

6. ACCOUNTING FOR INDEPENDENT AND FOREIGN BRANCHES

ASSIGNMENT SOLUTIONS

PROBLEM NO: 1

Journal Entry in the books of Head Office

Particulars		Debit (Rs.)	Credit (Rs.)
Chennai Branch A/c	Dr.	6,000	
Cochin Branch A/c	Dr.	16,000	
To Mumbai Branch A/c			6,000
To Delhi Branch A/c			16,000
(Being the adjustment entry passed by head office in respect of inter-branch transactions)			

Statement of Inter Branch Transaction Effects:

Particulars	Bombay (Rs.)	Madras (Rs.)	Calcutta (Rs.)	Patna (Rs.)
→ Bombay:				
Received goods	10,000 (Dr)	-	6,000 (Cr)	4,000 (Cr)
Sent Goods	18,000 (Cr)	-	8,000 (Dr)	10,000 (Dr)
Received Bills Receivable	6,000 (Dr)	-	-	6,000 (Cr)
Sent Acceptance	6,000 (Cr)	-	4,000 (Dr)	2,000 (Dr)
→ Madras:				
Received goods	4,000 (Cr)	14,000 (Dr)	10,000 (Cr)	-
Cash Sent	6,000 (Dr)	8,000 (Cr)	2,000 (Dr)	-
→ Calcutta:				
Sent goods	-	-	6,000 (Cr)	6,000 (Dr)
Paid bills payable and cash	-	-	8,000 (Cr)	8,000 (Dr)
	6,000 (Cr)	6,000 (Dr)	16,000 (Cr)	16,000 (Dr)

PROBLEM NO: 2

Books of Branch A

Journal Entries

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

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

PROBLEM NO: 3Delhi Branch Trading and Profit & Loss Account for the year ended 31st Dec 2012

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Opening Stock A/c		By Sales A/c	1,00,000
- Head office (4000 x 80%)	3,200	By Goods from Branch A/c	3,000
- Others	500	By Closing Stock A/c	
To Goods to Branch A/c	40,000	- H.O	2,400
To Purchases A/c	20,000	- Others	1,000
To Gross Profit c/d	42,700		
	1,06,400		1,06,400
To Salaries A/c	7,000	By Gross Profit b/d	42,700
To Rent A/c	3,000		
To Office expenses A/c	2,000		
To Depreciation on furniture @ 10%	500		
To Net Profit (Bal. fig)	30,200		
	42,700		42,700

Dr. Branch Fixed Asset A/c (in Head office books) Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
01.01.12	To balance b/d	5,000	31.12.12	By Delhi Branch A/c (depreciation)	500
				By balance c/d	4,500
		5,000			5,000
01.01.13	To balance b/d	4,500			

WORKING NOTES:

Dr. Cash/Bank A/c (Branch Books) Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	1,000	By salaries	7,000
To Sale Proceeds		By Rent	3,000
Sales	1,00,000	By Office Expenses	2,000
Add: Opening balance of Debtors	9,500	By Creditors	47,000
	1,09,500	By Head office	32,000
Less: C/o. balance	(15,000)	By Cash balance	500
Cash received		By Bank balance	4,000
	94,500		95,500
	95,500		

Opening balance + Purchases - Closing balance = payment

30,000 + 20,000 - 3,000 = Rs.47,000 /-

Trial balance of Delhi Branch as on 1-1-2012

Particulars	Debit (Rs.)	Credit (Rs.)
Debtors	9,500	
Cash	1,000	
Stock H.O - 4,000		
Others - <u>500</u>	4,500	
Creditors		30,000
Head Office A/c	15,000	
	30,000	30,000

Dr. Head Office A/c Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance (transfer)	15,000	By Goods from H.O	50,000
To Cash	32,000		
To Goods Sent to branch A/c	3,000		
	50,000		50,000

- Credit balance in Head office A/c before this transfer will be Rs.15,000
- Furniture A/c is maintained in Head office books it is not part of either opening or closing balance

PROBLEM NO: 4

i)

**Books of Kanpur Branch
Journal Entries**

Particulars		(Rs. in lacs)	
		Dr.	Cr.
Goods in Transit A/c	Dr.	10	
To Head Office A/c			10
(Goods dispatched by head office but not received by branch before 1 st April, 2013)			
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, 2013

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

Balance Sheet as on 31st March, 2013

Liabilities	Rs. in lacs	Assets	Rs. 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
	<u>118</u>		<u>118</u>

iii)

**Books of Head Office
Journal Entries**

Particulars		Rs.	Rs.
		Dr. (Rs.)	Cr. (Rs.)
Branch Trading Account	Dr.	355	
To Branch Account			355
(The total of the following items in branch trial balance debited to branch trading account			
	Rs. in lacs		
Opening Stock	60		
Goods received from Head Office	288		
Carriage Inwards	7)		

