

MAIN MATERIAL / CA INTER / GR. 1 / BOOK 16 / ACCOUNTS– PART 2 / 42.5E (2ND Version)

CHAPTERS INCLUDED – ACCOUNTING FOR DEPENDENT BRANCHES, ACCOUNTING FOR INDEPENDENT AND FOREIGN BRANCHES, HIRE PURCHASE AND INSTALMENT SALE TRANSACTIONS, DEPARTMENTAL ACCOUNTS, CASH FLOW STATEMENT, REDEMPTION OF PREFERNCE SHARES, ACCOUNTS FROM INCOMPLETE RECORDS & ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

(APPLICABLE TO MAY 2020 ATTEMPT OF CA INTER. SYNCHRONISED WITH JULY 2019 EDITION OF ICAI SM. ISSUED ON 04/12/19)

6. ACCOUNTING FOR DEPENDENT BRANCHES

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 07, ASSIGNMENT – 10

NO. OF PROBLEMS IN 41.5e OF CA INTER: CLASSROOM - 06, ASSIGNMENT – 8

NO. OF PROBLEMS IN 42.5(2e) OF CA INTER: CLASSROOM - 7, ASSIGNMENT - 8

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	-	-	-	-	-	-	8	-	12	-	-	-	-	-	-	4	-	-	-	6	-

Model - 1 : Dependent Branches

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	ILL - 3	ILL - 5	-	N16	M18 (N&O)	-	
CR 2	ILL - 8	ILL - 10	-	-	-	-	
CR 3	ILL - 1	ILL - 2	-	-	-	-	
CR 4	PQ - 5	-	4	-	-	-	
CR 5	ILL - 9	ILL - 11	-	-	N18 (O)	-	
CR 6	-	-	-	13	-	-	
CR 7	ILL - 10	ILL - 12	-	-	-	-	
ASG 1	-	-	-	M18 (N&O)	-	-	
ASG 2	-	-	-	-	-	M18 (N)	
ASG 3	ILL - 4	ILL - 6	-	-	-	-	
ASG 4	-	-	14	-	-	-	
ASG 5	-	-	11	-	-	-	
ASG 6	ILL - 7	ILL - 9	-	-	-	-	
ASG 7							
ASG 8	ILL - 6	ILL - 8	16	-	-	N18 (O)	

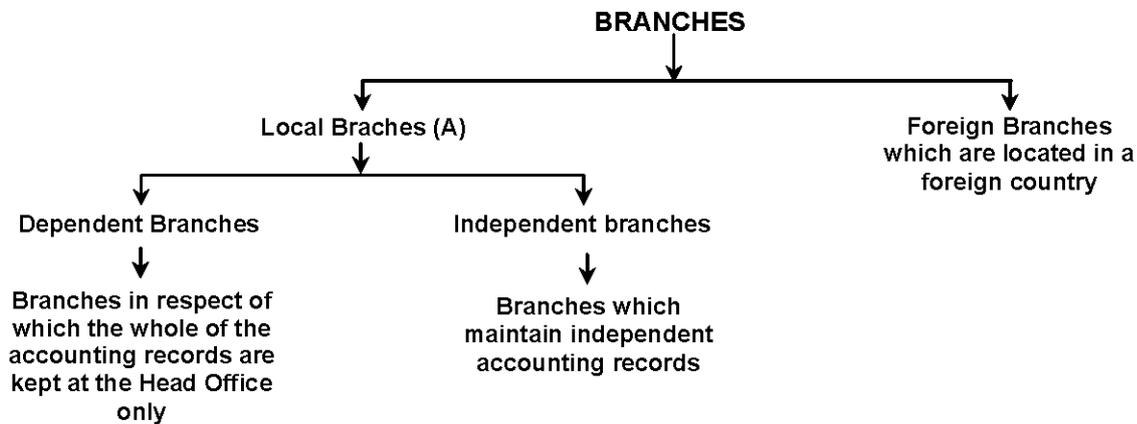
THEORY

Introduction: A branch can be described as any establishment carrying on either the same or substantially the same activity as that carried on by head office of the company. Business entities are in existence for growth. Beyond a point, growth comes by expanding geographically to other locations.

