12. BRANCH ACCOUNTS

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	5	-	5	-	-	8	-	-	4	-	8
Model – 2	-	-	-	-	-	-	8	-	12	-	-
Model – 3	-	16	-	16	-	-	-	-	-	8	-
Model – 4	-	-	-	-	-	-	-	8	-	-	-
Model – 5	-	-	-	-	-	-	4	-	-	-	-

Model – 1 : Independent Branches

Model – 2 : Dependent Branches

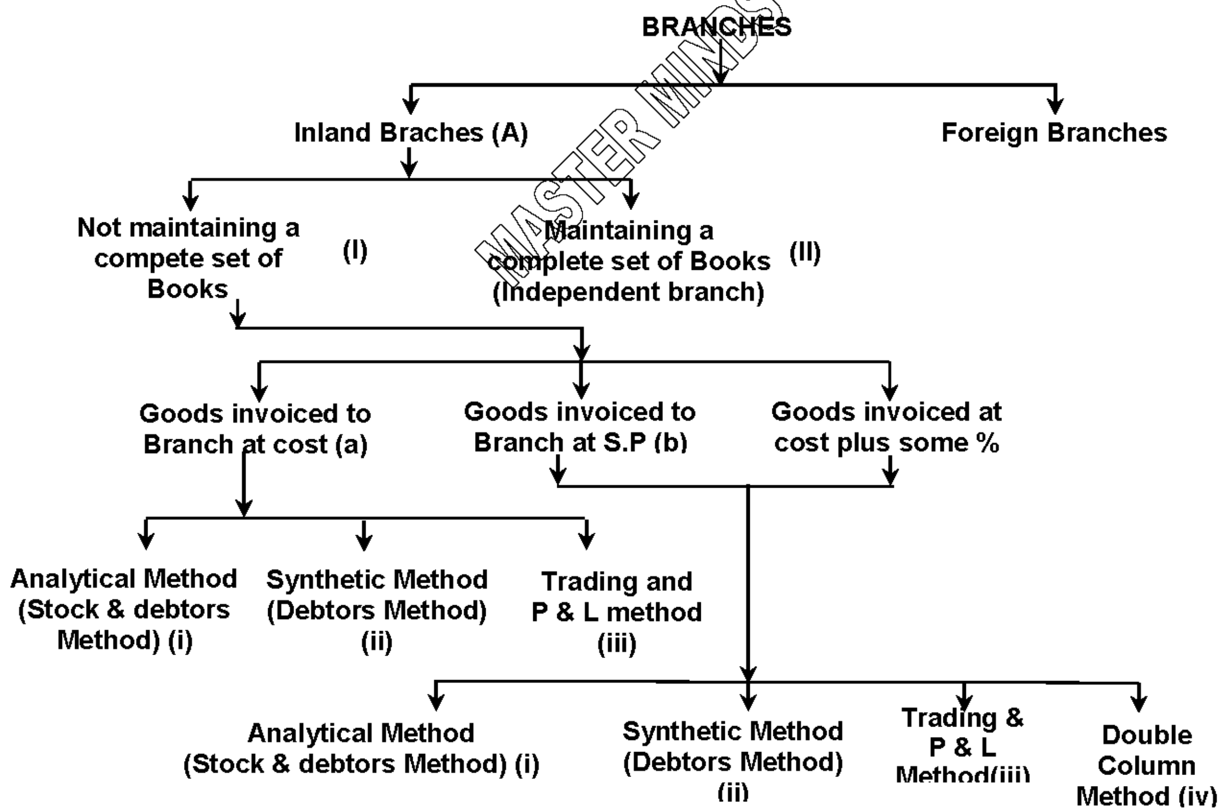
Model – 3 : Foreign Operations

Model – 4 : Miscellaneous- Inter-branch transactions, Whole sale price

Model – 5 : Theory

THEORY

<u>Classification of Branches:</u> From an accounting point of view, branches are classified as:



<u>In case of (A)(I)(a)(i)</u>:

Accounting Entries in the books of Head Office (H.O.):

No.	Particulars	Debit	Credit
1.	**For Cost Price of Goods sent to Branch:** Branch Stock A/c Dr To Goods Sent to Branch A/c	 XXX	 XXX

2.	**For Cost Price of Goods returned by Branch:** Goods Sent to Branch A/c Dr To Branch Stock A/c	XXX	 XXX
3.	**For remittance to Branch for expenses:** Branch Cash A/c Dr To Bank A/c	XXX	 XXX
4.	**For cash sales at Branch:** Bank A/c [(or) branch cash, if money is not immediately remitted] Dr To Branch Stock A/c	XXX	 XXX
5.	**For credit sales at Branch:** Branch Debtors A/c Dr To Branch Stock A/c	XXX	 XXX
6.	**For Goods returned to Branch by customers:** Branch Stock A/c Dr To Branch Debtors A/c	XXX	 XXX
7.	**For Cash collected from Branch Debtors:** Bank A/c [(or) branch cash, if money is not immediately remitted] Dr To Branch Debtors A/c	XXX	 XXX
8.	**For Discount & Allowances to Debtors & Bad Debts:** Branch Profit & Loss A/c Dr To Branch Debtors A/c	XXX	 XXX
9.	**For remittances to Head Office:** Bank A/c Dr To Branch Cash A/c	XXX	 XXX
10.	**For Branch expenses:** Branch Expenses A/c Dr To Bank A/c (or branch cash, if met by branch)	XXX	 XXX
11.	**For Purchase of any Fixed Asset at Branch:** Branch Asset A/c Dr To Bank A/c (or branch cash, if paid for by the branch)	XXX	 XXX
12.	**For Depreciation on Branch Assets:** Branch Profit & Loss A/c Dr To Branch Assets A/c	XXX	 XXX
13.	**For abnormal Loss and Goods:** Branch Profit & Loss A/c (or) Dr Insurance Claim A/c (if covered Insurance) Dr To Branch Stock A/c	XXX XXX	 XXX

<u>Ledger Accounts and their details:</u>

1. **Branch Stock A/c:** Value of opening stock is shown as opening balance on the debit side of Branch Stock A/c. Similarly, value of closing stock is shown as closing balance on the credit side of Branch Stock A/c. The balance of Branch Stock A/c will now represent Gross Profit/Loss at the branch to be transferred to Branch Profit and Loss A/c.
2. **Branch Expenses A/c:** The balance of Branch Expenses A/c will also be transferred to Branch Profit & Loss A/c.
3. **Branch Debtors A/c:** The balance of this Account represents the closing Debtors.
4. **Goods sent to Branch A/c:** The balance of this account should be t/s to Purchase A/c.
5. **Branch Profit & Loss A/c:** The balance of Branch Profit and Loss A/c will represent Net Profit/Loss at the branch to be transferred to General Profit and Loss A/c.

Note:

1. Normal Loss need not be recorded separately.

In case of (A) (I) (a) (ii): Under this method it is assumed that the branch has a separate entity apart from the head office and, on this basis, a branch account is opened separately for each branch in the books of head office. This account is debited with the value of benefits and cash given to the branch and correspondingly credited with the value of benefits and cash received from the branch.

