9. ACCOUNTING FOR INDEPENDENT AND FOREIGN BRANCHES

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 09, ASSIGNMENT – 09

NO. OF PROBLEMS IN 42e OF CA INTER: CLASSROOM - 09, ASSIGNMENT – 09

NO. OF PROBLEMS IN 43e OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 10

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18(O)	M-18(N)	N-18(O)	N-18(N)	M-19(O)	M-19(N)	N-19(O)	N-19(N)
Model - 1	5	-	5	-	-	8	-	-	4	-	8	8	-	8	8	-	-	-	-	6	-
Model - 2	-	16	-	16	-	-	-	-	-	8	-	-	12	-	-	-	-	8	8	-	4

Model - 1 : Independent Branch Operations

Model - 2 : Foreign Operations

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in NEW SM	Problem No. in OLD SM	Problem No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR 1	-	-	18	-	-	-	
CR 2	PQ - 3	-	7	-	-	-	
CR 3	ILL-14	ILL-16	-	-	-	-	
CR 4	ILL - 12	ILL - 14	-	-	-	-	
CR 5	ILL-15	ILL - 17	-	-	-	-	
CR 6	ILL - 13	ILL - 15	-	-	-	-	
CR 7	ILL - 6	ILL - 8	-	-	-	-	
CR 8	-	-	-	M17	-	-	
CR 9	-	-	22	-	-	-	
CR 10	-	-	20	-	-	-	
ASG 1	PQ - 4	-	6	-	-	-	
ASG 2	-	-	-	-	-	-	
ASG 3	PQ - 6	-	5	-	-	-	
ASG 4	ILL - 11	ILL - 13	24	-	-	-	
ASG 5	-	-	9	-	-	-	
ASG 6	-	-	16	-	-	-	
ASG 7	PQ - 7	-	21	-	-	-	
ASG 8	ILL - 16	ILL - 18	-	-	N19 (O)	-	
ASG 9	ILL - 18	ILL - 20	-	M19(N&O)	N18 (N)	M19(N)	
ASG 10	-	-	23	-	-	-	

INDEPENDENT BRANCHES

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

- 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 Dr. 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 Dr. 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 Kolkata 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 Kolkata 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 Kolkata Branch A/c	XXX	 XXX

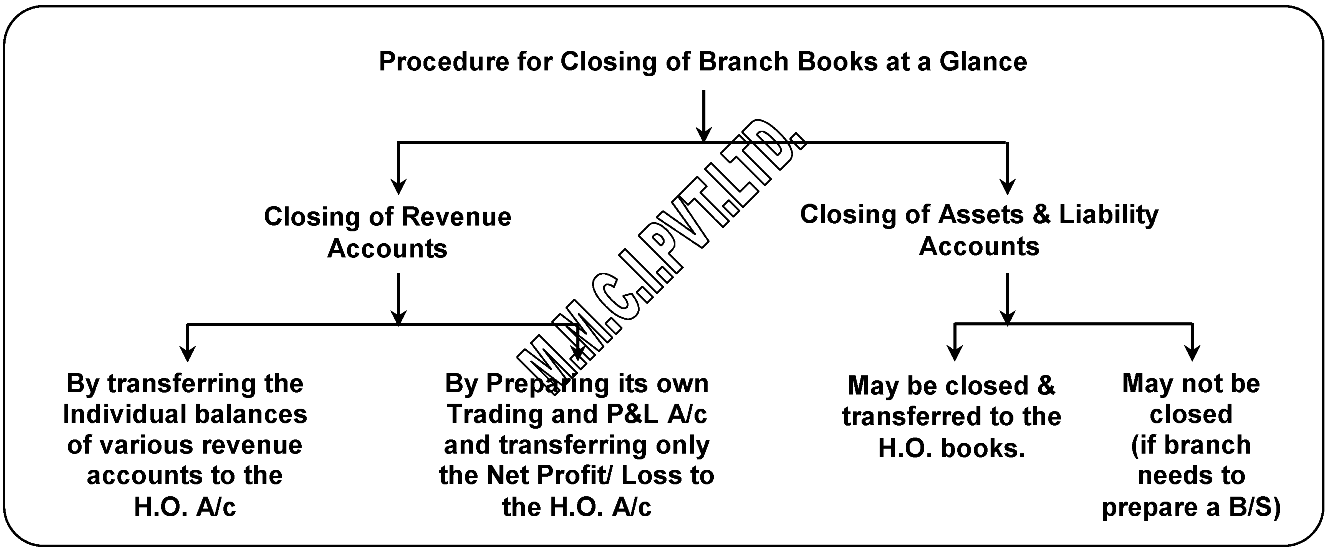
Note: Inter-branch transactions without the knowledge of head office may be passed as between the branches only in the usual manner.