Objectives of Branch accounting:

- To record the branch transactions
- To ascertain the Profitability of the branch and thereby enable meaningful interpretation of branch results for future decisions

Classification of Branches: From an accounting point of view, branches are classified as:

**Dependent Branches:**

- When the business policies and the administration of a branch are wholly controlled by the head office and its accounts also are maintained by it the branch is described as Dependent branch.
- Branch accounts, in such a case, are maintained at the head office out of reports and returns received from the branch.

Situations: Some situations wherein the Head Office maintains Accounts for the Branches are:

- Order Booking Outlet:** Branch merely books orders which are executed by the Head Office directly.
- Monitoring Centre:** Branch established at a Primary Business centre for monitoring and forwarding collections to Head Office for dispatches made in wholesale by the H.O. itself,
- Retail Depot:** Branch sells the goods supplied by the Head Office, on Retail basis,

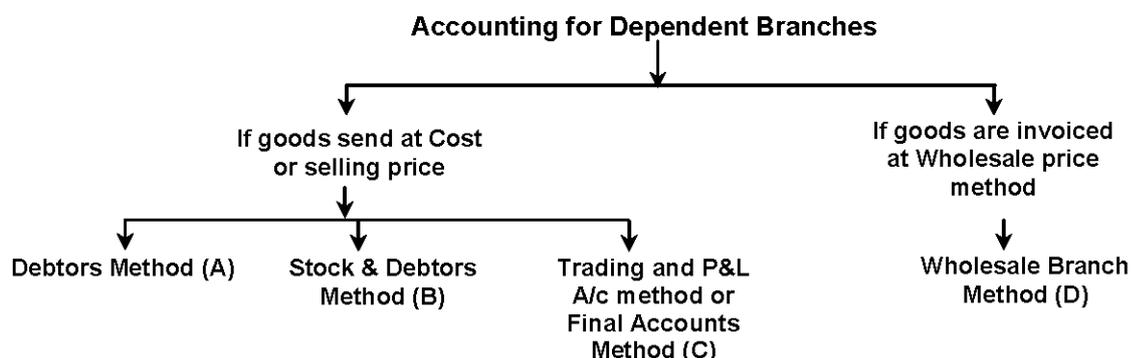
Methods of charging goods to branches:

Goods may be invoiced to branches

(1) at cost; or (2) at selling price; or (3) in case of retail branches, at wholesale price; or (4) arbitrage price.

Note:

- Selling price method is adopted where the goods would be sold at a fixed price by the branch. It is suitable for dealers in tea, petrol, ghee, etc.
- The arbitrary price method is usually adopted if the selling price is not known or when it is not considered desirable to disclose to the branch manager the profit made by the branch.

Accounting for Dependent Branches:

A. Debtors Method:

- a) As the name suggest, accounting for branch transactions are done in the books of head office by treating every branch as a “debtor” i.e. Customer A/c.
- b) In this method accounting is done only for branch transactions where head office is involved. In other words, transactions at branch not involving head-office is not recorded.
- c) **Journal Entries:** The Journal Entries for various transactions under Debtors Method are given below.