Branch A/c

Particulars		Rs.	Particulars		Rs.
To Balance b/d (Assets)			By Balance b/d (liabilities if any)		XXX
Branch Stock	XXX		By Bank		
Branch Debtors	XXX		(Amount remitted by Branch)		XXX
Branch Petty Cash	XXX	XXX	By Goods sent to Branch		
To Goods sent to branch		XXX	(Return to H.O)		
To Bank		XXX	By Balance c/d: (Assets)		
(Amount remitted to branch)			Branch Stock	XXX	
To Bank		XXX	Branch Debtors	XXX	
(Branch Exp.'s paid by H.O.)			Branch Petty Cash	XXX	XXX
To Balance c/d (liabilities if any)		XXX			
To General P & L A/c (profit)		XXX			
		XXX			***XXX***

In case of (A) (I) (b & c) (i):

Accounting Entries in the books of Head Office: Under this system, in addition to the accounting entries passed in case of invoicing goods at cost price, the following entries are passed:

No.	Particulars	Rs.
1.	**For Goods sent to Branch:** **a.** Branch Stock A/c Dr To Goods Sent to Branch A/c	Invoice price
	b. Goods Sent to Branch A/c Dr To Branch Stock Adjustment A/c	Loading on goods sent
2.	**For Goods returned by Branch to H.O.:** **a.** Goods Sent to Branch A/c Dr To Branch Stock A/c	Invoice price
	b. Branch Stock Adjustment A/c Dr To Goods Sent to Branch A/c	Loading on goods returned

Ledger Accounts and their details:

1. **Branch Stock A/c:** There will be an opening balance in this account representing opening stock at branch at selling price and a closing balance representing closing stock at branch at selling price. After all the relevant entries have been passed to this account as already detailed, both sides of this account should agree. Any difference represents surplus or deficiency of stock and will be transferred to a stock discrepancy account. The stock discrepancy account will be closed by transferring the loading to branch stock adjustment account and the balance to branch profit & loss A/c.

2. **Branch Stock Adjustment A/c:** This account will be credited with the Stock Reserve A/c for the loading included in the opening branch stock (at selling price). Similarly, this account is debited with the Stock Reserve A/c for loading included in the closing branch stock. The difference remaining in this account (after all the relevant entries have been passed) represents gross profit/loss at branch and will be transferred to branch Profit & Loss A/c.

3. **Loss of Goods:** This will be treated in the following manner:

Normal Loss: Since branch stock adjustment account discloses gross profit, normal loss should be charged to this account by the following entry:

1.	Branch Stock Adj. A/c Dr To Branch Stock A/c	Selling Price

Abnormal Loss: The following entries will be passed for recording abnormal loss:

1.	Abnormal Loss A/c Dr To Branch Stock A/c	Selling Price
2.	Branch Stock Adj. A/c Dr To Abnormal Loss A/c	Load on goods lost
3.	Branch Profit & Loss A/c Dr To Abnormal Loss A/c	Cost price of goods lost

If the goods are insured, insurance claim account will be debited instead of branch Profit & Loss A/c to the extent of claim admitted and the balance will be debited to branch profit & loss A/c.

<u>In case of (A) (I) (b & c) (ii):</u>

Accounting Entries in the books of Head Office: The branch account will be prepared on the same line as discussed earlier, but as goods are supplied to the branch at loaded price. (1) Opening stock, (2) goods sent to branch, (3) goods returned by branch and (4) closing stock will be recorded in the branch account at this price. Hence, in order to ascertain the true profit or loss at branch it will be necessary to eliminate the loads and bring down these items to cost level.

For this purpose the following adjusting entries will be made:

1.	**For load on Goods sent to Branch:** Goods Sent to Branch A/c Dr To Branch A/c	XXX	XXX
2.	**For load on Goods returned by Branch to H.O.:** Branch A/c Dr To Goods Sent to Branch A/c	XXX	XXX
3.	**For load included in the Opening Stock:** Stock Reserve A/c Dr To Branch A/c	XXX	XXX
4.	**For load included in the Closing Stock:** Branch A/c Dr To Stock Reserve A/c	XXX	XXX

The balance of stock reserve account at the end of each year will be carried forward to the next year for being transferred to the branch account of that year as shown in item (3) above.

<u>In case of (A) (I) (a) (iii)</u>: In this approach, profit & loss accounts are prepared considering each branch as a separate entity. The main advantage in this method is that, it is easy to prepare and understand.

<u>In case of (A) (I) (b & c) (iv)</u>: Without writing up a Branch Stock and Branch Adjustment Account, it is also practicable to record all the relevant figures only in one account, by having two separate columns, one to show the value of goods sent out to branch at cost, entries wherein will be part of the double entry system and in second column memorandum entries in respect of the value of the same stock at the selling price. Under such a method, while the first column would disclose the amount of gross profit and the value of stock carried forward at cost the second column would not disclose profit or loss, but would balance by including therein the value of closing stock at selling price provided that there has been no physical loss of stocks.

Distinction between Wholesale Profit & Retail profit at Branch: In order to know whether self-retailing through branches is more profitable than wholesaling, it is necessary to make a distinction between wholesale profit and retail profit. The true profit of a branch can, therefore, be determined by charging it with the wholesale price of goods sent and crediting the head office trading account with the same amount. Since closing stock of branch, in such a case, will be valued at wholesale price it will be necessary to create a provision for unrealised profit on stock by debiting the head office Profit & Loss A/c.

For E.g.: Let the cost of an Article be Rs.100, wholesale price be Rs.140 and retail price be Rs.150. If it is sold through a retail branch, the profit earned will be Rs.50. But the true profit of the branch is, however, Rs.10 only, because Rs.40 could have been earned even without having the branch i.e. by selling it on wholesale basis to others.

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: 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, 2012.

Particulars	Rs.	Particulars	Rs.
Stock January 1, 2012	7,000	Bad Debts	600
Debtors, January 1, 2012	12,600	Goods returned by customers	500
Petty Cash, January 1, 2012	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 Debtors	28,500
Credit Sales	28,400	Stock, Dec. 31st, 2012	6,500
Allowances to customers	200	Debtors, Dec. 31st, 2012	9,800
Discount to customers	1,400	Petty Cash, Dec. 31st, 2012	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) Memorandum Branch Trading and Profit & Loss Account to prove the results as disclosed by the Branch Account. **(SM)** ***(Ans: Profit Rs.9,400)***

(Solve problem no. 1 of assignment problems as rework)

Note:____

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Problem 2: 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, 2012.

Particulars	Rs.
Cost of goods sent to Branch	2,00,000
Goods received by Branch till 31-12-2012 at invoice price	2,20,000
Credit Sales for the year	1,65,000
Cash Sales for the year	59,000
Cash Remitted to head office	2,22,500
Expenses paid by H.O.	12,000
Bad Debts written off	750

Balance as on:

Particulars	1-1-2012 (Rs.)	31-12-2012 (Rs.)
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, 2012. **(SM)**

(Ans.: Branch Gross profit Rs.39,000; Branch Net profit Rs.16,250)

(Solve problem no. 2 of assignment problems as rework)

Note:____

Problem 3: Red and White of Mumbai started a branch at Bangalore on 1.4.2012 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2013:

Particulars	Rs.
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2013 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2013	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2013	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment A/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit. **(PM)***(Ans: Branch Gross Profit Rs.70,000; Net profit Rs.45,600)*

(Solve problem no. 3 of assignment problems as rework)

Note:____

Problem 4: **(PRINTED SOLUTION AVAILABLE)** 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 2012, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office:

Particulars	Rs.
Goods received from Head Office at invoice price	6,00,000
Returns to Head Office at invoice price	12,000
Stock at Cochin as on 1st Jan., 2012	60,000
Sales in the year - Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st Jan. 2012	72,000

Cash received from Debtors	3,20,000
Discount allowed to Debtors	6,000
Bad debts in the year	4,000
Sales returns at Cochin Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st Dec. 2012 at invoice price	1,20,000

(SM)*(Ans: Net profit Rs.35,600)*

Note:____

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Problem 5: (PRINTED SOLUTION AVAILABLE) Accounting treatment of direct payments by head office to discharge direct purchase by branch: Buckingham Bros, Bombay have a branch at Nagpur. They sent 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:

Particulars	Rs.	Particulars	Rs.
Opening Balance on 1.1.90:		Bad debts	1,000
Imprest cash	2,000	Discount to customers	2,000
Sundry debtors	25,000	Remittances to H.O. (Received by H.O.)	1,65,000
Stock: Transferred from H.O.	24,000	Remittances to H.O. (not received by H.O. so far)	5,000
Direct Purchases	16,000	Branch exp. directly paid by H.O.	30,000
Cash sales	45,000	**Closing Balance (31-12-90):**	
Credit sales	1,30,000	**Stock:** Direct purchases	10,000
Direct purchases	45,000	Transfer from H.O.	15,000
Returns from customers	3,000	Debtors	?
Goods sent to branch from H.O.	60,000	Imprest cash	?
Transfer from H.O. for petty exp.	4,000		

(SM) ***(Ans.: Branch net profit– 15000)***

Note:____

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Problem 6: Pawan, of Delhi has a branch at Jaipur. Goods are invoiced to the branch at cost plus 25%. The branch is instructed to deposit the receipts every day in the head office account with the bank. All the expenses are paid through cheque by the head office except petty cash expenses which are paid by the Branch.

