625		23,625

**Balance Sheet of Chennai Branch  
as on 31st December, 20X2**

<b>Liabilities</b>	<b>\$</b>	<b>\$</b>	<b>Assets</b>	<b>\$</b>
Head Office A/c	13,400		Furniture	1,750
Add : Net profit	17,500	30,900	Closing Stock	12,500
Trade creditors		10,000	Trade Debtors	15,000
Bills Payable		3,500	Bills Receivable	4,000
			Cash at bank	11,150
		44,400		44,400

**Working Note:**

**Calculation of Exchange Translation Loss  
Chennai Branch Trial Balance (converted in \$)  
as on 31st December, 20X2**

	<b>Dr.</b>	<b>Cr.</b>	<b>Conversion</b>	<b>Dr.</b>	<b>Cr.</b>
	<b>₹</b>	<b>₹</b>	<b>Rate</b>	<b>(\$)</b>	<b>(\$)</b>
Stock on 1st Jan., 20X2	2,34,000		52	4,500	
Purchases & Sales	15,62,500	23,43,750	50	31,250	46,875
Debtors & creditors	7,65,000	5,10,000	51	15,000	10,000
Bills Receivable and Bills Payable	2,04,000	1,78,500	51	4,000	3,500
Salaries and wages	1,00,000		50	2,000	
Rent, Rates and Taxes	1,06,250		50	2,125	
Furniture	91,000			1,750	
Bank A/c	5,68,650		51	11,150	
New York Account		5,99,150			13,400
Exchange translation loss (bal. fig.)				2,000	
	36,31,400	36,31,400		73,775	73,775

**Illustration 17**

*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, 20X2, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office:*

	<b>Bombay (₹ thousands)</b>		<b>Sydney (Austr dollars thousands)</b>	
	<i>Debit</i>	<i>Credit</i>	<i>Debit</i>	<i>Credit</i>
<i>Share Capital</i>	–	2,000	–	–
<i>Reserves &amp; Surplus</i>	–	1,000	–	–
<i>Land</i>	500	–	–	–
<i>Buildings (Cost)</i>	1,000	–	–	–
<i>Buildings Dep. Reserve</i>	–	200	–	–
<i>Plant &amp; Machinery (Cost)</i>	2,500	–	200	–
<i>Plant &amp; Machinery Dep. Reserve</i>	–	600	–	130
<i>Debtors / Creditors</i>	280	200	60	30
<i>Stock (1.4.20X1)</i>	100	–	20	–
<i>Branch Stock Reserve</i>	–	4	–	–
<i>Cash &amp; Bank Balances</i>	10	–	10	–
<i>Purchases / Sales</i>	240	520	20	123
<i>Goods sent to Branch</i>	–	100	5	–
<i>Managing Director's salary</i>	30	–	–	–
<i>Wages &amp; Salaries</i>	75	–	45	–
<i>Rent</i>	–	–	12	–
<i>Office Expenses</i>	25	–	18	–
<i>Commission Receipts</i>	–	256	–	100
<i>Branch / H.O. Current A/c</i>	120	–	–	7
	<b>4,880</b>	<b>4,880</b>	<b>390</b>	<b>390</b>

*The following information is also available:*

- (1) *Stock as at 31.3.20X2:*  
*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).

### Solution

#### Sydney Branch Trial Balance (in Rupees) As on 31st March, 20X2

(₹ '000)

Conversion	rate per A\$	Dr.	Cr.
Plant & Machinery (cost)	₹ 18	36,00	
Plant & Machinery Dep. Reserve	₹ 18		23,40
Debtors / Creditors	₹ 24	14,40	7,20
Stock (1.4.20X1)	₹ 20	4,00	
Cash & Bank Balances	₹ 24	2,40	
Purchase / Sales	₹ 22	4,40	27,06
Goods received from H.O.	—	1,00	
Wages & Salaries	₹ 22	9,90	
Rent	₹ 22	2,64	
Office expenses	₹ 22	3,96	
Commission Receipts	₹ 22		22,00
H.O. Current A/c			1,20
		78,70	80,86
Exchange loss (balancing figure)		2,16	
		80,86	80,86

### Illustration 18

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, 20X2 and the additional information given thereafter:

	<b>Dr.</b>	<b>Cr.</b>
	<b>Rupees in thousands</b>	
Stock on 1st April, 20X1	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
	<b>3,360</b>	<b>3,360</b>

**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, 20X2.
- (c) The rates of exchange may be taken as follows:
- on 1.4.20X1 @ ₹40 per US \$
  - on 31.3.20X2 @ ₹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, 20X2 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US \$ 39609.18 on 31.3.20X2 in New York books and there were no items pending reconciliation.