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:



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 Dr To Sundry Revenue A/c's	 XXX 	 XXX
2.	**For credit balances of revenue items:** Sundry Revenue A/c's Dr To Head Office A/c	 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 may or may not be 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

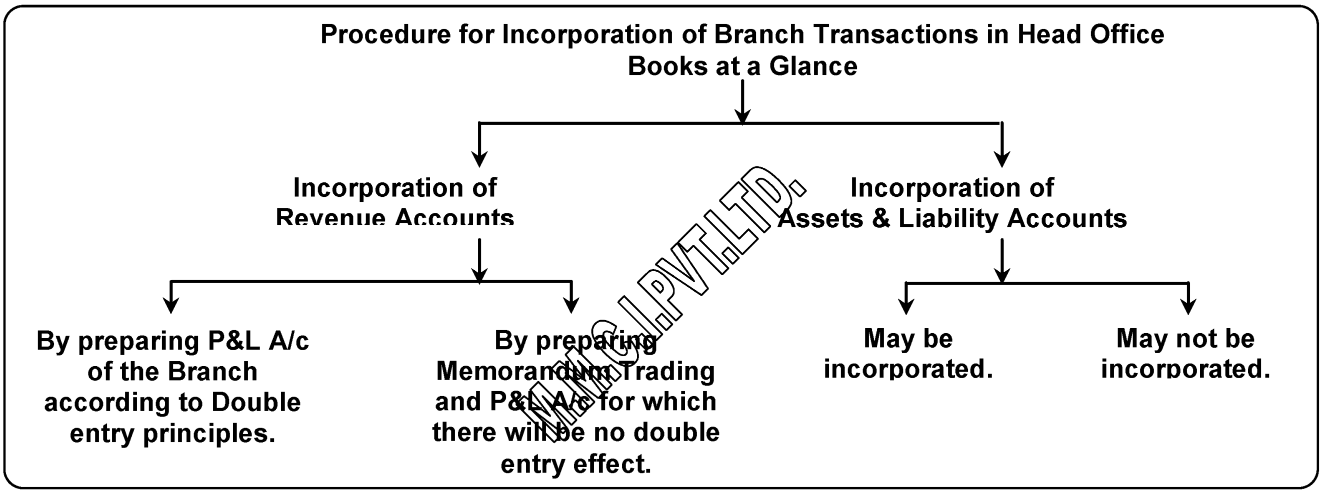
After such transfer, the H.O. A/c in branch books will have nil balance.

Notes:

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

Notes:

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 & 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 (Individually) Dr. 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.

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: (Reconciliation): 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.

(A) (OLD PM, SIMILAR: RTP N18 (N&O)) (SOLVE PROBLEM NO. 1 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

1. Pass journal entries in the books of Head office for the below.

a) Income of 2,500 collected by the Branch on Behalf of Head office.

b) Branch paid Rs.3,000 as Salary to H.O Manager But not Recorded in H.O books.

c) Branch A Incurred Traveling expenses of Branch B Rs. 5,000.