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

Particulars	Rs.
Stock at invoice price on 1.4.2012	1,64,000
Stock at invoice price on 31.3.2013	1,92,000
Debtors as on 1.4.2012	63,400
Debtors as on 31.3.2013	84,300
Furniture & fixtures as on 1.4.2012	46,800
Cash sales	8,02,600
Credit sales	7,44,200

Goods invoiced to branch by head office	12,56,000
Expenses paid by head office	2,64,000
Petty expenses paid by the branch	20,900
Furniture acquired by the branch on 1.10.2012 (payment was made by the branch from cash sales and collection from debtors)	5,000

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

(Ans: Branch profit & loss a/c Rs.2,74,570)

(Solve problem no. 4 of assignment problems as rework)

Note:____

<u>Problem 7:</u> 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 Rs.10,000 necessary for meeting immediate requirements of cash. On 31st March, 2012 the assets at the branch were as follows:

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

During the accounting year ended 31st March, 2013 the invoice price of goods dispatched by the head office to the branch amounted to Rs.1 crore 32 lakhs. Out of the goods received by it, the branch sent back to head office goods invoiced at Rs.72,000. Other transactions at the branch during the year were as follows:

Particulars	Rs.('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, 2013 the branch purchased new furniture for Rs.1 lakh for which payment was made by head office through a cheque.

On 31st March, 2013 branch expenses amounting to Rs.6,000 were outstanding and cash in hand was again Rs.10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method. Prepare Branch Account in the books of head office for the year ended 31st March, 2013. **(PM)** ***(Ans.:Net Profit Rs.1,096)***

(Solve problem no. 5 of assignment problems as rework)

Note:____

<u>Problem 8:</u> Preparation of Company trading and profit and loss a/c.: Arnold of Delhi trades in Ghee and oil. It has a branch at Lucknow. He dispatches 25 tins of oil @ Rs.1,000 per tin and 15 tins of Ghee @ Rs.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 H.O. Following are the other details:

Particulars	Delhi	Lucknow
Purchases:		
Ghee	14,75,000	---
Oil	29,32,000	---

Direct exp. paid by H.O.	3,83,275	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 H.O.	---	6,13,250

Particulars	Delhi		Lucknow	
	1.1.12	31.12.12	1.1.12	31.12.12
Stock:				
Ghee	1,50,000	3,12,500	17,000	13,250
Oil	3,50,000	4,17,250	27,000	44,750
Debtors	7,32,750	---	75,750	?
Cash on hand	70,520	55,250	7,540	12,350
Furniture & Fittings	21,500	19,350	6,250	5,625
Plant & Machinery	3,07,250	7,73,500	---	---

1. Additions to Plant & Machinery on 1.1.12 Rs.6,02,750.
2. Rate of Depreciation: Furniture & Fittings @ 10%, Plant & Machinery @ 15% (already adjusted in the above figures).
3. 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 Rs.2,000 p.m. General expenses incurred by H.O. Rs.24,000.

Prepare Branch A/c in the H.O. books and also prepare the Arnold's Trading and P & L A/c (excluding branch transactions). **(SM)**

(Ans.: Branch Net profit – 53,032, Net Profit of the company – 4,21,325, Branch closing balance: - debtors Rs. 86,900)

(Solve problem no. 6 of assignment problems as rework)

Note:____

Problem 9: Accounting treatment of when goods sent to branch at whole sale price and branch sells goods at retail price: Beta having head office at Mumbai has a branch at Nagpur. The head office does wholesale trade only at cost plus 80%. The goods are sent to branch at the wholesale price viz., cost plus 80%. The branch at Nagpur is wholly engaged in retail trade and the goods are sold at cost to H.O. plus 100%.

Following details are furnished for the year ended 31st March, 2013:

Particulars	Head Office (Rs.)	Branch Office (Rs.)
Opening Stock (as on 1-4-2012)	2,25,000	-
Purchases	25,50,000	-
Goods sent to branch (Cost to H.O. plus 80%)	9,54,000	-
Sales	27,81,000	9,50,000
Office Expenses	90,000	8,500
Selling Expenses	72,000	6,300
Staff Salary	65,000	12,000

Required: Prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2013.

(PM) (N - 07, M - 15)*(Ans.: H.O profit Rs. 13,89,000, Branch Profit- Rs.68200)*

Note:____

Problem 10: Accounting treatment of when goods sent to branch at whole sale price and branch sells goods at retail price: 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 31.3.2012:

Particulars	Rs.
Stock at the outlet 1.4.2011	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 31.3.2012	36,000

You are required to prepare the following accounts in the books of Rahul Ltd. for the year ended 31.3.2012: Outlet Stock A/c, Outlet Profit & Loss A/c and Stock Reserve A/c.

(SM)*(Ans.: Outlet Profit & Loss – 22000, Stock – 36000, Stock Reserve – 7200)*

(Solve problem no. 7 of assignment problems as rework)

Note:____

In case of (A)(II) (Independent Branches): Independent branches maintain 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. The head office A/c in branch books and Branch A/c in head office books should tie up whereby completeness of recording of transactions can be ensured.

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

Part I – Reasons for Disagreements:

1. Goods dispatched by the Head office not received by the branch. These goods may be in transit or loss in transit.
2. 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.
3. Sum remitted by Head office to branch or vice versa remaining in transit on the closing date.
4. 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:

Particulars	Head Office		Branch Office	
	Dr.	Cr.	Dr.	Cr
Goods send 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:

1. Rs.15,000 remitted by the branch has not been received, hence not recorded in the head office books.
2. Direct collection of Rs.10,500 from a customer of the branch by Head office not informed to the branch, hence not recorded by the branch.

3. A sum of Rs.14,500 paid by branch to the suppliers of head office not recorded at Head office.

4. Head office expenditure allocation to the branch Rs.12,000 not recorded in the branch.

5. Rs.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.

Particulars		Head Office			Branch Office	
		Dr	Cr.		Dr.	Cr
i) Goods in transit (Rs.10,000)		-	-	Goods in Transit A/c To H.O A/c	10,000	 10,000
ii) Cash in Transit:	Cash in Transit A/c To Branch A/c	15,000	 15,000	(No Entry)		
iii) Direct Collection by H.O on behalf of the Branch				H.O. A/c To Debtors A/c	10,500	 10,500
iv) Direct payment of Rs.14,500 by Branch on behalf of H.O.	Sundry Creditors A/c To Branch A/c	14,500	 14,500			
v) Expenditure Allocated to Branch				Concerned Exp. A/c To H.O. A/c	12,000	 12,000
vi) Fixed Deposit interest of Rs.7,500 directly received by the Branch	Branch A/c To Sundry Income A/c	7,500	 7,500			

In Branch Books

Dr. **Head Office Account** **Cr.**

Particulars	Rs.	Particulars	Rs.
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

Dr. **Branch A/c** **Cr.**

Particulars	Rs.	Particulars	Rs.
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		

Therefore (i) the balance of Head Office A/c in Branch books and Branch A/c in Head Office books have tallied (ii) Adjustment are made only at the point:

1. Where the recording has been omitted, and

2. Other than the point where action has been effected.

In the balance sheet, goods-in-transit or cash-in-transit will be shown as assets. At the commencement of the next financial year, these entries will be reversed and Transit A/c will be closed.