**Solution**

**M/s Carlin**  
**Mumbai Branch Trial Balance in (US \$)**  
**as on 31st March, 20X2**

	<b>Conversion</b>	<b>Dr.</b>	<b>Cr.</b>
	rate per US \$	US \$	US \$
	(₹)		
Stock on 1.4.X1	40	7,500.00	–
Purchases and sales	41	19,512.20	29,268.29
Sundry debtors and creditors	42	9,523.81	7,142.86
Bills of exchange	42	2,857.14	5,714.29
Wages and salaries	41	13,658.54	–
Rent, rates and taxes	41	8,780.49	–
Sundry charges	41	3,902.44	–
Computers	–	6,000.00	–
Bank balance	42	10,000.00	–
New York office A/c	–	–	39,609.18
		81,734.62	81,734.62

**Trading and Profit & Loss Account**  
**for the year ended 31st March, 20X2**

	<b>US \$</b>		<b>US \$</b>
To Opening Stock	7,500.00	By Sales	29,268.29
To Purchases	19,512.20	By Closing stock	10,000.00
		(4,20,000/42)	
To Wages and salaries	13,658.54	By Gross Loss c/d	1,402.45
	40,670.74		40,670.74
To Gross Loss b/d	1,402.45	By Net Loss	17,685.38
To Rent, rates and taxes	8,780.49		
To Sundry charges	3,902.44		
To Depreciation on computers	3,600.00		
(US \$ 6,000 × 0.6)			
	17,685.38		17,685.38

**Balance Sheet of Mumbai Branch  
as on 31st March, 20X2**

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

## SUMMARY

- **Types of branches**
  - Dependent branches
  - Independent branches
- **Classification of Branches from accounting point of view**
  - Branches in respect of which the whole of the accounting records are kept at the head office (Dependent Branches)
  - Branches which maintain independent accounting records (Independent Branches), and
  - Foreign Branches.
- **Systems of accounting followed by Dependent Branches**
  - Debtors System: under this system head office makes a branch account. Anything given to branch is debited and anything received from branch would be credited.
  - Branch trading and profit and loss account (Final accounts) method/branch account method: Under this system head office

prepares (a) profit and loss account (b) branch account taking each branch as a separate entity.

- Stock and debtors system: Under this system head office opens:
  - Branch Stock Account
  - Branch Profit and Loss Account
  - Branch Debtors Account
  - Branch Expenses Account
  - Goods sent to Branch Account
  - Branch Asset Account
- **Maintenance of comprehensive account books by Independent Branches** Preparation of separate trial balance of each branch in H.O.books.
- **Types of Foreign branches**
  - Integral Foreign Operation (IFO): It is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.
  - Non-Integral Foreign Operation (NFO): It is a foreign operation that is not an Integral Foreign Operation. The business of a NFO is carried on in a substantially independent way by accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency.
- **Non-Integral Foreign Operation -translation**
  - Balance sheet items i.e. Assets and Liabilities both monetary and non-monetary – apply closing exchange rate.
  - Items of income and expenses – At actual exchange rates on the date of transactions
  - Resulting exchange rate difference should be accumulated in a “foreign currency translation reserve” until the disposal of “net investment in non-integral foreign operation”.
- **Integral Foreign Operation (IFO) - translation**
  - at the rate prevailing on the date of transaction
- **Translation at the balance sheet date-**
  - Monetary items at closing rate;

- Non-monetary items: The cost and depreciation of the tangible fixed assets is translated using the exchange rate at the date of purchase of the asset if asset is carried at cost. If tangible fixed asset is carried at fair value, translation should be done using the rate existed on the date of the valuation.
- The cost of inventories is translated at the exchange rates that existed when the cost of inventory was incurred and realizable value is translated applying exchange rate when realizable value is determined which is generally closing rate.
- Exchange difference arising on the translation of the financial statement of integral foreign operation should be charged to profit and loss account.