Note:____

PROBLEM 2: (Adjustment entry for position arising out of inter-branch transactions): 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.

(A) (NEW SM, M17 - 8M, SIMILAR: MTP N17) (SOLVE PROBLEM NO. 2 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 3: (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. ***(B) (NEW SM)***

(ANS.: BALANCE IN HEAD OFFICE ACCOUNT: RS. 2,78,400; TOTAL OF BALANCE SHEET: RS. 3,05,200)

(SOLVE PROBLEM NO.3 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What will be the Impact?

1. If outstanding salaries amounted to Rs.2,000 (in place of advance salary of Rs 2,000).

2. Outstanding Wages Rs.2,500.

Note:____

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PROBLEM 4: **(Incorporation of branch books in the books of head office):** Ring Bell Ltd. Delhi has a Branch at Bombay where a separate set of books is used. The following is the trial balance extracted on 31st December, 20X1.

Head Office Trial Balance

	Rs.	Rs.
Share Capital (Authorized: 10,000 Equity Shares of Rs.100 each):		
Issued: 8,000 Equity Shares		8,00,000
Profit & Loss Account - 1-1-20X1		25,310
General reserve		1,00,000
Fixed Assets	5,30,000	
Stock	2,22,470	
Debtors and Creditors	50,500	21,900
Profit for 20X1		52,200
Cash Balance	62,730	
Branch Current Account	1,33,710	
	9,99,410	**9,99,410**

Branch Trial Balance

	Rs.	Rs.
Fixed Assets	95,000	
Profit for 20X1		31,700

Stock	50,460	
Debtors and Creditors	19,100	10,400
Cash Balance	6,550	
Head Office Current Account		1,29,010
	1,71,110	**1,71,110**

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

a) Cash remitted by the Branch on 31st December, 20X1, but received by the Head Office on 1st January 20X2 - Rs.3,000.

b) Stock stolen in transit from Head Office and charged to Branch by the Head Office, but not credited to Head Office in the Branch books as the Branch Manager declined to admit any liability (not covered by insurance) - Rs.1,700.

Give the Branch Current Account in Head Office books after incorporating Branch Trial Balance through journal. ***(A) (NEW SM) (TOTAL OF BRANCH CURRENT A/C: RS.1,75,810)***

(SOLVE PROBLEM NO. 4 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What will be the Impact?

1. ***If goods in transit is Rs.1,000.***
2. **If H.O A/c credited in Branch Books on receipt of claim by branch Rs.1,700 for stock stolen in transit.**

Note:____

PROBLEM 5: 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; ***(A) (NEW SM)***

<u>CONCEPT QUESTIONS:</u>

What will be the Impact?

1. If goods transferred from head office to branch at cost plus 15%.

2. Give the details of current assets in the books of head office when head office prepare Balance sheet as a whole.

Note:____

<u>PROBLEM 6:</u> (PRINTED SOLUTION AVAILABLE): (Preparation of balance sheet of business as a whole):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. ***(B) (NEW SM)***

(ANS.: PROFIT FOR HEAD OFFICE: 17,053, BRANCH: 6,904, COMBINED: 23,957, TOTAL OF BALANCE SHEET - 87,113)

(SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What will be the Impact?

1. **If head office sent goods to Branch at cost plus 20%.**
2. ***If rate of gross profit of head office is 20% on sales.***
3. ***The rate of gross profit of branch is 35% of sales.***

Note:____

____

PROBLEM 7: 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. ***(B) (NEW SM, SIMILAR: N18 (O) - 4M)***

(ANS.: NET PROFIT 1,95,000; STOCK RESERVE RS. 60,000)

(SOLVE PROBLEM NO. 6 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What will be the Impact?