Other adjustments:

1. **Regarding Depreciation on Fixed Assets:** Often, the accounts of fixed assets of a branch are maintained in the head office books. In such a case,

1.	**Entry for depreciation in H.O. Books:** Branch A/c Dr To Branch Fixed Assets A/c	 XXX	 XXX
2.	**The branch passes the following entry in its own books for Depreciation:** Depreciation A/c Dr To Head Office A/c	 XXX	 XXX

Any purchase of fixed assets by the branch, in such a case, should be debited to head office account and credited to bank (or Supplier's A/c) in the branch books. Similarly, in head office books the same should be debited to branch fixed assets account and credited to Branch A/c.

2. **Regarding Inter-Branch Transactions:** Where there are number of branches, inter-branch transactions are likely to take place, e.g., cash or goods sent by one branch to another or expenses incurred by one branch on behalf of another. Such transactions are usually adjusted assuming that they were entered into under the instructions from the H.O. Suppose Kolkatta branch transfers some goods to Mumbai branch under the directions of the H.O. The entries will be as follows:

1.	**In the books of Kolkatta Branch:** Head Office A/c Dr To Goods Supplied to Branch A/c	 XXX	 XXX
2.	**In the books of Mumbai Branch:** Goods received from Branches A/c Dr To Head Office A/c	 XXX	 XXX
3.	**In the books of Head Office:** Mumbai Branch A/c Dr To Kolkatta Branch A/c	 XXX	 XXX

Note:

1. Inter-branch transactions without the knowledge of head office may be passed as between the branches only in the usual manner.

3. **Regarding Charges made by H.O.:** The head office may make a charge to the branch for services rendered by it, or for a portion of head office overheads applicable to branch management on the principle that the branch should be debited with all relevant expenses and charges applicable to it.

1.	**In head office books the entry will be:** Branch A/c Dr To The Relevant Expenses A/c	 XXX	 XXX
2.	**In Branch books the entry will be:** The Relevant Expenses A/c Dr To Head Office A/c	 XXX	 XXX

4. **Remittances A/c:** Sometimes the branch remits cash to the head office quite frequently. In such a case, the head office finds it convenient to open a branch remittances account. The periodical total of this account will be transferred to the credit of branch account. If the branch so desires, it can also open a remittances to head office account the periodical total of which will be transferred to the debit of head office account. Similar treatment can be made for goods sent to branch also.

Part II – Closing of Branch Books:

Procedure for Closing of Branch Books at a Glance

- **Closing of Revenue Accounts**
  - **By transferring the Individual balances of various revenue accounts to the H.O. A/c**
  - **By Preparing its own Trading and P&L A/c and transferring only the Net Profit/ Loss to the H.O. A/c**
- **Closing of Assets & Liability Accounts**
  - **May be closed & transferred to the H.O. books.**
  - **May not be closed (if branch needs to prepare a B/S)**

Explanation: At the end of each financial year the branch prepares a trial balance and proceeds to close its books of accounts. The subject of closing the books consists of two activities: (a) Closing of Revenue accounts; (b) Closing of Asset & Liability accounts.

Closing of Revenue Accounts: Two different methods may be applied for closing the revenue accounts.

First method: Under this method the branch simply transfers the individual balance of various revenue accounts to the H.O. A/c, thereby closing the revenue accounts. The entries will be as follows:

1.	**For debit balances of revenue items:** Head Office A/c To Sundry Revenue A/c's	Dr	XXX	 XXX
2.	**For credit balances of revenue items:** Sundry Revenue A/c's To Head Office A/c	Dr	XXX	 XXX

Second method: Under this method, the branch prepares its own Trading and Profit & Loss A/c and transfers only the Net Profit or Loss (instead of all the revenue balances) to the H.O. A/c in the same way as Profit or Loss is transferred to Capital A/c in an ordinary business. The revenue accounts are thus closed, and the Profit or Loss transferred to the H.O. A/c.

Closing of Asset & Liability Accounts: The balances of Assets & Liabilities <u>may or may not be</u> transferred to the H.O. books. If it is decided to transfer them, the under mentioned entries will be passed to close the accounts in the branch books:

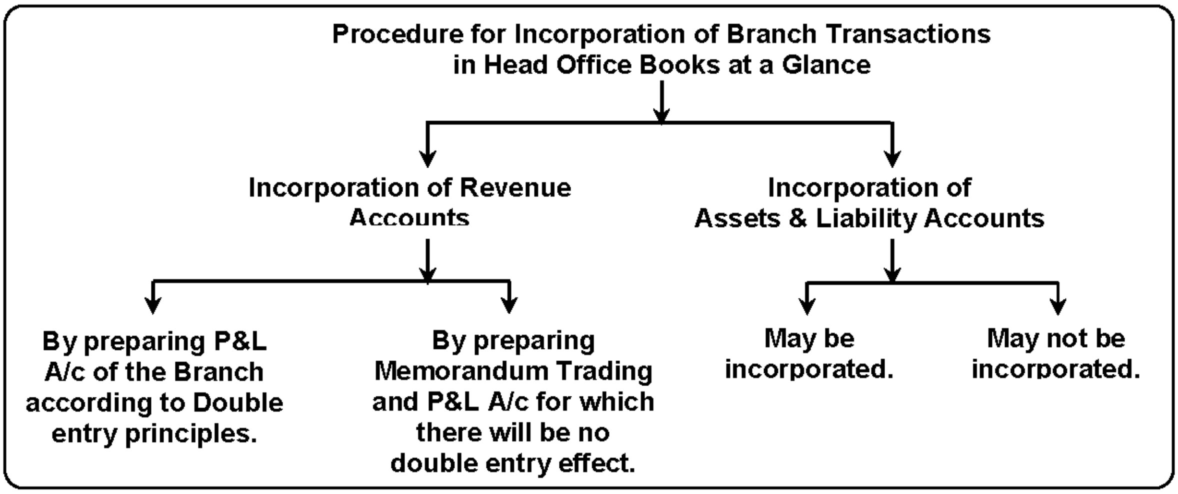
1.	**For Assets:** Head Office A/c To Sundry Assets A/c	Dr	XXX	 XXX
2.	**For Liabilities:** Sundry Liabilities A/c To Head Office A/c	Dr	XXX	 XXX

After such transfer, the H.O. A/c in branch books will have nil balance.

Note:

1. At the commencement of the next accounting period it is necessary to restore the balance of Assets & Liabilities in the branch books by passing a reverse entry.
2. If, however, these are not transferred, there will remain a balance in H.O. A/c equal to the net assets (i.e. assets less liabilities). Thus, in this case, the branch may prepare a Balance Sheet.

Part III – Incorporation of Branch Trial Balance in H.O. Books:



Explanation: The branch sends its trial balance (together with its trading and P & L A/c and Balance Sheet, if these are prepared by the branch) to the H.O. for incorporation in H.O. books. When the H.O. receives the branch Trial Balance, it proceeds to incorporate the same in its books. The incorporation procedure may be broken up into two parts: **(a)** Incorporation of revenue accounts of branch and **(b)** Incorporation of assets and liabilities of branch.

