

TOPIC - 11

(CHAPTER 13 OF ICAI)

Accounting for Branches Including Foreign Branches

INTRODUCTION

The branches are divided in two parts depending upon their location as given below:

- (a) Inland branches *ie.*, branches situated within the territories of a country;
- (b) Foreign branches *ie.*, branches situated outside the country.

As branches, whether inland or foreign, are essentially a part of Head Office (HO), total result cannot be ascertained without clubbing it with branch results. On the basis of accounting procedure determination of branch results and preparation of consolidated results, the branches are divided into two categories:

Dependent Branches-

These are branches which depend upon the HO for ascertainment of their results of operation because they do not maintain their own set of accounting books. In other words, the HO maintains the accounts of branches and branches do not maintain their accounts. Branches keep record of only some information relevant for their activities such as debtors, stock position, cash etc. The HO may follow any of the following systems to know the results of branch:

- STOCK AND DEBTORS SYSTEM
- DEBTORS SYSTEM
- FINAL ACCOUNT SYSTEM (COST BASIS)
- FINAL ACCOUNT SYSTEM (WHOLESALE PRICE BASIS)

Independent Branches

These are the branches which maintain their own sets of accounting books and hence are in a position to extract Trial Balance and to ascertain their results through their Trial Balance.

(4) For goods returned by credit customers (debtors) or cash customers direct to HO

Goods sent to branch A/c ...Dr.

To Branch debtors A/c/Cash A/c

(5) For cash sales made by branch.

Branch Cash/Bank A/c ... Dr. (With selling price)

To Branch stock A/c

(6) For credit sales made by branch.

Branch debtors A/c ...Dr. (With selling price)

To Branch stock A/c

To determine gross profit, the excess of invoice price of goods over cost of goods sent to branch is recorded at the time of goods sent. If goods remain unsold at the end of the year stock reserve is created. At the time of sale, the difference of sales price and invoice price of goods sold is recorded. Following six entries are passed for these purposes:

(7) For mark-up (or loading) on opening stock

Stock reserve A/c ...Dr.

To Branch adjustment A/c

(8) For mark-up (or loading) on closing stock.

Branch adjustment A/c ... Dr.

To Stock reserve A/c

(9) For mark up on goods sent to branch

Goods sent to branch A/c Dr.

To Branch Adjustment A/c

(10) For mark up on goods received back (returned) by HO

Branch Adjustment A/c Dr.

To Goods sent to Branch A/c

(11) For goods sold at a price higher than Invoice Price

Branch Stock A/c Dr. (with excess of SP over IP)

To Branch Adjustment A/c

<i>Balances as on 1.1.20X1:</i>			
<i>Stock</i>	7,000	<i>Bad Debts</i>	600
<i>Debtors</i>	12,600	<i>Goods returned by customers</i>	500
<i>Petty Cash,</i>	200	<i>Salaries & Wages</i>	6,200
<i>Goods sent from H.O.</i>	26,000	<i>Rent & Rates</i>	1,200
<i>Goods returned to H.O.</i>	1,000	<i>Sundry Expenses</i>	800
<i>Cash Sales</i>	17,500	<i>Cash received from Sundry</i>	
<i>Credit Sales</i>	28,400	<i>Debtors</i>	28,500
<i>Allowances to customers</i>	200	<i>Balances as on 31.12.20X1:</i>	
<i>Discount to customers</i>	1,400	<i>Stock</i>	6,500
		<i>Debtors</i>	9,800
		<i>Petty Cash</i>	100

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

Question 2

Mayavati Company invoices goods to its new branch at a mark up of 1/6 of invoice price. The following are the transactions that took place during the first year of its operation:

<i>Goods sent to branch</i>	1,20,000
<i>Cash sent to branch for expenses</i>	5,000
<i>Goods returned by branch</i>	7,200
<i>Cash sales at branch</i>	30,000
<i>Credit sales at branch</i>	70,000
<i>Cash remitted to HO</i>	90,000
<i>Goods returned by debtors</i>	3,000

Ascertain the result of the branch by 'Stock and Debtors System'.