1. ***If goods are invoiced to branch at 20% on invoice price.***
2. ***If Sale price is 20% of Sales.***

Note:____

____

PROBLEM 8: (PRINTED SOLUTION AVAILABLE): (Stock transfer between independent branches): L Ltd. has its head office at Mumbai and two branches at Pune and Goa. The branches purchase goods independently. The Pune branch makes a profit of 33-1/3% on cost which the Goa branch makes a profit of 20% on sales. Goods are also supplied by one branch to another at the respective sales price. From the following particulars, prepare the Trading and Profit and Loss Account of each of the branches and find out the profit or loss made by each of them after taking into account the reserve for unrealised profits:

Particulars	Pune Branch (Rs.)	Goa Branch (Rs.)
Opening Stock	40,000	30,000
Purchases (Including Inter Branch transfers)	2,00,000	2,50,000
Sales	2,80,000	2,95,625
Chargeable Expenses	15,000	27,500
Closing Stock	30,000	43,500
Office and Adm. Expenses	13,250	7,000
Selling and Distribution Expenses	15,000	10,000

Information:

a) Opening stock at Pune Branch includes goods of Rs.10,000 taken from Goa Branch.

b) Opening stock at Goa Branch includes goods of Rs.17,000 taken from Pune Branch at cost to receiving branch

c) The Pune Branch sales includes transfer of goods to Goa Branch at selling price Rs.20,000

d) The sales of Goa Branch include transfer of goods to Pune Branch at selling price Rs.15,000.

e) Closing stock at Pune Branch includes goods received from Goa Branch Rs.5,000.

f) Closing stock at Goa Branch includes goods of 4,000 received from Pune Branch. ***(B) (RTP M17)***

(ANS.: PUNE BRANCH NET PROFIT: RS. 30,000; GOA BRANCH NET PROFIT: RS.15,625)

CONCEPT QUESTIONS:

What will be the Impact?

1. ***If Pune branch makes a profit of 20% on sale.***
2. ***Goa branch makes a profit of 331/3 % of cost.***

FOREIGN BRANCHES

Foreign branches are branches situated in a country other than the country of the Head Office i.e. a place where principal activities of the business are carried out.

Foreign branches generally maintain independent and complete record of business transacted by them in currency of the country in which they operate.

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

Foreign Operations

Integral Foreign Operations

1. A Foreign operation (branch) does its business outside India as if it is an extension to the Indian business.
   For example If a Foreign branch does the following:
   - **a)** Import the goods from India:
   - **b)** Sell the goods in Foreign Country and
   - **c)** Remit the foreign currency collected from customers to the HO in India.
2. As there are frequent cash flows, changes in forex rates directly affect the operating cash flows of the reporting entity.
3. Another example:
   - **a)** If foreign branch's duty is to collect raw material from that country and send the same to the H.O (head office) in India.
   - **b)** If foreign branch duty is to find customers in that country and forward the orders to the H.O in India.

Non-Integral Foreign Operations

1. A foreign operation does business independently and accumulates cash and other monetary items and remits foreign currency occasionally.
2. As there are NO frequent cash flows, changes in forex rates will have little or NO direct effect on the operating cash flows of the reporting entity.
3. For example, If a foreign branch procures the raw material & pays in its local currency, manufactures or provides services, uses surplus for future plans, if requires borrows in its local currency. etc. and occasionally sends money to HO in India as per the requirement.
4. The reporting entity looks at the non-integral operation as an investment.

Translations of Financial Statements of Integral Foreign Operations (IFO):

Item	Rate
Revenue Items	Average Rate for the year.
Opening Stock	Rates prevalent at the Commencement of the Accounting Period, i.e. Opening Rate.
Closing Stock	Rates prevalent at the close of the Accounting Period, i.e. Closing Rate.
Fixed Asset	Translated at the Original Rate. If there is a change in the value of the Foreign currency Liabilities, adjustment should be made to Cost of Fixed Assets in Rupees.
Depreciation	Rate used for translation of value of Fixed Assets on which the depreciation is calculated.
Current Assets	Rates prevalent at the Close of the Accounting Period, i.e. Closing Rate.
Current Liabilities	Rates prevalent at the Close of the Accounting Period, i.e. Closing Rate.
Long Term Liabilities	Rates prevalent at the Close of the Accounting Period, i.e. Closing Rate.
Head Office Account	Balance in 'Head Office Account' in the Branch Books is taken at the Indian Rupees for which 'Branch Account' in the Head Office books stands. It must be ensured that no transaction is left unaccounted in both the books.