Incorporation of Revenue Accounts: This can be done in two different methods:

First method: Under this method, a Trading and Profit & Loss A/c of the branch is prepared by H.O. The entries to be passed are as follows:

1.	**For items which will appear on the debit side of Trading A/c:** Branch Trading A/c Dr To Branch A/c	XXX	XXX
2.	**For items which will appear on the credit side of Trading A/c:** Branch A/c Dr To Branch Trading A/c	XXX	XXX
3.	**For Gross profit made by branch:** Branch Trading A/c Dr To Branch P & L A/c	XXX	XXX
4.	**For items which will appear on the debit side of P & L A/c:** Branch P & L A/c Dr To Branch A/c	XXX	XXX
5.	**For items which will appear on the credit side of Trading A/c:** Branch A/c Dr To Branch P & L A/c	XXX	XXX
6.	**For Net Profit made by the branch:** Branch P & L A/c Dr To General P & L A/c	XXX	XXX

Second method: Under this method, Branch Trading and Profit & Loss A/c is prepared in H.O. books which is merely a Memorandum A/c, and therefore, the entries made in this account do not have any double entry effect. The only object of this Memorandum A/c is to ascertain the net profit/loss of the branch. This net profit/loss is incorporated (and not the individual balances as in the first method) in the head office books by the following entry:

1.	**In case of Net Profit:** Branch A/c Dr To General Profit & Loss A/c	XXX	XXX

2.	**In case of Net Loss:** General Profit & Loss A/c Dr To Branch A/c	XXX	 XXX

Incorporation of Assets & Liabilities: The head office may or may not incorporate the Assets & Liabilities of the branch. If incorporated the following entries shall be necessary:

1.	**For Branch Assets:** Sundry Branch Asset A/c Dr To Branch A/c	XXX	 XXX
2.	**For Branch Liabilities:** Branch A/c Dr To Sundry Branch Liability A/c	XXX	 XXX

After such incorporation of Assets & Liabilities, the Branch A/c (in which adjustment entries have already been posted) in H.O. books will be closed.

Note:

1. At the commencement of the next accounting period, the entries passed for incorporation of Assets & Liabilities will be reversed, and then the Branch A/c will again be restored showing the opening balances of these items.
2. If the Branch Assets & Liabilities are not incorporated, the Branch A/c in H.O. books will have closing balance equal to net assets of the branch.
3. While preparing a Balance Sheet of the H.O. all the Assets & Liabilities of the H.O. and those of the branch will be taken into consideration.

Detailed Consolidated Method:

Practical Steps under Consolidated Accounts Method:

Step 1: Transfer all revenue items, asset and liabilities of the Branch to Head Office Account in the Books of Branch.

Step 2: Incorporate all the revenue items, assets and liabilities transferred by the Branch in the books of Head Office.

Step 3: Prepare Consolidated Trading and Profit and Loss Account and Consolidated Balance Sheet in the Books of H.O.

JOURNAL ENTRIES

Under this method, the journal entries which are passed by the Branch to transfer its trial balance of H.O. and by the head office to incorporate the trial balance of Branch in its books are shown below:

Items of Trial Balance	In the Books of Branch	In the Books of H.O.
1. For items which are shown on the debit side of Trading A/c after (Adjustments relating to outstanding and prepaid expenses)	Head Office A/c Dr. To Opening Stock To Purchase To Goods received from H.O To Direct Expenses To Sales Returns	Branch Trading A/c Dr. To Branch A/c
2. For items which are shown on the credit side of Trading A/c (After adjustments relating to outstanding & prepaid expenses)	Sales A/c Dr. Closing Stock Dr. Purchase Returns Dr. To Head Office A/c	Branch A/c Dr. To Branch Trading A/c

3. For transfer of Gross Profit	No Entry	Branch Trading A/c Dr. To Branch P & L A/c
4. For items which are shown on the debit side of Profit and Loss A/c (After adjustments relating to outstanding & prepaid expenses)	Head Office A/c Dr. To Office & Adm. Exp. A/c To Selling & Dist. Exp. A/c To Depreciation A/c etc.	Branch P & L A/c Dr. To Branch A/c
5. For items which are shown on the credit side of Profit and Loss A/c (After adjustments relating to outstanding and Prepaid expenses)	Interest Received Dr. Discount Received etc. Dr. To Head Office A/c	Branch A/c Dr. To Branch P & L A/c
6. For transfer of Net Profit	No Entry	Branch P & L A/c Dr. To H.O. P & L A/c / general P & L A/c
7. For transfer of Branch Assets (after adjustments)	Head Office A/c Dr. To Assets (Individually)	Branch Assets A/c Dr. (Individually) To Branch A/c
8. For Transfer of Branch Liabilities (After adjustments)	Liabilities Dr. (Individually) To Head Office A/c	Branch A/c Dr. To Branch Liabilities A/c (Individually)

Notes:

1. In case of gross loss, the entry no.3 will be reversed.
2. In case of net loss, entry no. 6 will be reversed.
3. As a result of these entries the H.O. A/c in the books of Branch and Branch A/c in the books of H.O. will be completely closed.
4. In the beginning of next accounting year, the entry no.7 and 8 will be reversed.

<u>**Problem 11:**</u> Show adjustment Journal entry in the books of Head Office at the end of April, 2013 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 – Rs. 35,000 and Rs. 15,000 from Kolkata.
2. Sent goods to Chennai – Rs. 25,000, Kolkata – Rs. 20,000.
3. Bill Receivable received – Rs. 20,000 from Chennai.
4. Acceptances sent to Mumbai – Rs. 25,000, Kolkata – Rs. 10,000.

B. Mumbai Branch (apart from the above) :

1. Received goods from Kolkata – Rs. 15,000, Delhi – Rs. 20,000.
2. Cash sent to Delhi – Rs. 15,000, Kolkata – Rs. 7,000.

C. Chennai Branch (apart from the above) :

1. Received goods from Kolkata – Rs. 30,000.
2. Acceptances and Cash sent to Kolkata – Rs. 20,000 and Rs.10,000 respectively.

D. Kolkata Branch (apart from the above) :

1. Sent goods to Chennai – Rs. 35,000.

2. Paid cash to Chennai – Rs.15,000.
3. Acceptances sent to Chennai – Rs.15,000. **(PM)**

(Solve problem no. 8 of assignment problems as rework)

Note:____

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Problem 12: Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:

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

(Solve problem no. 9 of assignment problems as rework)

Note:____

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Problem 13: On 31st March, 2013 Kanpur Branch submits the following Trial Balance to its Head Office at Lucknow:

Debit Balances	Rs. 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, 2012	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, 2013 was valued at Rs. 62 lacs. On 29th March, 2013 the Head Office dispatched goods costing Rs. 10 lacs to its branch. Branch did not receive these goods before 1st April, 2013. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch Rs. 1 lac for centralized services for which the branch has not passed the entry.

You are required to:

1. Pass Journal Entries in the books of the Branch to make the necessary adjustments
2. Prepare Final Accounts of the Branch including Balance Sheet, and
3. Pass Journal Entries in the books of the Head Office to incorporate the whole of the Branch Trial Balance. **(PM)** ***(Ans: Net profit Rs.24lacs; Total of Balance sheet Rs.118lacs)***

(Solve problem no. 10 of assignment problems as rework)

Note:____

Problem 14: (PRINTED SOLUTION AVAILABLE) Independent branch-closing of branch books in the books of branch: AFFIX Ltd. of Calcutta has a branch at Delhi which the goods are supplied from Calcutta but the cost there of is not recorded in the Head office books. On 31st March, 1997 the branch Balance sheet was as follows:

Liabilities	Rs.	Assets	Rs.
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 30-9-1997, the following transactions took place at Delhi.

Particulars	Rs.	Particulars	Rs.
Sales	2,40,000	Manager's Salary	4,800
Purchases	48,000	Collections from Debtors	1,60,000
Wages paid	20,000	Discount allowed	8,000
Salaries (inclusive of advance of Rs.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 30-9-1997. Also give journal entries in the Delhi books.

(SM) ***(Ans.: Balance in Head Office Account – 278400, Total of Balance Sheet – 305200)***

Note:____

Problem 15: Closing of branch books in the books of branch, incorporation of branch books in the books of head office: The following Trial balances as at 31st December, 2012 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.

Particulars	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., 2012 (Note 2)		693		
Revenue A/c		43,210		10,250
Branch A/c	31,536			
Head Office A/c				22,645
	2,28,470	**2,28,470**	**42,616**	**42,616**

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, 2012.
3. Includes goods received from Head Office at invoice price Rs.4,565.
4. Goods invoiced by Head Office to Branch at Rs.3,641 were in transit at 31st December, 2012, as was also a remittance of Rs.3,500 from the Branch.
5. At 31st December, 2012, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.
   a. The purchase price of lorry, Rs.2,500, which reached the Branch on December 25th ;
   b. A sum received on 30th December, 2012 from one of the Branch debtors, Rs.750.