Particulars	Journal Entry
1. To record the Opening Balances of Branch Assets	Branch A/c Dr. To Branch Assets (Individually)
2. To record the Opening Balances of Branch Liabilities	Branch Liabilities A/c Dr. To Branch A/c
3. For Goods supplied by the Head Office/ another Branch to this Branch	Branch A/c Dr. To Goods sent to Branch A/c
4. For Goods returned by the Branch/ Branch customers directly to Head Office	Goods Sent to Branch A/c Dr. To Branch A/c
5. For Goods supplied by the Branch to another Branch, under the instructions of the Head Office	Goods Sent to Branch A/c Dr. To Branch A/c
6. For Goods supplied by the Head Office, but not yet received by Branch (till year-end)	Goods in Transit A/c Dr. To Branch A/c
7. For Head Office paying the Branch Expenses, or sending Cash to the Branch for meeting its Expenses.	Branch A/c Dr. To Cash/ Bank A/c
8. For Remittances received directly by the Head Office from Branch/ Branch Customers	Cash/ Bank A/c Dr. To Branch A/c
9. For remittances sent by the Branch, but not received by the Head Office (till year-end)	Cash-in-Transit A/c Dr. To Branch A/c
10. For transfer of balance in Goods sent to Branch A/c	Goods sent to Branch A/c Dr. To Purchases A/c (Trading Concerns) To Trading A/c (Manufacturing Concerns)
11. To record the Closing Balances of Branch Assets	Branch Assets A/c (individually) Dr. To Branch A/c
12. To record the Closing Balances of Branch Liabilities	Branch A/c Dr. To Branch Liabilities A/c (individually)
13. To record Profit or Loss	
a) If Credit Side exceeds the Debit Side	Branch A/c Dr. To General Profit & Loss A/c
b) If Debit Side exceeds the Credit Side	General Profit & Loss A/c Dr. To Branch A/c

Note: If goods are invoiced above cost, the Loading (i.e. Profit Element) on Opening Stock, Goods Sent from Head Office (net of returns) and Closing Stock are reversed, in order to ascertain the true profits.

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 To Branch Stock A/c	Dr.	Selling Price
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Abnormal Loss: The following entries will be passed for recording abnormal loss:

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

B. Stock and Debtors Method:

1. This is a relatively more detailed system of book keeping, wherein accounting is done in the books of head office for all transactions irrespective of whether the head office is involved or not.
2. **Accounts maintained:** The following Accounts are maintained under the Stock and Debtors System by the Head Office in respect of its branch

Name of the Account	Purpose
Branch Stock Account	To monitor Stock at Branch at Invoice Price.
Branch Debtors Account	To monitor Receivables / Credit Sales, if any.
Branch Expenses Account	To monitor expenses incurred at Branch.
Branch Cash Account	To regulate Branch Cash position / remittances.
Branch Adjustment Account	To ascertain Gross Profit. To keep track of loading involved (It is like a Trading Account).
Branch Profit and Loss Account	To ascertain Net Profit.
Goods Sent to Branch Account	To record goods sent / returned.
Branch Assets Account	To record / control Assets at Branch, if any.

3. **Journal Entries:** The Journal Entries for various transactions are given below

Transaction	Journal Entry
Transactions during the year	
a) Goods sent to Branch by HO	Branch Stock Account (total Value of goods) Dr. To Goods Sent to Branch
b) Goods returned by Branch to HO	Goods Sent to Branch Account Dr. To Branch Stock A/c (Total Value of goods)
c) Cash Sent to Branch for Expenses	Branch Cash Account Dr. To (Main) Cash Account
d) Assets provided by HO to Branch, either by way of Fresh Purchase, or by way of Transfer from HO	Branch Assets Account Dr. To (Main) Cash Account / Vendor Account [or] To (HO) Assets Account
e) Cash Sales at the Branch	Branch Cash Account Dr. To Branch Stock Account
f) Credit Sales at the Branch	Branch Debtors Account Dr. To Branch Stock Account
g) Collection from Branch Debtors	Branch Cash Account Dr. To Branch Debtors Account
h) Sales Returns at the Branch	Branch Stock Account Dr. To Branch Debtors Account
i) Discounts / Bad Debts, etc.	Branch Expenses Account Dr. To Branch Debtors Account
j) Various Expenses incurred at Branch	Branch Expenses Account Dr. To Branch Cash Account
k) Branch Expenses directly met by HO	Branch Expenses Account Dr. To (Main) Cash Account
l) Remittances made by Branch to Head Office	(Main) Cash Account Dr. To Branch Cash Account