Branch Account	Dr.	427	427
To Branch Trading Account (Total sales, closing stock and goods returned to Head Office credited to branch trading account, individual amount being as follows: Rs. in lacs)			
Sales		360	
Closing Stock		62	
Goods returned to Head Office		5)	
Branch Trading Account	Dr.	72	72
To Branch Profit and Loss Account (Gross profit earned by branch credited to Branch Profit and Loss Account)			
Branch Profit and Loss Account	Dr.	48	48
To Branch Account (Total of the following branch expenses debited to Branch Profit & Loss A/c)			
		Rs. in lacs	
Salaries		25	
Rent		10	
Advertising		6	
Telephone, Postage & Stationery		3	
Sundry Office Expenses		1	
Head Office Expenses		1	
Depreciation on furniture & Equipment		2)	
Branch Profit & Loss Account	Dr.	24	24
To Profit and Loss Account (Net profit at branch credited to (general) Profit & Loss A/c)			
Branch Furniture & Equipment	Dr.	18	118
Branch Stock	Dr.	62	
Branch Debtors	Dr.	20	
Branch Cash at Bank and in Hand	Dr.	8	
Goods in Transit	Dr.	10	
To Branch (Incorporation of different assets at the branch in H.O. books)			
Branch	Dr.	3	3
To Branch Outstanding Expenses (Incorporation of Branch Outstanding Expenses in H.O. books)			

PROBLEM NO: 5

Dr.		Pune Branch Trading and Profit and Loss Account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Opening Stock (including Rs.10,000 from Goa Branch)	40,000	By Sales (including Rs.20,000 to Goa Branch)		2,80,000	
To Purchases	2,00,000	By Closing Stock (including Rs.5,000 from Goa Branch)		30,000	
To Chargeable Expenses	15,000				
To Gross Profit c/d (before making adjustment for unrealized profit)	55,000				
	<u>3,10,000</u>			<u>3,10,000</u>	
To Stock Reserve (for unrealized profit in Closing Stock lying at Goa Branch). (Rs.4,000 x 25/100)	1,000	By Gross Profit b/d		55,000	
To Office & Adm. Expenses	13,250	By Stock Reserve (for unrealized profit in Opening Stock lying at Goa Branch) (Rs. 17,000 x 25/100)		4,250	
To Selling & Distribution Expenses	15,000				
To Net Profit	<u>30,000</u>				
	59,250			<u>59,250</u>	

Dr. Goa Branch Trading and Profit and Loss Account for the year ending on Cr.

Particulars	Rs.	Particulars	Rs.
To Opening Stock (including Rs.17,000 from Pune Branch)	30,000	By Sales (including Rs.15,000 to Pune Branch)	2,95,625
To Purchases	2,50,000	By Closing Stock (including Rs. 4,000 from Goa Branch)	43,500
To Chargeable Expenses	27,500		
To Gross Profit c/d (before making adjustment for unrealized profit)	31,625		
	<u>3,39,125</u>		<u>3,39,125</u>
To Stock Reserve (for unrealized profit on Closing Stock lying at Pune Branch). (Rs.5,000 x 20 / 100)	1,000	By Gross Profit b/d	31,625
To Office & Adm. Expenses	7,000	By Stock Reserve (for unrealized profit on Opening Stock at Pune Branch) (Rs.10,000 x 20/100)	2,000
To Selling & Distribution Expenses	10,000		
To Net Profit	15,625		
	<u>33,625</u>		<u>33,625</u>

PROBLEM NO: 6

In the books of Head Office

Dr. Branch Trading and profit & Loss A/c (in dollars) for the year ended 31st Dec 2012 Cr.

Particulars	Amount (\$)	Particulars	Amount (\$)
To Opening stock	11,200	By Sales A/c	84,000
To Goods form Head Office A/c	64,000	By Closing Stock (WN-1)	8,000
To Gross Profit c/d	16,800		
	<u>92,000</u>		<u>92,000</u>
To Expenses A/c	5,000	By Gross Profit b/d	16,800
To Depreciation A/c	2,400		
To Manager's Commission [WN – 2]	470		
To Net Profit c/d	8,930		
	<u>16,800</u>		<u>16,800</u>

WORKING NOTE: 1 Calculation of closing stock

Particulars	Amount (\$)
Opening stock	11,200
Less: Goods from Head office	64,000
	75,200
Less: cost of Goods sold (at invoice price) $84,000 \times \frac{100}{125}$	(67,200)
Closing stock	8,000