## TEST YOUR KNOWLEDGE

### MCQs

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 separate entity.
  - (c) Both (a) and (b).
3. Goods may be invoiced to branch at
  - (a) Cost or Selling price.
  - (c) Wholesale price.
  - (d) 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 is 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.
  - (d) 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.

### Theoretical Questions

1. Why goods are marked on invoice price by the head office while sending goods to the branch?
2. Differentiate Branch Accounts with Departmental accounts.

### Practical Questions

#### Question 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.

#### Question 2

Alphs having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.20X1, 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?

#### Question 3

Show adjustment journal entry in the books of head office at the end of April, 20X1 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 and ₹10,000 respectively.

D. Kolkata Branch (apart from the above) :

(9) Sent goods to Chennai – ₹ 35,000.

(10) Paid cash to Chennai – ₹15,000.

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

#### Question 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.

#### Question 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, 20X1 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, 20X2 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, 20X2 the branch purchased new furniture for ₹ 1 lakh for which payment was made by head office through a cheque.

On 31st March, 20X2 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, 20X2.

### Question 6

On 31st March, 20X2 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow :

Debit Balances	₹ in lacs
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 20X1	60
Goods Received from Head Office	288

Debtors	20
Cash at bank and in hand	8
Carriage Inwards	7
	448
Credit Balances	
Outstanding Expenses	3
Goods Returned to Head Office	5
Sales	360
Head Office	80
	448

**Additional Information:**

Stock on 31st March, 20X2 was valued at ₹ 62 lacs. On 29th March, 20X2 the Head Office dispatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 20X2. 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.

**Question 7**

The Washington branch of XYZ Mumbai sent the following trial balance as on 31st December, 20X1:

	\$	\$
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, 20X1	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 b/d	8,10,000	By	Cash	28,76,000
To	Goods sent to branch	<u>29,26,000</u>	By	Balance c/d	<u>8,60,000</u>
		<u>37,36,000</u>			<u>37,36,000</u>

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31<sup>st</sup> January, 2007, when \$ 1.00 = ₹ 40.

Rates of exchange were:

1 <sup>st</sup> January, 20X1	\$ 1.00	=	₹ 46
31 <sup>st</sup> December, 20X1	\$ 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.

## ANSWERS

### MCQs

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

### Theory Questions

#### Answer 1

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.

#### Answer 2

Refer Para 2 of the Chapter to know the differences .

### Practical Questions

#### Answer 1

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

No entry

#### Journal entry in the books of Branch

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

#### Answer 2

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

The following journal entry must be made by the branch:

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

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

**Answer..3****(a) Journal entry in the books of Head Office**

<i>Date</i>	<i>Particulars</i>	<i>Dr.</i>	<i>Cr.</i>
		₹	₹
30th April, 20X1	Mumbai Branch Account	Dr. 3,000	
	Chennai Branch Account	Dr. 70,000	
	To Delhi Branch Account		15,000
	To Kolkata Branch Account		58,000
	(Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 20X1)		

**Working Note:****Inter – Branch transactions**

		<i>Delhi</i>	<i>Mumbai</i>	<i>Chennai</i>	<i>Kolkata</i>
		₹	₹	₹	₹
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.)



**Answer-4****Books of Branch A  
Journal Entries**

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

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

**Answer-5**

**In the Head Office Books  
Branch Account  
for the year ended 31st March, 20X2**

	₹ '000		₹'000
To Balance b/d		By Balance b/d	
Cash in hand	10	Stock reserve ₹ 1,080 ×	180
Trade debtors	384	$\frac{1}{6}$	
Stock	1,080	By Goods sent to branch	72
Furniture and fittings	500	A/c (Returns to H.O.)	
To Goods sent to branch A/c	13,200	By Goods sent to branch	2,188
To Bank A/c (Payment for furniture)	100	A/c (Loading on net goods sent to branch –	
To Balance c/d Stock reserve	245	$\left(13,128 \times \frac{1}{6}\right)$	
$\left(1,470 \times \frac{1}{6}\right)$		By Bank A/c (Remittance from branch to H.O.)	11,700
		(W.N.5)	
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.1)	1,470
To Net profit transferred to General P/L account	159	Furniture and fittings (W.N.4)	516
	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