m) Goods Lost in Transit / Stolen, etc.	Goods Lost in Transit A/c / Stolen A/c (at cost) Branch Adjustment (Loading, if any) To Branch Stock Account (Total Value of Goods)	Dr. Dr.
Year-End Entries		
n) Transfer of Profits involved in Goods Sent to Branch to Branch Adjustment Account	Goods Sent to Branch Account To Branch Adjustment Account	Dr.
o) Recording Closing Stock at Branch	Closing Stock at Branch Account (incl. Loading) To Branch Stock Account	Dr.
p) Excess of Sale Price over Invoice Price	Branch Stock Account To Branch Adjustment Account	Dr.
q) Recording Unrealised Profit on Closing Stock. i.e. Stock Reserve (Note: After this entry, the Branch Adjustment A/c will show Gross Profit)	Branch Adjustment Account To Stock Reserve (Closing) Note: Stock Reserve on Opening Stock is credited to Branch Adjustment A/c.	Dr.
r) Recording Gross Profit at Branch	Branch Adjustment Account To Branch P&L Account	Dr.
s) Depreciation on Branch Assets, if any	Branch Expenses Account To Branch Assets Account	Dr.
t) Transfer of Branch Expenses	Branch P&L Account To Branch Expenses Account	Dr.
u) Recording Net Profit at Branch	Branch P&L Account To General P&L Account	Dr.

Branch Stock Account

Particulars	Rs.	Particulars	Rs.
To balance b/d (Opg. Stock at Cost + Loading if any)	XXX	By Cash (Cash Sales)	XXX
To Goods Sent to Branch (Transfers made, at cost)	XXX	By Branch Debtors (Credit Sales)	XXX
To Branch Adjustment A/c (Loading on Transfers made)	XXX	By Goods sent to Branch (Returns at Cost)	XXX
To Branch Adjustment A/c (excess of Branch Sale Price if any, over the Invoice Price, i.e. rate at which goods were invoiced by HO to Branch)	XXX	By Branch Adjustment (Loading on Returns)	XXX
		By Goods Lost / Stolen (recorded at cost)	XXX
		By Branch Adjustment (Loading on lost/stolen)	XXX
		By balance c/d (Cig. Stock at Cost + Loading)	XXX
Total	XXX	Total	XXX

Branch Debtors Account

Particulars	Rs.	Particulars	Rs.
To balance b/d (Opening Balance)	XXX	By Branch Stock A/c (Sales Returns)	XXX
To Branch Stock A/c (Credit Sales made)	XXX	By Branch Cash (Collections made)	XXX
		By Branch Expenses (Discount, Bad Debts, etc.)	XXX
		By balance c/d (Closing Balance)	XXX
Total	XXX	Total	XXX

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Branch Cash Account

Particulars	Rs.	Particulars	Rs.
To balance b/d (Opening Balance, if any)	XXX	By Branch Expenses (Cash Expenses made)	XXX
To Branch Stock (Cash Sales)	XXX	By (Main) Cash A/c (Cash sent to HO)	XXX
To Branch Debtors (Collection from Debtors)	XXX	By balance c/d (Closing Balance if any)	XXX
To (Main) Cash (Received from HO for Expenses)	XXX		
Total	XXX	Total	XXX

Branch Expenses Account

Particulars	Rs.	Particulars	Rs.
To Branch Cash A/c (Cash Expenses met at Branch)	XXX	By Branch P&L Account (transfer)	XXX
To (Main) Cash A/c (Expenses paid by HO directly)	XXX		
To Branch Debtors (Discounts, Bad Debts, etc.)	XXX		
To Branch Assets (Depreciation, if any)	XXX		
Total	XXX	Total	XXX

Branch Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Branch Stock (Loading reversed on Returns)	XXX	By Stock Reserve (Loading on Opg. Stock)	XXX
To Stock Reserve (Loading on Closing Stock)	XXX	By Branch Stock (Loading on Transfers made)	XXX
To Branch P&L Account (Gross Profit trfd)	XXX	By Branch Stock (Excess of Sale Price over Invoice Price, if any)	XXX
Total	XXX	Total	XXX

Branch P&L Account

Particulars	Rs.	Particulars	Rs.
To Branch Expenses A/c (Expenses Transfer)	XXX	By Branch Adjustment (GP Transfer)	XXX
To General P&L A/c (NP Transferred)	XXX		XXX
Total	XXX	Total	XXX