Closing stock in rupees \$8000 x Rs. 48 \Rightarrow Rs. 3,84,000**WORKING NOTE: 2**

Calculation of manager's commission @ 5% on profit = \$ [16,800 – (5,000+2,400)] x 5% = \$9,400 x 5% = \$ 470

 \therefore Managers Commission in Rupees \$ 470 X Rs. 48 = Rs. 22,560/-**a) Converted Branch Trial Balance Into Indian Currency:**

Particulars	Rate Per \$	Debit (Rs.)	Credit (Rs.)
Machinery	40	9,60,000	-
Stock Jan 1, 2012	46	5,15,200	-

Goods from Head office	Actual	29,26,000	-
Sales	47	-	39,48,000
Expenses	47	2,35,000	-
Debtors	48	2,30,400	-
Creditors	48	-	1,63,200
Cash at Bank	48	57,600	-
Head office	Actual	-	8,60,000
Difference		47,000	-
		49,71,200	49,71,200

b) Dr. Branch Trading and Profit & Loss A/c for the year ended 31-12-2012 Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To opening stock	5,15,200	By Sales A/c	39,48,000
To Goods From H.O A/c	29,26,000	By Closing Stock	3,84,000
To Gross Profit c/d	890,800		
	43,32,000		43,32,000
To Expenses	2,35,000	By Gross Profit b/d	8,90,800
To Depreciation A/c (9,60,000 x 10%)	96,000		
To Exchange diff A/c	47,000		
To Managers commission A/c (W.N:2)	22,560		
To Net profit c/d	4,90,240		
	8,90,800		8,90,800

c) Dr. Branch Account Cr.

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To balance b/d	8,60,000	By Machinery (960,000-96000)	8,64,000
To Net Profit	4,90,240	By Closing stock	3,84,000
To Creditors	1,63,200	By Debtors	2,30,400
To o/s commission	22,560	By Cash at bank	57,600
	15,36,000		15,36,000

PROBLEM NO: 7

M/s Carlin Mumbai branch Trial Balance in (US \$) As on 31st march, 2013

Particulars	Conversion Rate	Dr. US\$	Cr. US\$
Stock on 1.4.2012	40	7,500.00	-
Purchases	41	19,512.20	-
Sales	41	-	29,268.29
Sunday debtors	42	9,523.81	-
Sunday creditors	42	-	7,142.86
Bills of exchange	42	2,857.14	5,714.29
Wages & salaries	41	13,658.54	-
Rent, rates & Taxes	41	8,780.49	-
Sunday 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

Dr. Trading and Profit & Loss account for the year ended 31st march 2013 Cr.

Particulars	US \$	Particulars	US \$
To Opening stock	7,500.00	By sales	29,268.20
To Purchases	19,512.200	By Closing stock	10,000.00
To Wages & 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	17,685.3
To Rent, rates & Taxes	8,780.49		
To Sunday Charges	3,902.44		
To Depreciation on computers (US\$ 6,000 x 0.6)	3,600.00		
	17,685.38		17,685.38

Balance sheet of Mumbai branch as on 31st march 2013

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
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)	2,400.00
Sunday creditors		7,142.86	Less: 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

PROBLEM NO: 8

In the books of Moon star

a) Trial Balance (in Rupees) of Virginia (USA) Branch as on 31st march 2012

Particulars	Dr (\$)	Cr (\$)	Conversion rate	Dr (Rs.)	Cr (Rs.)
Office Equipment	43,200	-	50	21,60,000	-
Dep. On office equipment	4,800	-	50	2,40,000	-
Furniture & Fixtures	2,880	-	50	1,44,000	-
Dep on furniture & Fixtures	320	-	50	16,000	-
Stock (1 st April 2011)	22,400	-	47	10,52,800	-
Purchases	96,000	-	45	43,20,000	-
Sales	-	1,66,400	45	-	74,88,000
Goods Sent form H.O	32,000	-	-	15,80,000	-
Carriage Inward	400	-	45	18,000	-
Salaries (3,200 + 400)	3,600	-	45	1,62,000	-
o/s salaries	-	400	50	-	20,000
Rent, rates & Taxes	800	-	45	36,000	-
Insurance	400	-	45	18,000	-
Trade expenses	400	-	45	18,000	-
Head office A/c	-	45,600	-	-	20,50,000
Trade debtors	9,600	-	50	4,80,000	-
Trade Creditors	-	6,800	50	-	3,40,000
Cash at bank	2,000	-	50	1,00,000	-
Cash in hand	400	-	50	20,000	-
Exchange gain (b/f)					4,66,800
	2,19,200	2,19,200		1,03,64,800	1,03,64,800

b) Dr. Trading and profit & Loss A/c of Virginia Branch for the year ended 31st March 2012 Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs)
To Opening stock	10,52,800	By sales	74,88,000
To purchases	43,20,000	By closing stock (\$ 21,500 x 50)	10,75,000
To Goods from H.O	15,80,000		
To Carriage Inward	18,000		
To Gross profit c/d	15,92,200		
	85,63,000		85,63,000
To Salaries	1,62,000	By Gross profit b/d	15,92,200
To Rent, rates & Taxes	36,000		