Note: On translation of branch trial balance as above, a difference would arise due to application of different exchange rates. Such difference is accounted in a separate A/c called Exchange difference A/c. This difference may either be a loss or a gain to be recognised in Branch Profit & Loss A/c.

Translations of Financial Statements of Non-Integral Foreign Operations (NFO):

Item	Rate
Revenue Items	Average Rate for the year.
All Assets and Liabilities	Rates prevalent at the Close of the Accounting Period, i.e. Closing Rate.

Note: The exchange difference on translation is carried in the balance sheet in the separate reserve called "foreign currency translation reserve" since it represents essentially, unrealised exchange difference. This balance is recognised in profit & loss A/c in the year of disposal of non-integral foreign operation.

PROBLEM 9: 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.

(A) (OLD 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. 7,8,9 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What will be the Impact?

1. ***If London Branch is a non – integral Foreign operation.***
2. ***If fixed assets are depreciated by 15% p.a.***

Note: ______________________________

PROBLEM 10: (PRINTED SOLUTION AVAILABLE): 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.

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

(A) (OLD PM, M12) (ANS.: NET PROFIT: RS.19,63,200; TOTAL OF BALANCE SHEET: RS.80,85,200)

(SOLVE PROBLEM NO. 10 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS:

What will be the Impact?

1. **If Washington Branch is a IFO.**
2. ***Depreciation on plant & machinery, furniture and fixtures by 15%.***

Note:

PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 3, 6, 8,10

PROBLEM NO: 3

Journal entries in the books of Delhi Branch

S. No.	Particulars	Debit	Credit
1.	Head office A/c Dr. To Building A/c (Being special adjustment entry for closing building and transferred to Head Office A/c as fixed assets A/c being maintained in the books of Head Office)	4,000	 4,000
2.	Head Office A/c Dr. To Remittance to H.O. A/c (Being special adjustment entry passed for closing remittance to H.O. A/c)	38,400	 38,400
3.	Prepaid salary A/c Dr. To Salaries A/c (Being adjustment entry passed for prepaid salaries)	2,000	 2,000
4.	Prepaid Fire Insurance A/c Dr. To Fire Insurance A/c (Being adjustment entry passed for prepaid insurance)	1,600	 1,600
5.	Head office A/c Dr. To Wages A/c To Salaries A/c (6,400 - 2,000) To Purchases Ac To General expenses A/c To Fire Insurance A/c (3,200-1,600) To Manager's salary A/c To Discount allowed A/c (Being all the revenue A/c's having debit balances closed by transferring to Head office A/c)	88,400	 20,000 4,400 48,000 1,600 1,600 4,800 8,000
6.	Sales A/c Dr. Discount earned A/c To Head office A/c (Being all revenue a/c's having credit balances closed by transferred to Head Office A/c)	2,40,000 1,200	 2,41,200

Dr. Head Office A/c Cr.