Goods sent to Branch Account

Particulars	Rs.	Particulars	Rs.
To Branch Stock (Returns from Branch, at Cost)	XXX	By Branch Stock (Transfers made, at Cost)	XXX
To Purchases / Trading A/c (balancing figure)	XXX		
Total	XXX	Total	XXX

Branch Cash Account

Particulars	Rs.	Particulars	Rs.
To balance b/d (Opening Balance, if any)	XXX	By Branch Expenses (Cash Expenses made)	XXX
To Branch Stock (Cash Sales)	XXX	By (Main) Cash A/c (Cash sent to HO)	XXX

To Branch Debtors (Collection from Debtors)	XXX	By balance c/d (Closing Balance if any)	XXX
To (Main) Cash (Received from HO for Expenses)	XXX		
Total	XXX	Total	XXX

Note: Normal Loss need not be recorded separately.

C. Branch Trading and Profit and Loss Account (Final Accounts Method):

In this method, Trading and Profit and Loss accounts are prepared considering each branch as a separate entity. The main advantage of this method is that, it is easy to prepare and understand. It also gives complete information of all transactions which are ignored in the other methods. It should be noted that Branch Trading and Profit and Loss account is merely a memorandum account and therefore, the entries made there in do not have double entry effect.

Memorandum Branch Trading and Profit & Loss A/c

Particulars	(Rs.)	Particulars	(Rs.)
To Opening Stock at Branch (at Cost)	XXX	By Sales made at Branch (net of returns)	
		• Cash	XXX
		• Credit	XXX
To Goods sent from Head Office	XXX	By Closing Stock at Branch (at Cost)	XXX
Less: Goods returned to HO	(XX)		
To Purchases (made directly by Branch, if any)	XXX		
To Direct Expenses at Branch (if any)	XXX		
To Gross Profit c/d	XXX		
Total	XXX	Total	XXX
Particulars	(Rs.)	Particulars	(Rs.)
To Various Expenses incurred at Branch (including Bad Debts if any)	XXX	By Gross Profit b/d	XXX
To Net Profit trfd to General P&L A/c	XXX		
	XXX		XXX

Note:

- If goods are invoiced above cost, the Loading (i.e. Profit Element) on Opening Stock, Goods Sent from Head Office (net of returns) and Closing Stock are reversed, in order to ascertain the true profits.
- Since this is only a Memorandum Trading and Profit & Loss A/c, no journal entries are passed as such.

D. Wholesale Price Method:

1. Under this Method, the Head Office (i.e. a Manufacturing Entity) supplies goods to its Retail Branches (i.e. Shops) at Wholesale Price, i.e. Cost + Wholesale Profit.
2. Profit attributable to Retail Branch = Actual Sale Proceeds of Goods at the Shops (less) Wholesale Price of goods sold.
3. The rationale in this method is that the HO (Manufacturer) would always be able to sell the goods on wholesale terms, and thereby realizes Profit equal to the difference between the Wholesale Price and the Cost.
4. **Accounting:** The Branch Stock Account or Trading Account is prepared (sometimes stage-wise) as under

Particulars	(Rs.)	Particulars	(Rs.)
To Opening Stock at Shop (at Wholesale Price)	XXX	By Sales at Shop (Actual Sale Proceeds)	XXX
To Value of Goods sent to Branch / Shop (at Wholesale Price)	XXX	By Value of Goods lost, stolen, etc. if any (at Wholesale Price)	XXX
To Gross Profit at Branch / Shop c/d	XXX	By Closing Stock at Shop (at	XXX

		Wholesale Price)	
Total	XXX	Total	XXX
To Branch Expenses	XXX	By Gross Profit at Branch / Shop b/d	
To Gross Profit at Branch / Shop c/d	XXX		
Total	XXX	Total	XXX
To Stock Reserve on Closing Stock (Note)	XXX	By Net Profit at Branch / Shop b/d	XXX
To Net Profit after all adjustments	XXX	By Stock Reserve on Opening Stock (Note)	XXX
Total	XXX	Total	XXX

Note: Stock Reserve represents the difference between Wholesale Price and Cost to HO (Manufacturer).