You are required:

1. To record the foregoing in the appropriate ledger accounts in both sets of books;
2. To prepare a Balance Sheet as at 31st December, 2012 for the undertaking as a whole.

(SM) *(Ans.: Total of Balance Sheet – 2,47,695)*

Note:____

Problem 16: M/s Shah commenced business on 1.4.2012 with Head Office at Mumbai and a Branch at Chennai. Purchases were made exclusively by the Head Office, where the goods were processed before sale. There was no loss or wastage in processing.

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

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

Following is the Trial Balance as on 31.3.2013.

Particulars	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
Capital	---	3,10,000	---	---
Drawings	55,000	---	---	---
Purchases	19,69,500	---	---	---
Cost of processing	50,500	---	---	---
Sales	---	12,80,000	---	8,20,000
Goods sent to branch	---	9,24,000	---	---

Administrative expenses	1,39,000	---	15,000	---
Selling expenses	50,000	---	6,200	---
Debtors	3,09,600	---	1,13,600	---
Branch current A/c	3,89,800	---	---	---
Creditors	---	6,01,400	---	10,800
Bank balance	1,52,000	---	77,500	---
Head office current a/c	---	---	---	2,61,500
Goods received from H.O.	---	---	8,80,000	---

Following further information is provided:

1. Goods sent by Head Office to the Branch in March, 2013 of Rs. 44,000 were not received by the Branch till 2.4.2013.
2. A remittance of Rs. 84,300 sent by the Branch to Head Office was also similarly not received up to 31.3.2013.
3. Stock taking at the Branch disclosed a shortage of Rs. 20,000 (at selling price to the branch).
4. Cost of unprocessed goods at Head Office on 31.3.2013 was Rs. 1,00,000.

Prepare Trading and Profit and Loss account in columnar form and Balance Sheet of the business as a whole as at 31.3.2013 **(PM)**

(Ans: H.O. Net profit Rs.1,28,091; Branch Net profit Rs.1,26,800; Total of Balance sheet Rs.11,22,091)

Note:____

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Problem 17: 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.

The company 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., 2012 in columnar form.

1. A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.
2. A Balance Sheet as on 31st Dec., 2012 for the entire business.

Particulars	H.O.		Branch	
	Rs.	Rs.	Rs.	Rs.
Raw material purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1–1– 2012				
Raw material	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative Salaries	13,900		4,000	
Salesmen's 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., 2012 the branch remitted Rs.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 Rs.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.,2012 was valued at Rs.2,300.
3. You are advised that:
   a. There were no stock losses incurred at the H.O. or at the branch.
   b. It is the company's practice to value finished goods stock at the H.O. at factory cost.
   c. There was no opening or closing stock of work- in-progress.
4. Branch employees are entitled to a bonus of Rs.156 under a bilateral agreement. **(SM)**

(Ans.: Profit for Head Office – 17,053, Branch – 6,904, Combined – 23,957, Total of Balance Sheet – 87,113)

Note:____

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 rupees is not stable in relation to foreign currencies due to international demand and supply effects on various currencies.

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

1. Integral Foreign Operation;
2. Non- Integral Foreign Operation.

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. Generally, IFO carries on business in a single foreign currency, i.e., of the country where it is located. For example, sale of goods_imported from the reporting enterprise and remittance of proceeds to the reporting enterprise.
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.

Techniques for foreign Currency Translation:

1. **Integral Foreign Operation (IFO)**: Following are the standard recommendations for foreign currency translation:

a. All revenue accounts 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 except opening stock (op. rate), closing stock (Cl. Rate), depreciation on fixed assets (rate prevailing on the date of acquisition of fixed assets), goods received from HO(to be substituted with the value of goods sent to branch in the books of HO subject to the condition that there is no Goods in transit).

b. Translation at the balance sheet date:

i. Monetary items at closing rate.

ii. 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.

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.

2. Non-Integral Foreign Operation(NFO): Accounts of non-integral foreign operation are translated using the following principles:

a. Balance sheet items i.e. Assets and Liabilities both monetary and non-monetary :- Apply closing exchange rate. Weekly or monthly average rate is permitted if there are no significant variations in the rate except opening stock(op. rate), closing stock(cl. Rate), goods received from HO.

b. Items of income and expenses:- At actual exchange rates on the date of transactions. However, accounting standard allows average rate subject to materiality.

c. Resulting exchange difference should be accumulated in a "foreign currency translation reserve" until the disposal of "net investment in non-integral foreign operation".

Monetary items: Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amount of money. For example – cash, receivables and payables.
Non-monetary items- Non-monetary items are assets and liabilities other than monetary items. For example: fixed assets, inventories and investment in equity shares.

<u>Problem 18:</u> Foreign branches: integral foreign operation: Conversion of branch trial balance in to head office ruling currency: DM Delhi has a branch in London which is an integral foreign operation of DM. At the end of the year 31st March, 2011, the branch furnishes the following trial balance in U.K. Pound:

Particulars	£ Dr.	£ Cr.
Fixed assets (Acquired on 1st April, 2007)	24,000	
Stock as on 1st April, 2010	11,200	
Goods from head Office	64,000	
Expenses	4,800	
Debtors	4,800	
Creditors		3,200
Cash at bank	1,200	
Head Office Account		22,800
Purchases	12,000	
Sales		96,000
	1,22,000	**1,22,000**

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

London Branch A/c

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

The following further information is given:

1. Fixed assets are to be depreciated @ 10% p.a.

2. On 31st March, 2010:

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

3. Rate of Exchange:

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

You are required to prepare:

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

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

(Ans: Trial balance Total Rs.92,09,600; Net profit Rs.6,08,200; Total of Balance sheet Rs.26,05,400)

(Solve problem no. 11 of assignment problems as rework)

Note:____

Problem 19: **Foreign branches: Non-Integral foreign operation:** Omega has a branch at Washington. Its Trial Balance as at 30th September, 2012 is as follows:

Particulars	Dr. US $	Cr. US $
Plant and machinery	1,20,000	--
Furniture & fixtures	8,000	--
Stock, Oct. 1, 2011	56,000	--
Purchases	2,40,000	--
Sales	–	4,16,000
Goods from Indian Co. (H.O.)	80,000	--
Wages	2,000	--
Carriage inward	1,000	--
Salaries	6,000	--
Rent, rates and taxes	2,000	--
Insurance	1,000	--
Trade expenses	1,000	--
Head Office A/c	--	1,14,000
Trade debtors	24,000	--
Trade creditors	--	17,000

Cash at bank	5,000	--
Cash in hand	1,000	--
	5,47,000	**5,47,000**

The following further information is given:

1. Wages outstanding – $ 1,000.
2. Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.
3. The Head Office sent goods to Branch for Rs.39,40,000.
4. The Head Office shows an amount of Rs.43,00,000 due from Branch.
5. Stock on 30th September, 2012 – $ 52,000.
6. There were no in transit items either at the start or at the end of the year.
7. On September 1, 2006, when the fixed assets were purchased, the rate of exchange was Rs. 38 to one $.

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

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

   Average rate during the year was Rs.40 to one $.

You are asked to prepare:

1. Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.
2. Trading and Profit and Loss Account for the year ended 30th September, 2012 and Balance Sheet as on that date depicting the profitability and net position of the Branch as would appear in India for the purpose of incorporating in the main Balance Sheet.

(Nov-1999, 2009, May-2012, PM)

(Ans.: Net Profit 19,63,200, Total Of Balance Sheet 80,85,200)

(Hint: It is assumed that Washington branch is a NFO branch)

(Solve problem no. 12 of assignment problems as rework)

Note:____

<u>Problem 20:</u> (PRINTED SOLUTION AVAILABLE) Foreign branches: Integral foreign operation: Conversion of branch trial balance in to head office ruling currency: On 31st December, 2012 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

Particulars	Amount	Amount
Stock on 1st Jan., 2012	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 31st December, 2012 was Rs. 6,37,500.