Particulars	Rs.	Particulars	Rs.
To Building A/c	4,000	By Balance b/d	1,68,000
To Remittance to H.O. A/c	38,400	By Sales A/c	2,40,000
To Sundries A/c (Revenue A/c debit balances)	88,400	By Discount earned	1,200
To Balance c/d (b/f)	2,78,400		
	4,09,200		**4,09,200**

Balance Sheet of Delhi Branch as on 30.09.2012

Liabilities	Rs,	Assets	Rs,
Creditors (WN-1)	26,800	Debtors (WN-2)	2,72,000
Head Office	2,78,400	Prepaid salary	2,000

		Prepaid fire insurance	1,600
		Cash in hand	1,600
		Cash at Bank	28,000
	3,05,200		**3,05,200**

Working Note: 1

Dr. **Creditors A/c** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Cash A/c	60,000	By Balance b/d	40,000
To Discount A/c	1,200	By Purchases A/c	48,000
To Balance c/d	26,800		
	88,000		**88,000**

Working Note: 2

Dr. **Debtors A/c** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,00,000	By Cash	1,60,000
To Sales	2,40,000	By Discount	8,000
		By Balance c/d	2,72,000
	4,40,000		**4,40,000**

PROBLEM NO: 6

In the books of KP limited

Dr. **Trading and Profit and Loss Account for the year ended 31.12.2012** **Cr.**

Particulars	H.O	Branch	Total	Particulars	H.O	Branch	Total
To Material consumed	34,500	-	34,500	By Sales	2,00,000	65,200	2,65,200
To wages	1,08,500	-	1,08,500	By Goods sent to branch	46,000	-	-
To Factory overheads	39,000	-	39,000	By Closing stock including transit	15,000	9,560	24560
To Opening stock of finished goods	13,000	9,200	22,200				
To Goods from H.O		46,000					
To gross profit c/d	66,000	19,560	85,560				
	2,61,000	74,760	2,89,760		2,61,000	74,760	2,89,760
To Admn. Salaries	13,900	4,000	17,900	By Gross profit b/d	66,000	19,560	85,560
To Salesmen salaries	22,500	6,200	28,700				
To Other Admn & overheads	12,500	2,300	14,800				
To Stock	47	-	47				

reserve (increases)							
To Bonus to staff	-	156	156				
To Net profit	17,053	6,904	23,957				
	66,000	**19,560**	**85,560**		**66,000**	**19,560**	**85,560**

Balance sheet as on 31st Dec.,2012

Liabilities	Head office (Rs.)	Branch (Rs.)	Total (Rs.)	Assets	Head office (Rs.)	Branch (Rs.)	Total (Rs.)
Capital	50,000		50,000	Fixed Assets	-	-	-
Profit : H.O- 17,053 Branch - 6,904	23,957		23,957	Current Assets			
Trade creditors	13,000		13,000	Raw material	2,300		2,300
Bonus payable		156	156	Finished goods (Less stock reserve)	15,000	9,560	23,313*
H.O account		10,404		Debtors	37,000		37,000
Stock reserve	1,247			Cash (including transit item)	23,500	1,000	24,500
				Branch A/c*	10,404**		
	88,204	**10,560**	**87,113**		**88,204**	**10,560**	**87,113**

*9,560 x 100/115 i.e., (8,313 + 15,000) = Rs. 23,313

**(5,000 + 6,904) - 1500 = Rs. 10,404

PROBLEM NO: 8

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 3,10,000		3,10,000
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 To Net Profit	15,000 30,000 **59,250**		**59,250**

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		
	3,39,125		3,39,125
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 33,625		33,625

PROBLEM NO: 10

Statement showing conversion of Washington branch trail balance from Branch currency ($) Into Head office currency Rs.