PROBLEMS FOR CLASSROOM DISCUSSION

STOCK AND DEBTORS METHOD:

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. 31 st , 2012	6,500
Allowances to customers	200	Debtors, Dec. 31 st , 2012	9,800
Discount to customers	1,400	Petty Cash, Dec. 31 st , 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.

(A) (NEW SM, MTP1 M18 (N&O), SIMILAR: RTP N16)

(ANS.: PROFIT RS.9,400) (SOLVE PROBLEM NO. 1 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 2: (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

(A) (NEW SM, SIMILAR: M18 (O)) (ANS.: NET PROFIT RS.35,600)

(SOLVE PROBLEM NO.2, 3, 4 OF ASSIGNMENT PROBLEMS AS REWORK)

DEBTORS METHOD:

PROBLEM 3: (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		

(A) (NEW SM) (ANS.: BRANCH NET PROFIT- 15000) (SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 4: 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.

(A) (NEW SM) (ANS.: NET PROFIT RS.1,096)

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

Note: _____

PROBLEM 5: 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	---	---

- Additions to Plant & Machinery on 1.1.12 Rs.6,02,750.
- Rate of Depreciation: Furniture & Fittings @ 10%, Plant & Machinery @ 15% (already adjusted in the above figures).
- The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of 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).

(B) (NEW SM, SIMILAR: RTP M17, MTP1 N18 (O), N16 - 8M)

(ANS.: BRANCH NET PROFIT: 53,032, NET PROFIT OF THE COMPANY: 4,21,325, BRANCH CLOSING BALANCE: DEBTORS RS. 86,900)

Note: _____

WHOLESALE PRICE-RETAIL PROFIT:

PROBLEM 6: 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.

(A) (OLD PM, N07, M15) (ANS.: H.O PROFIT RS. 13,89,000, BRANCH PROFIT- RS.68200)

(SOLVE PROBLEM NO. 7 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 7: 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 31.03.2012:

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 31.03.2012: Outlet Stock A/c, Outlet Profit & Loss A/c and Stock Reserve A/c.

(B) (NEW SM)

(ANS.: OUTLET PROFIT & LOSS: RS.22,000, STOCK: RS.36,000, STOCK RESERVE: 7,200)

(SOLVE PROBLEM NO. 8 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS**PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 2, 3****PROBLEM NO.2**

Books of Hindustan Industries, Mumbai

Dr.		Cochin Branch Stock Account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Balance b/d	60,000	By Bank A/c (Cash sales)	2,00,000		
To Goods sent to Branch A/c	6,00,000	By Branch Debtors (Cr. sales)	3,60,000		
To Branch Debtors A/c (Sales return)	8,000	By Goods sent to Branch (Ret. to H.O.)	12,000		
To Branch P & L A/c (Surplus)	24,000	By Balance c/d (Closing stock)	1,20,000		
	6,92,000		6,92,000		

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

Dr.		Goods Sent to Branch Account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Cochin Branch Stock Adjustment A/c	1,20,000	By Cochin Branch Stock A/c	6,00,000		
To Cochin Branch Stock A/c (Ret.)	12,000	By Cochin Branch Stock Adj. a/c	2,400		
To Purchases A/c	4,70,400				
	6,02,400		6,02,400		

Dr.		Branch Debtors Account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Balance b/d	72,000	By Bank	3,20,000		
To Branch Stock A/c	3,60,000	By Branch P&L A/c			
		Discount	6,000		
		Bad Debts	4,000		10,000
		By Branch Stock (Sales Returns)	8,000		
		By Balance c/d	94,000		
	4,32,000		4,32,000		

Dr.		Branch Expenses Account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Bank A/c (Rent, Rates & Taxes)	18,000	By Branch Profit & Loss A/c (Transfer)	84,000		
To Bank A/c (Salaries & Wages)	60,000				
To Bank A/c (office exp.)	6,000				
	84,000		84,000		

Dr.		Branch Profit & Loss Account for the year ending 31st Dec. 2012		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Branch Expenses A/c	84,000	By Branch Stock Adj. A/c	1,05,600		

Discount	6,000	10,000	By Branch stock A/c (Sale over invoice price)	24,000
Bad debts	4,000			
To Net Profit transferred to Profit & Loss A/c		35,600		
		1,29,600		1,29,600

PROBLEM NO: 3

In the Books of Buckingham Bros, Bombay

Dr.