(Answer: Gross profit 16,166/- and Net profit 11,166/-)

Question 3:

V'Smart Ltd. of Pune invoiced goods to its Bhopal Branch at cost + 33 1/3%, of the goods transferred a portion was destroyed in transit the value of which is to be ascertained. The following is available for the period under consideration:

<i>Opening balances:</i>	
<i>Branch stock</i>	20,000
<i>Branch debtors</i>	12,000
<i>Branch Cash</i>	4,000
<i>Goods sent to branch</i>	1,50,000
<i>Credit sales</i>	1,00,000

Cash remitted to HO	90,000
Bad debts at branch	3,000
Closing balances:	
Branch Stock	24,000
Branch debtors	35,000
Branch Cash	28,000

Prepare the necessary accounts under 'Stock and Debtors Method'.

(Answer: Gross Profit- 35,000/- and Net Profit- 27,500/-)

Question 4 (ICAI Module)

Harrison of Chennai has a branch at New Delhi to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 20X1:

Cost of goods sent to Branch at cost	2,00,000	
Goods received by Branch till 31-12-20X1 at invoice price	2,20,000	
Credit Sales for the year @ invoice price	1,65,000	
Cash Sales for the year @ invoice price	59,000	
Cash Remitted to head office	2,22,500	
Expenses paid by H.O.	12,000	
Bad Debts written off	750	
Balances as on		
	1-1-20X1	31-12-20X1
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the Branch for the year ended 31st December, 20X1.

Question 5 (ICAI Module)

Hindustan Industries Mumbai has a branch in Cochin to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office, and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 20X1, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office:

Goods received from Head Office at invoice price	6,00,000
Returns to Head Office at invoice price	12,000
Stock at Cochin as on 1st Jan., 20X1	60,000
Sales in the year- Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st Jan. 20X1	72,000
Cash received from Debtors	3,20,000
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. 20X1 at invoice price	1,20,000

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

Question 6

RA-One Industries, invoices goods to its Noida branch with instruction to make credit sales at catalogue price which is + 50% and cash sales at invoice price which is cost + 20%. The following information is made available:

Opening balances:

Branch Stock	18,000
Branch Debtor	7,000

Transactions during the year:

Goods Received by Branch	2,30,000
Goods Returned by Branch	8,000
Credit Sales	2,00,000
Cash Sales	27,000
Goods Returned by Credit Customers to Branch	1,050
Goods Returned by Credit Customers Direct to HO	3,000
Goods Returned by Cash Customers Direct to HO	7,200

Closing balances:

Branch Stock	10,450
Branch Debtor	2,950
Branch Cash	25,000

Goods invoiced worth Rs. 10,000 were still in transit. Cash customers who returned goods direct to HO settled accounts to the extent of Rs. 6,000 only at accounting date. Prepare the necessary accounts in the books of RA-One Industries according to 'stock and debtor system'.

(Answer: Gross Profit- Rs. 68,617/- and Net Profit- Rs. 32,459/-)

DEBTORS SYSTEM

- Under this system, only one account known as 'Branch A/c' is maintained for every branch in the books of HO.
- Branch account is nominal account which calculates the profit/loss made by the branch.
- Under this system, entries are recorded assuming the Branch is the Debtor of HO.
- Here, only the transactions between HO and Branch are to be recorded (*except one special transaction*), i.e. any transaction between branch and outside party is to be ignored while preparing branch account.
- While preparing Branch A/c under this method, balances of various accounts such as stock a/c, debtor's a/c, cash a/c etc. may be missing and it is not possible to complete the Branch A/c without knowing such required missing figures.
- Such missing figures/balances can be found out with the help of 'Stock and Debtors' method and hence Stock and Debtors method is also prepared to complete the Branch A/c under *Memorandum basis* and only account prepared under double entry basis is the 'Branch A/c'.

The various journal entries made under this system are as follows:

(1) For goods supplied to branch from HO

Branch A/c	Dr.	
		To Goods sent to branch A/c (with invoice price, if any)

(2) For goods returned by branch to HO

Goods sent to branch A/c	Dr.	
		To Branch A/c (with invoice price, if any)

(3) For goods returned direct to HO (*Special Transaction*)

Credit Customers (Debtors):

Goods sent to branch A/c Dr.

To Branch A/c

Cash Customers:

Goods sent to branch A/c Dr. and Branch A/c Dr.

To Branch A/c

To Cash A/c

(4) For remittance from HO to branch for expenses or for any purpose

Branch A/c Dr.

To Cash/Bank A/c

(5) For cash received by HO from branch

Cash/Bank A/c Dr.

To Branch A/c

(6) For recording opening assets and liabilities of Branch

Assets:

Branch A/c Dr.

To Branch Cash/Bank A/c

To Branch Debtors A/c

To Branch Stock A/c (at invoice price, if any)

To Branch Furniture A/c

Liabilities:

Outstanding Salary A/c Dr.