Particulars	Branch Currency ($)		Exchange rate	Head Office Currency	
	Dr. ($)	Cr. ($)		Dr. (Rs.)	Cr. (Rs.)
Plant and Machinery	1,08,000		41	44,28,000	
Depreciation On plant & machinery	12,000		41	4,92,000	
Furniture and fixtures	7,200		41	2,95,200	
Depreciation On furniture & fixtures	800		41	32,800	
Stock 01-10-2011	56,000		39	21,84,000	
Purchases	2,40,000		40	96,00,000	
Sales		4,16,000	40		1,66,40,000
Goods from head office	20,000		Given	89,40,000	
Wages	3,000		40	1,20,000	
Outstanding wages		1,000	41		41,000
Carriage inward	1,000		40	40,000	
Salaries	6,000		40	2,40,000	
Rent, Rates & Taxes	2,000		40	80,000	
Insurance	1,000		40	40,000	
Trade expenses	1,000		40	40,000	
Head office a/c		1,14,000	Given		43,00,000
Trade Debtors	24,000		41	9,84,000	
Trade creditors		17,000	41		6,97,000
Cash at Bank	5,000		41	2,05,000	
Cash in hand	1,000		41	41,000	
Exchange difference					10,84,000
	5,48,000	**5,48,000**		**2,27,62,000**	**2,27,62,000**

Closing stock = 52,000*41=21,32,00

In the books of head office

Trading and Profit & loss a/c of Washington Branch for the year ended 30-09-2012

Particulars	Amount	Particulars	Amount
To opening stock	21,84,000	By sales	1,66,40,000
To Purchases	96,00,000	By Closing Stock	21,32,000
To Goods from head office	39,40,000		
To wages	1,20,000		
To Carriage inwards	40,000		
To Gross Profit (B/f)	**28,83,000**		**28,83,000**
To Depreciation on plant & machinery	4,92,000	By Gross profit	28,88,000
To Depreciation on furniture and fixture	32,800		
To salaries	2,40,000		
To Rent, rates and taxes	80,000		
To insurance	40,000		
To Trade expenses	40,000		
To Net profit	**19,63,200**		
	28,88,000		**28,88,000**

Balance sheet of Washington Branch as on 30-09-2012

Liabilities	Amount	Assets	Amount
Head office 43,00,000		Plant & machinery 49,20,000	
(+) Net profit 19,63,200	62,63,200	(-) Depreciation (4,92,000)	44,28,000
Foreign currency transaction reserve	10,84,000	Furniture & fixture 3,28,000	
Outstanding wages	41,000	(-) Depreciation (32,800)	2,95,200
Trade creditors	6,97,000	Trade debtors	9,84,000
		Cash at bank	2,05,000
		Cash in hand	41,000
		Closing stock	21,32,000
	80,85,200		**80,85,200**

ASSIGNMENT PROBLEMS

PROBLEM 1: Give Journal Entries in the books of Branch A to rectify or adjust the following:

1. Head office expenses Rs.3,500 allocated to branch but not recorded in the branch books
2. Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for Rs.1,500.
3. Branch paid Rs. 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.
4. H.O. collected Rs.10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.
5. A remittance of Rs.15,000 sent by the Branch has not yet been received by the Head Office.
6. Branch A incurred advertisement expenses of Rs.3,000 on behalf of Branch B. ***(B) (NEW SM)***

CONCEPT QUESTIONS:

Pass journal entries in the books of Head office.

1. ***Branch Paid Rs. 2,000 as salary to H.O Inspector.***
2. ***Branch A Accepted a Bill Drawn by Branch B Rs.1,000.***

PROBLEM 2: 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. ***(B) (OLD PM)***

CONCEPT QUESTIONS:

What will be the Impact?

Journal entries are required to pass in the books of branches individually rather than in the books of Head Office

PROBLEM 3: 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 31^{st} March, 2013 was valued at Rs. 62 lacs. On 29^{th} March, 2013 the Head Office dispatched goods costing Rs. 10 lacs to its branch. Branch did not receive these goods before 1^{st} 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 lakh 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. ***(A) (NEW SM,OLD PM) (ANS.: NET PROFIT RS.24LACS; TOTAL OF BALANCE SHEET RS.118LACS)***

CONCEPT QUESTIONS:

What will be the Impact?

1. ***If provision for doubtful debts @5% on branch debtors.***
2. ***Outstanding salaries Rs.2 lacs.***

PROBLEM 4: Messers 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. However, they 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. ***(A) (NEW SM) (ANS.: NET PROFIT RS.30,200)***

CONCEPT QUESTIONS:

What will be the Impact?