Nagpur Branch Account

Cr.

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

Working Notes:**1. Collections from debtors:**

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

2. Calculation of Sundry Debtors closing Balance:

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

3. Calculation of closing balance of Imprest Cash

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

*It is assumed that petty cash expenses of the branch for the year were Rs. 4,000.

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To **MASTER MINDS**, Guntur

ASSIGNMENT PROBLEMS

PROBLEM 1: 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 bazar	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

(B) (SIMILAR: RTP M18 (N&O)) (ANS.: COMMISSION TO MANAGER OF SHYAM BAZAR: RS. 946, TOLLY GUNGE: RS. 534)

PROBLEM 2: Ayan Ltd. invoices goods to its branch at cost plus 33 1/3 %. From the following particulars prepare Branch Stock Account, Branch Stock Adjustment Account and Branch Profit and Loss Account as they would appear in the books of head office.

Particulars	Amount (Rs.)
Stock at commencement at Branch at invoice Price	3,60,000
Stock at close at Branch at Invoice Price	2,88,000
Goods sent to Branch during the year at invoice price (including Goods invoiced at Rs.48,000 to Branch on 31.03.2018 but not Received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Credit Sales at Branch	1,20,000
Invoice value of goods pilfered	24,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000

Ayan closes its books on 31st March, 2018

(M18 (N) - 10M)

(BRANCH STOCK A/C (SURPLUS): RS.36,000. BRANCH STOCK ADJUSTMENT A/C (GROSS PROFIT TRANSFERRED TO P&L A/C): RS. 5,70,000; PROFIT AND LOSS A/C(NET PROFIT): RS. 5,52,000)

PROBLEM 3: 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. (A)(NEW SM)

(ANS.: BRANCH GROSS PROFIT RS.39,000; BRANCH NET PROFIT RS.16,250)

PROBLEM 4: 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.

(A) (OLD PM) (ANS.: BRANCH GROSS PROFIT RS.70,000; NET PROFIT RS.45,600)

PROBLEM 5: 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.

(A) (OLD PM) (ANS.: BRANCH PROFIT & LOSS A/C RS.2,74,570)

PROBLEM 6: 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.

All workings should form part of your solution.

(B) (NEW SM) (ANS.: NET PROFIT RS. 37,363)

PROBLEM 7: Accounting treatment of when goods sent to branch at whole sale price and branch sells goods at retail price: Veta having head office at Chennai has a branch at Kharagpur. 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)	2,81,250	-
Purchases	31,87,500	-
Goods sent to branch (Cost to H.O. plus 80%)	11,92,500	-
Sales	34,76,250	11,87,500
Office Expenses	1,12,500	10,625
Selling Expenses	90,000	7,875
Staff Salary	81,250	15,000

Required: Prepare Trading and Profit and Loss Account of the head office and branch for the year ended 31st March, 2013. (A) (similar OLD PM, N07, M15) (ANS.: H.O PROFIT RS. 17,91,250, BRANCH PROFIT- RS.32,473)

PROBLEM 8: Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 2012 from the following:

- Goods are invoiced to the branch at cost plus 20%.
- The sale price is cost plus 50%.
- 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

- The profit earned by the branch during the year
- Branch stock reserve in respect of unrealized profit.

(B) (NEW SM, SIMILAR: N18 (O) - 4M)(NOV-19N)

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

ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM 1: 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.

(C) (ANS.: BRANCH NET PROFIT- 17650, PROVISION FOR DISCOUNT ON DEBTORS RS. 1485)

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The End

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