Branch account in New York books showed a debit balance of $ 13,400 on 31st December, 2012 and Furniture appeared in the Head Office books at $ 1,750.

The rate of exchange for 1 $ on 31st December, 2011 was Rs. 52 and on 31st December, 2012 was Rs. 51. The average rate for the year was Rs. 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch. **(SM)**

(Hint: Integral foreign operation Branch)

(Ans: Net Profit $17,500; Total of Balance sheet $44,400)

(Solve problem no. 13 of assignment problems as rework)

Note:____

Problem 21: **Foreign branch: Integral foreign operation: Conversion of branch trial balance in to head office ruling currency:** ABCD Ltd., Delhi has a branch in New York, USA, which is an integral foreign operation of the company. At the end of 31st March, 2013, the following ledger balances have been extracted from the books of the Delhi office and the New York Branch:

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

The following information is also available:

1. Stock as at 31-03-2013

   Delhi - Rs. 2,00,000

   New York - $ 10 (all stock received from Delhi) (0.010 Thousands)
2. Head Office always sent goods to the Branch at cost plus 25%.
3. Provision is to be made for doubtful debts at 5%.
4. Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down values.

You are required:

1. To convert the branch Trial Balance into rupees, using the following rates of exchange:

   Exchange:

   Opening rate 1 $ = Rs. 50

Closing rate 1 $ = Rs. 55

Average rate 1 $ = Rs. 52

For fixed assets 1 $ = Rs. 45

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

(Ans: Exchange loss Rs.558.00; Net profit Rs.5,870.44)

(Solve problem no. 14 of assignment problems as rework)

Note:____

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ASSIGNMENT PROBLEMS

Problem 1: Calculation of branch manager's commission: Premier Company has two branch shops at Shyam bazar and at Tollygunge each with a separate manager. The ratio of gross profit to selling price is constant at each shop at 25% throughout the year to 31st March, 2002. Each branch manager is entitled to a commission of 10% of the net profit earned by his branch, calculated before charging his commission, but subject to a deduction from such commission equal to 25% of any ascertained deficiency of the branch stock. All goods were supplied by the head office to branches. From below information, calculate the commission due to each manager for 2001-2002:

Particulars	*Shyam*	*Tollygunge*
Stock at 1.4.01 at cost	18,684	12,484
Goods to branches at cost	72,420	43,480
Sales	90,320	58,560
Drawing of commission on account by managers	600	400
Chargeable expenses	12,280	9,020
Stock at 31.3.02 at selling price	30,832	15,952

(Ans.: Commission to Manager of Shyam Bazar – 946, Tolly Gunge - 534)

Problem 2: Neo with headquarters at Mumbai, maintains a branch at Goa. Goods are invoiced at cost plus 25%. In respect of Goa branch, the following information pertaining to the year ended 31st March, 2013 are made available to you:

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

	On 31st March, 2013	On 31st March, 2012
Branch debtors	1,05,000	50,000
Stock at branch (at Invoice price)	2,36,000	1,50,000

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

1. Goa branch debtors account;

2. Goa branch adjustment account;
3. Goa branch profit and loss account. **(PM)***(Ans: Net Profit Rs.32,500)*

Problem 3: Accounting treatment for Goods sent to branch at invoice price: During the year ended 31st December, 2001 X & Co. of Chennai sent to their branch at Mumbai goods costing Rs.1,00,000. They used to invoice to the branch at a price designed to show a gross profit of 33.33% on invoice price. Collections at the branch from debtors amounting to Rs.26,390 were all sent to head office. Branch transactions during the year were:

Particulars	**Rs.**	
Cash sales	1,21,050	
Credit sales	27,600	
Goods returned by customers	300	
Goods returned to H.O. (Invoice price)	780	
Particulars	**31.12.00**	**31.12.01**
Stock (at invoice price)	2,250	2,700
Sundry debtors	1,320	2,230

Goods at the branch of Rs.1,260 (invoice price) were lost. Insurance company paid Rs.730 on the claim. Branch expenses, paid by head office, amount to Rs.36,780. Show the necessary Ledger Accounts as would appear in the head office books recording the above transactions relating to the branch including branch Profit & Loss A/c. **(May 2006-Similar Model)**

(Ans.: Branch Cash – 121050, Profit in Branch P&L Account – 13120)

Problem 4: Sell Well who carried on a retail business opened a branch X on January 1st, 2010 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:

Particulars	**Jan. 2010**	**Feb. 2010**	**March 2010**
	Rs.	**Rs.**	**Rs.**
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, 2010 amounted to Rs.53,400 at invoice to branch.

Record these transactions in the Head Office books, showing balances as on 31st March, 2010 and the branch gross profit for the three months ended on that date. **(SM)**

All workings should form part of your solution. *(Ans: Net profit Rs. 37363)*

Problem 5: XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars prepare branch account in the books of Head Office.

Particulars	**Rs.**	**Particulars**	**Rs.**
Stock on 1st April 2011 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 2011	18,000	**Expenses paid by head office:**	
Cash in hand as on 1st April, 2011	800	Rent	1,800
Office furniture on 1st April, 2011	3,000	Salary	3,200

Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods return to Head Office	2,000	Petty expenses paid by the branch	600
Goods return by debtors	960	Depreciation to be provided on branch furniture at 10% p.a.	
Cash received from debtors	60,000	Stock on 31st March, 2012 (at invoice price)	28,000
Cash Sales	1,00,000		
Credit sales	60,000		

(PM) *(Ans: Profit Rs.24,180)*

Problem 6: Preparation of Company trading and profit and loss a/c.: Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 2012 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's:

Stock as on 01.04.2011(invoice price) 2,20,000

Goods sent during the year (invoice price) 11,00,000

Sales during the year 12,00,000

Expenses incurred at the branch 45,000

Ascertain

a) The profit earned by the branch during the year

b) Branch stock reserve in respect of unrealized profit. **(SM) (N - 10)**

(Ans.: Net profit 1,95,000. Stock reserve Rs. 60,000)

Problem 7: When cash sales at invoice price & calculation of provision for discount on debtors on prompt payment: Bengal Trading Co., with its head office in Kolkata, invoiced goods to its branch at Mumbai, at 20% less than the catalogue price which is cost plus 50%, with instructions that cash sales were to be made at invoice price and credit sales at catalogue price less discount at 15% on prompt payment. From the following particulars available from the branch, prepare the necessary Accounts and Branch Trading and Profit & Loss A/c for the year ended 31st March, 2002 in the head office books so as to show the actual profit or loss of the branch for the year:

Particulars	Rs.
Stock on 1st April, 2001 (invoice price)	12,000
Debtors on 1st April, 2001	10,000
Goods received from head office (invoice price)	1,32,000
Sales (cash)	46,000
Sales (credit)	1,00,000
Cash realised from debtors	85,635
Discount allowed to debtors	13,365
Expenses at the branch	6,000
Remittance to head office	1,20,000
Debtors on 31st March, 2002	11,000
Cash in hand on 31st March, 2002	5,635
Stock on 31st March, 2002 (invoice price)	15,000

Provision should be made for discount to be allowed to debtors as on 31st March, 2002, on the basis of the year's trend of prompt payment.

(Ans.: Branch net profit– 17650, provision for discount on debtors Rs. 1485))

Problem 8: Head Office passes adjustment entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following Inter-branch transaction in January 2011, make the entry in the books of H.O.:

A. Bombay Branch:

1. Received Goods Rs.6,000 from Calcutta Branch, Rs.4,000 from Patna Branch.
2. Sent Goods of Rs.10,000 to Patna, Rs.8,000 to Calcutta.
3. Received B/R Rs.6,000 from Patna.
4. Sent Acceptance Rs.4,000 to Calcutta, Rs.2,000 to Patna.