1. ***The goods from head office are invoiced at selling price to give a profit of 20% on Cost.***
2. ***Prepaid Rent Rs.400.***

PROBLEM 5: 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 31.03.2013.

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 31.03.2013 ***(A) (OLD PM, RTP M17)***

(ANS.: H.O. NET PROFIT RS.1,28,091; BRANCH NET PROFIT RS.1,26,800; TOTAL OF BALANCE SHEET -RS.11,22,091)

CONCEPT QUESTIONS:

What will be the Impact?

1. ***If the goods were sent branch @ 20% on invoice price.***
2. ***If the branch sells @ 80% of cost to Head office.***

PROBLEM 6: Rohit of Delhi has a branch at Nagpur. Following is the information of Nagpur Branch for the year ending 31st March, 2019.

1. Goods are invoiced to the branch at cost plus 25%.
2. Sale Price is cost plus 40%.
3. Goods sent during the year at invoice price 13,50,000
4. Sales during the year 14,70,000
5. Branch Expenses 55,000
6. Stock as on 1st April, 2018 at invoice Price 3,20,000

Calculate the profit earned by the branch during the year and Branch Stock Reserve in respect of unrealized profit. ***(N19 (O) - 6M)***

CONCEPT QUESTIONS:

What will be the Impact?

1. ***Goods Invoiced to Branch at cost plus 20%.***
2. ***Sale price is at cost plus 50%***

PROBLEM 7: The Washington branch XYZ, having head office at 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, 1st 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. ***(A) (NEW SM)***

(ANS.: BRANCH PROFIT $ -8,930, BRANCH TRADING & PROFIT & LOSS - 4,90,240, TOTAL OF TRAIL BALANCE - RS. 49,71,200)

CONCEPT QUESTIONS:

What will be the Impact?

1. ***If goods are sent to branch at cost plus 20% and the branch sells goods at invoice price plus 20%.***
2. ***Branch manager is entitle to commission of 5% on the profit of branch after charging such commission.***

PROBLEM 8: 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	Rs.	Rs.
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.

(Hint: Integral foreign operation Branch) ***(A) (NEW SM, MTP2 N18 (N&O), MTP2 M18 (N&O), SIMILAR: RTP N16)***

(ANS.: NET PROFIT $17,500; TOTAL OF BALANCE SHEET $44,400)

<u>CONCEPT QUESTIONS:</u>

What would be the impact?

1. ***If the Chennai Branch is a NFO.***
2. ***if Furniture was depreciated @ 10% in the books of branch?***

<u>PROBLEM 9:</u> 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 01.04.12 @ 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.

(A) (NEW SM, MTP1 N18 (N&O), SIMILAR: RTP N17, MTP1 M18 (O)) (ANS.: TOTAL OF TRIAL BALANCE IN $ - 81,734.62, TOTAL OF BALANCE SHEET IN $ - 34,780.95)

CONCEPT QUESTIONS:

What will be the Impact?

1. ***If Mumbai Branch is a NFO.***
2. ***Depreciate computers at 50% for the year***

PROBLEM 10: 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.

(A) (OLD PM) (ANS: EXCHANGE GAIN RS.4,66,800; NET PROFIT RS.11,02,200; TOTAL OF BALANCE SHEET RS.39,79,000)

CONCEPT QUESTIONS:

What will be the Impact?

1. ***Virginia branch is NFO.***
2. ***Depreciate office equipment and furniture & fixtures @15% p.a.***

ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM 1: 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 (Aus 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.

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. ***(A) (NEW SM, N17 - 12M)***

(ANS.: DIFFERENCE IN EXCHANGE RS.2,16,000; NET PROFIT RS.9,88,000)

THE END

MATERIAL PREPARED BY	MATERIAL VERIFIED BY	ASSISTED BY
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