Provision for BD A/c Dr.

To Branch A/c

(7) For recording closing assets and liabilities of Branch

(Reverse of above entries)

(8) To remove loading on opening stock and closing stock

Opening Stock:

Stock Reserve A/c Dr.

To Branch A/c

Closing Stock:

Branch A/c Dr.

To Stock Reserve A/c

Question 7 (ICAI Module)

Buckingham Bros, Bombay have a branch at Nagpur. They send goods at cost to their branch at Nagpur. However, direct purchases are also made by the branch for which payments are made at head office. All the daily collections are transferred from the branch to the head office. From the following, prepare Nagpur branch account in the books of head office by Debtors method.

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

Question 8 (ICAI Module)

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

Question 9 (ICAI Module)

Sell Well who carried on a retail business opened a branch X on January 1st, 20X1 where all sales were on credit basis. All goods required by the branch were supplied from the Head Office and were invoiced to the branch at 10% above cost.

The following were the transactions:

	<i>Jan. 20X1</i>	<i>Feb. 20X1</i>	<i>March 20X1</i>
<i>Goods sent to Branch (Purchase Price)</i>	<i>40,000</i>	<i>50,000</i>	<i>60,000</i>
<i>Sales as shown by the branch monthly report</i>	<i>38,000</i>	<i>42,000</i>	<i>55,000</i>
<i>Cash received from Debtors and remitted to H.O.</i>	<i>20,000</i>	<i>51,000</i>	<i>35,000</i>
<i>Returns to H.O. (Invoice price to Branch)</i>	<i>1,200</i>	<i>600</i>	<i>2,400</i>

The stock of goods held by the branch on March 31, 20X1 amounted to ₹ 53,400 at invoice to branch.

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

All workings should form part of your solution.

Question 10 (ICAI Module)

Widespread invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as on credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding ₹ 10,000 necessary for meeting immediate requirements of cash. On 31st March, 20X1 the assets at the branch were as follows:

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

During the accounting year ended 31st March, 20X2 the invoice price of goods dispatched by the head office to the branch amounted to ₹ 1 crore 32 lakhs. Out of the goods received by it, the branch sent back to head office goods invoice date ₹ 72,000. Other transactions at the branch during the year were as follows:

	(₹ '000)
Cash Sales	9,700
Credit Sales	3,140
Cash collected by Branch from Credit Customers	2,842
Cash Discount allowed to Debtors	58
Returns by Customers	102
Bad Debts written off	37
Expenses paid by Branch	842

On 1st January, 20X2 the branch purchased new furniture for 1 lakh for which payment was made by head office through a cheque.

On 31st March, 20X2 branch expenses amounting to ₹ 6,000 were outstanding and cash in hand was again ₹ 10,000. Furniture is subject to depreciation @ 16% per annum on diminishing balance method.

Prepare Branch Account in the books of head office for the year ended 31st March, 20X2.

FINAL ACCOUNT SYSTEM (COST BASIS)

Under this system, the Profit/Loss of the branch is calculated by preparing the *'Trading and Profit & Loss account'* in the usual manner. This account is prepared on the basis of cost to HO. If the figures are given at loaded price (cost + Markup), they need to be converted to the cost to HO. This account is prepared on *Memorandum basis*. Hence, this a/c is not a part of books of HO, it only helps to ascertain results of the branch. The main advantage in this method is that, it is easy to prepare and understand.

Dr. Memorandum Trading and Profit & Loss A/c Cr.

Particulars	Amount	Particulars	Amount
To Opening Stock A/c	Cost	By Sales A/c	Sales Value
To Goods sent to Branch A/c	Cost	Less Sales Return	
Less goods returned to HO			
To Direct Purchases A/c	Cost	By Closing Stock	Cost
To Direct Expenses A/c			
To Gross Profit			

Question 11 (ICAI Module)

Kashi Cloth Mills opened a branch at Delhi on 1st April 2008. Goods invoiced to branch at selling price which was 125% of cost to HO.