To Insurance	18,000		
To Trade Expenses	18,000		
To Depreciation on office equipment	2,40,000		
To Depreciation on furniture & Fixtures	16,000		
To Net Profit c/d	11,02,200		
	15,92,200		15,92,200

c) Balance sheet of Virginia branch as on 31st March 2012

Liabilities		Amt (Rs.)	Assets		Amt (Rs.)
Head office A/c	20,50,000		Office Equipment	24,00,000	
Add: Net Profit	11,02,200	31,52,200	Less: Depreciation @ 10%	(2,40,000)	21,60,000
Foreign Currency Translation Reserve		4,66,800	Furniture & Fixtures	1,60,000	
Trade creditors		3,40,000	Less: Depreciation@10%	(16,000)	1,44,000
o/s salaries		20,000	Classing stock		10,75,000
			Trade debtors		4,80,000
			Cash in hand		20,000
			Cash at Bank		1,00,000
		39,79,000			39,79,000

PROBLEM NO: 9Sydney Branch Trial balance as on 31st March 2011

(Rs. 000's)

Particulars	Dr (\$)	Cr (\$)	Conversion rate	Dr (Rs.)	Cr (Rs.)
Plant & Machinery (at cost)	200	-	18	3,600	--
Plant & machinery Dep reserve	-	130	18	-	2,340
Debtors / Creditors	60	30	24	1,440	720
Stock as on 1 st April	20	-	20	400	-
Cash & bank balances	10	-	24	240	-
Purchases / sales	20	123	22	440	2,706
Goods received from Head Office	5	-	-	100	-
Wages & salaries	45	-	22	990	-
Rent	12	-	22	264	-
Office expenses	18	-	22	396	-
Commission receipts	-	100	22	-	2,200
H.O current A/c	-	7	-	-	120
Exchange Loss (b/f)				216	-
	390	390		8,086	8,086

Dr. Trading and Profit & Loss A/c to the year ended 31st March 2011 Cr.

Particulars	H.O	Branch	Total	Particulars	H.O	Branch	Total
To Opening stock	100	400	500	By sales	520	2,706	3,226
To Purchases	240	440	680	By Good send to Branch	100	-	100
To Goods received from H.O	-	100	100	By closing stock	150	75	225
To Gross Profit c/d	430	1,841	2,271				
	770	2,781	3,551		770	2,781	3,551
To Wages & Salaries	75	990	1,065	By Gross profit b/d	430	1,841	2,271
To Rent	-	264	264	By Commission Receipts	256	2,200	2,456
To Office Expenses	25	396	421				
To PBD @5%	14	72	86				
To Depreciation [WN-1]	460	252	712				
To Balance c/d	112	2,067	2,179				
	686	4,041	4,727		686	4,041	4,727
To Exchange loss			216	By Balance b/d			2,179

To Branch stock reserve (WN-2)			11			
To Managing Directors						
- Salary	30					
- Commission (WN-3)	40.16					
To Net profit before Tax	1,881.84					
			2,179			2,179
To Provision for Tax (1881.84 x 47.5%)	893.874			By Balance b/d		1881.84
To Net Profit after Tax	987.126					
			1,881			1,881

WORKING NOTE 1: Calculation of Depreciation

Particulars	Head office (Rs.)	Branch (Rs.)
Building-cost	100	
Less: Depreciation Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery at cost	2,500	3,600
Less: Depreciation Reserve	(600)	(2,340)
	1,900	1,260
Depreciation @ 20% (B)	380	252
∴ Total Depreciation (A)+(B)	460	252

WORKING NOTE 2: Computation of Branch stock Reserve

Particulars	Amount (Rs.)
Closing stock (\$ 3,125 x 24)	75
Reserve on closing stock $\left(75 \times \frac{25}{125}\right)$	15
Less: Branch stock Reserve on 01.04.2010	(4)
Reversal of stock reserve	11

WORKING NOTE 3: Computation of Managing Director's Commission

Particulars	Amount (Rs.)
Profit before adjustments	2,179
Add: Provision for Doubtful Debts	86
	2,265
Less: Branch stock reserve	11
Less: Exchange loss	216
Less: Salary to Manager	30
	(257)
	2,038
Commission @2% of profit	40.16

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THE END