B. Madras Branch (apart from the above):

1. Received Goods Rs.10,000 from Calcutta, Rs.4,000 from Bombay.
2. Cash Sent Rs.2,000 to Calcutta Rs.6,000 to Bombay.

C. Calcutta Branch (Apart from the above):

1. Sent Goods to Patna Rs.6,000.
2. Accepted B/P Rs.4,000 to Patna, Rs.4,000 cash to Patna. **(PM) (May 2003)**

Problem 9: Give Journal Entries in the books of Head Office to rectify or adjust the following:

1. Goods sent to Branch Rs. 12,000 stolen during transit. Branch manager refused to accept any liability.
2. Branch paid Rs. 15,000 as salary to the officer of Head Office on his visit to the branch.
3. On 28th March, 2012, the H.O. dispatched goods to the Branch invoiced at Rs. 25,000 which was not received by Branch till 31st March, 2012.
4. A remittance of Rs. 10,000 sent by the branch on 30th March, 2012, received by the Head Office on 1st April, 2012.
5. Head Office made payment of Rs. 25,000 for purchase of goods by Branch and wrongly debited its own purchase account. **(PM)**

Problem 10: Messrs Ramchand & Co., Hyderabad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them. They, however, do not prepare any Profit & Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the Head Office.

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

Trial Balance of the Delhi Branch as on 31-12-2012

Debit	Amount	Credit	Amount
Head office opening balance on 1-1-12	15,000	Sales	1,00,000
Goods from H.O.	50,000	Goods to H.O.	3,000
Purchases	20,000	Head Office Current A/c	15,000
Opening Stock (H.O. goods at invoice prices)	4,000	Sundry Creditors	3,000
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**

The Branch balances as on 1st January, 2012, were as under: Furniture Rs.5,000; Sundry Debtors Rs.9,500; Cash Rs.1,000, Creditors Rs.30,000; Stock (H.O. goods at invoice price) Rs.4,000; other goods Rs.500. The closing stock at branch of the head office goods at invoice price is Rs.3,000 and that of purchased goods at cost is Rs.1,000. Depreciation is to be provided at 10 per cent on branch assets. **(SM)** ***(Ans.: Net Profit Rs.30,200)***

<u>Problem 11:</u> Foreign branches: integral foreign operation: Conversion of branch trial balance in to head office ruling currency: The Washington branch XYZ, Mumbai sent the following trial balance as on 31st December, 2012:

Particulars	$	$
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, 2012	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:

Dr. Washington Branch Account Cr.

Particulars	Rs.	Particulars	Rs.
To Balance b/d	8,10,000	By Cash	28,76,000
To Goods sent to branch	29,26,000	By Balance c/d	8,60,000
	37,36,000		**37,36,000**

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 1st January, 2007, when $ 1.00 = Rs.40

Rates of Exchange were:

1st January, 2012 $ 1.00 = Rs.46

31st December, 2012 $ 1.00 = Rs.48

Average $ 1.00 = Rs.47

Machinery is depreciated @ 10% and the Branch Manager is entitled to a commission of 5% on the profit of the branch.

You are required to:

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

(Ans.: Branch Profit $ –8,930, Branch Trading & Profit & Loss – 4,90,240, Total of Trail Balance – Rs. 49,71,200)

<u>Problem 12:</u> Foreign branches: Non- Integral foreign operation: Moon Star has a branch at Virginia (USA). The Branch is a non-integral foreign operation of the Moon Star. The trial balance of the Branch as at 31st March, 2012 is as follows:

Particulars	Dr. US $	Cr. US $
Office equipments	48,000	---
Furniture and Fixtures	3,200	---
Stock (April 1, 2011)	22,400	---

Purchases	96,000	---
Sales	---	1,66,400
Goods sent from H.O	32,000	---
Salaries	3,200	---
Carriage inward	400	---
Rent, Rates & Taxes	800	---
Insurance	400	---
Trade Expenses	400	---
Head Office Account	---	45,600
Sundry Debtors	9,600	---
Sundry Creditors	---	6,800
Cash at Bank	2,000	---
Cash in Hand	400	---
	2,18,800	**2,18,800**

The following further information's are given:

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

Prepare:

1. Trial balance incorporating adjustments given converting dollars into rupees.
2. Trading, Profit and Loss Account for the year ended 31st March, 2012 and Balance Sheet as on date depicting the profitability and net position of the Branch as would appear in the books of Moon Star for the purpose of incorporating in the main Balance Sheet. **(PM)**

(Ans: Exchange gain Rs.4,66,800; Net profit Rs.11,02,200; Total of Balance sheet Rs.39,79,000)

<u>**Problem 13:**</u> **Foreign branches: Integral foreign operation: Conversion of branch trial balance in to head office ruling currency:** 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, 2013 and the additional information given thereafter. **(Rs. in thousands)**

Particulars	Dr.	Cr.
Stock on 1st April, 2012	300	-
Purchases and sales	800	1200
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	-	1620
	3360	**3360**

Additional information:

1. 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.
2. Unsold stock of Mumbai branch was worth Rs.4,20,000 on 31st March, 2013.
3. The rates of exchange may be taken as follows:
   a. On 1.4.12 @ Rs.40 per US $.
   b. On 31.3.13 @ Rs.42 per US $.
   c. Average exchange rate for the year @ Rs.41 per US $.
   d. 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, 2013 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin. You are informed that Mumbai branch account showed a debit balance of US $ 39609. 18 on 31.3.2013 in New York books and there were no items pending reconciliation. **(SM)**

(Ans.: Total of Trail Balance in $ - 81,734.62, Total of Balance Sheet in $ - 34,780.95)

<u>**Problem 14:**</u> **Foreign branch: Integral foreign operation: Conversion of branch trial balance in to head office ruling currency:** S & M Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M.

At the end of 31st March, 2011, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office:

Particulars	Bombay (Rs. thousands)		Sydney (Austr dollars thousands)	
	Debit	Credit	Debit	Credit
Share capital	-	2,000	-	-
Reserves & Surplus	-	1,000	-	-
Land	500	-	-	-
Buildings (cost)	1,000	-	-	-
Buildings Dep. Reserve	-	200	-	-
Plant & Machinery (Cost)	2,500	-	200	-
Plant & Machinery Dep. Reserve	-	600	-	130
Debtors/Creditors	280	200	60	30
Stock (1.4.2010)	100	-	20	-
Branch Stock Reserve	-	4	-	-
Cash & Bank Balances	10	-	10	-
Purchases/Sales	240	520	20	123
Goods sent to Branch	-	100	5	-
Managing Director's salary	30	-	-	-
Wages & Salaries	75	-	45	-
Rent	-	-	12	-
Office Expenses	25	-	18	-
Commission Receipts	-	256	-	100
Branch/H.O. Current A/c	120	-	-	7
	4,880	**4,880**	**390**	**390**

The following information is also available:

1. Stock as at 31.3.2011:

   Bombay Rs.1,50,000; Sydney A $ 3,125
2. Head office always sent goods to the branch at cost plus 25%
3. Provision is to be made for doubtful debts 5%

4. Depreciation is to be provided on building at 10% and on plant and machinery at 20% on written- down values.
5. The managing director is entitled to 2% commission on net profits
6. Income tax is to be provided at 47.5%

You are required to convert the Sydney Branch Trial Balance into rupees; (Use the following rates of exchange

Opening rate	A $ = Rs.20;	Closing rate	A $ = Rs.24
Average rate	A $ = Rs.22;	For Fixed Assets	A $ = Rs.18).

To prepare the trading and P & L A/c for the year ended 31st March, 2011 , showing to the extent possible , head office results and branch results separately. **(PM)**

(May- 2013 Similar Problem)

(Ans: Difference in exchange Rs.2,16,000; Net profit Rs.9,88,000)

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	1, 2, 4 - 10, 12 - 15, 19 - 21	3, 11, 18	16, 17
Assignment Problems	1, 2, 7, 9, 12, 13	3, 5, 6, 8, 14	4, 10, 11

Verified by: G.S.R.Sir,
Hari narayana Sir,
Executed by: Rajasekhar Sir.

THE END