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

## 3. Closing balance of branch debtors

## Branch Debtors Account

	₹ '000		₹ '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

	₹ '000		₹ '000
To Balance b/d	500	By Depreciation [(500x16%)+(100x16%x3/12)]	84
To Bank	100	By Balance c/d	516
	600		600

**Note:** Since the new furniture was purchased on 1<sup>st</sup> Jan 20X2 depreciation will be for 3 months.

### 5. Remittance by branch to head office

#### Branch Cash Account

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

**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

#### Answer 6

(i)

#### Books of Branch Journal Entries

		₹ in lacs	
		Dr.	Cr.
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1st April, 20X2)			
Expenses A/c	Dr.	1	
To Head Office A/c			1
(Amount charged by head office for centralised services)			

(ii) ... **Trading and Profit & Loss Account of the Branch  
for the year ended 31st March, 20X2**

	₹ in lacs		₹ in lacs
To Opening Stock	60	By Sales	360
To Goods received from		By Closing Stock including transit	72
Head Office 288+10			
Less : Returns (5)	293		
To Carriage Inwards	7		
To Gross Profit c/d	72		
	422		422
To Salaries	25	By Gross Profit b/d	72
To Depreciation on Furniture	2		
To Rent	10		
To Advertising	6		
To Telephone, Postage & Stationery	3		
To Sundry Office Expenses	1		
To Head Office Expenses (centralised services)	1		
To Net Profit Transferred to Head Office A/c	24		
	72		72

**Balance Sheet as on 31st March, 20X2**

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

(iii) ...

**Books of Head Office  
Journal Entries**

		₹	₹
		<i>Dr.</i>	<i>Dr.</i>
Branch Trading Account	Dr.	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	Dr.	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	Dr.	72	
To Branch Profit and Loss Account			72
(Gross profit earned by branch credited to Branch Profit and Loss Account)			
Branch Profit and Loss Account	Dr.	48	

<p>---To Branch Account</p> <p>(Total of the following branch expenses debited to Branch Profit &amp; Loss Account</p> <p style="text-align: right;">₹ in lacs</p> <p>Salaries 25</p> <p>Rent 10</p> <p>Advertising 6</p> <p>Telephone, Postage &amp; Stationery 3</p> <p>Sundry Office Expenses 1</p> <p>Head Office Expenses 1</p> <p>Depreciation on furniture &amp; 2</p>		48
<p>Branch Profit &amp; Loss Account</p> <p style="padding-left: 20px;">To Profit and Loss Account</p> <p>(Net profit at branch credited to (general) Profit &amp; Loss A/c)</p>	Dr. 24	24
<p>Branch Furniture &amp; Equipment</p> <p>Branch Stock</p> <p>Branch Debtors</p> <p>Branch Cash at Bank and in Hand</p> <p>Goods in Transit</p> <p style="padding-left: 20px;">To Branch</p> <p>(Incorporation of different assets at the branch in H.O. books)</p>	Dr. 18 Dr. 62 Dr. 20 Dr. 8 Dr. 10	118
<p>Branch</p> <p style="padding-left: 20px;">To Branch Outstanding Expenses</p> <p>(Incorporation of Branch Outstanding Expenses in H.O. books)</p>	Dr. 3	3

**Answer 7**

- (i) **In the Books of Head Office**  
**Branch Trading and Profit & Loss A/c (in Dollars)**  
**for the year ended 31<sup>st</sup> December, 20X1**

<i>Particulars</i>	\$	<i>Particulars</i>	\$
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)**

<i>Particulars</i>	<i>Rate per \$</i>	<i>Dr. (₹)</i>	<i>Cr. (₹)</i>
Machinery	40	9,60,000	–
Stock January 1, 20X1	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, 20X1**

	₹		₹
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**

	₹		₹
To Balance b/d	8,60,000	By Machinery	9,60,000
To Net profit	4,90,240	Less:	
To Creditors	1,63,200	Depreciation	(96,000)
To Outstanding commission	22,560	By Closing stock	3,84,000
		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
<i>Add:</i> Goods from head office	<u>64,000</u>
	75,200
<i>Less:</i> Cost of goods sold (at invoice price)	
i.e. $\frac{100}{125} \times 84,000$	<u>(67,200)</u>
Closing stock	<u>8,000</u>
Closing stock in Rupees = \$8,000 x ₹ 48 = ₹ 3,84,000.	

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