The following are the particulars of the transactions relating to the branch during the year ended, 31st March, 2009:

<i>Particulars</i>	<i>Amount (in Rs.)</i>
<i>Goods sent to branch at cost to HO</i>	<i>2808400/-</i>
<i>Sales:</i>	
<i>Cash Sales</i>	<i>1250700/-</i>
<i>Credit Sales</i>	<i>1774300/-</i>
<i>Cash collected from debtors</i>	<i>1570000/-</i>
<i>Discount allowed to debtors</i>	<i>15700/-</i>
<i>Return from debtors</i>	<i>10000/-</i>
<i>Spoiled clothes in bales w/off at IP</i>	<i>5000/-</i>
<i>Cheques sent to branch for following expenses:</i>	
<i>Rent</i>	<i>72000/-</i>
<i>Salaries</i>	<i>180000/-</i>
<i>Other expenses</i>	<i>35000/-</i>

Prepare the necessary accounts as per Stock and 'Debtors Method' and 'Debtors Method'.

(Answer: Net profit – Rs. 296300/-)

Question 12 (ICAI Module)

From the information given in the Question 7, prepare Nagpur Branch Trading and Profit and Loss Account in the books of head office.

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FINAL ACCOUNT SYSTEM (WHOLESALE PRICE BASIS)

Under this system, the profit/loss made by branch is calculated by preparing the Trading and Profit & Loss account on Wholesale Price basis. This account is not made as a part of main accounting system and is prepared on *Memorandum* basis. Since the account is made on Wholesale price basis, following points are needed to be note as under:

- (1) HO sends the goods to Branch at Wholesale price (known as Invoice price in earlier methods)
- (2) The cost to branch is assumed to be Wholesale price while preparing the Trading a/c of branch.
- (3) While preparing Trading a/c of branch on Wholesale price, all the amounts are shown at WP except sales figure and hence GP of branch will arise which is the difference between selling price and wholesale price (i.e. cost to branch).
- (4) As said in above point that Trading a/c of branch is prepared on WP, the opening as well closing stock of branch also shown at WP and hence from HO point of view Stock reserve i.e. unrealized profit (difference between WP and Cost) on both opening and closing stocks are to be calculated and shown in Profit & Loss a/c of HO.

Question 13

Head Office sends goods to its branch at 20% less than list price. Goods are sold to customers at Cost plus 100% by HO as well as branch. From the following particulars, ascertain the profit made at the head office and at the branch on Wholesale price basis:

	<i>Head Office</i>	<i>Branch</i>
<i>Purchases</i>	<i>2,00,000</i>	<i>-</i>
<i>Goods sent to branch (WP/IP)</i>	<i>80,000</i>	<i>-</i>
<i>Sold to customers</i>	<i>1,70,000</i>	<i>80,000</i>

(Answer: Net Profit of HO- Rs.1,09,000 and Net profit of branch- Rs.16,000 and stock reserve is 6,000)

Question 14:

HO sends goods to branch at cost + 80%. Goods are sold to customers at cost + 100%. However sales at HO are made at WP. From the following particulars, ascertain the profits made by the HO and Branch on wholesale price method:

	<i>Head Office</i>	<i>Branch</i>
<i>Opening Stock</i>	<i>20,000</i>	<i>-</i>
<i>Purchases</i>	<i>2,00,000</i>	<i>-</i>

Goods sent to branch (WP/IP)	90,000	-
Sales	2,70,000	90,000
Expenses	10,000	4,000

(Answer: Net profit of HO and Branch is 1,46,000/- and 5,000/- respectively and Stock reserve is 4,000/-)

Question 15 (ICAI Module)

Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 20X2 from the following:

- (1) Goods are invoiced to the branch at cost plus 20%.
- (2) The sale price is cost plus 50%.
- (3) Other information:

Stock as on 01.04.20X1 (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	

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

Mixed Questions from Dependent Branch

Question 16 (ICAI Module)

Arnold of Delhi, trades in Ghee and Oil. It has a branch at Lucknow. He dispatches 25 tins of Oil @ ₹ 1,000 per tin and 15 tins of Ghee @ ₹ 1,500 per tin on 1st of every month. The branch incurs some expenditure which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

		Delhi	Lucknow
Purchases	Ghee	14,75,000	-
	Oil	29,32,000	-
Direct expenses		3,83,275	-
Expenses paid by H.O.		-	14,250
Sales	Ghee	18,46,350	3,42,750
	Oil	27,41,250	3,15,730
Collection during the year (including Cash Sales)		-	6,47,330
Remittance by Branch to Head Office		-	6,13,250

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

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

- Addition to Plant/Machinery on 1-1-20X1 ` 6,02,750.
- Rate of Depreciation: Furniture / Fittings @ 10% and Plant / Machinery @ 15% (already adjusted in the above figures).
- The Branch Manager is entitled to 10% commission after charging such commission whereas, the General Manager is entitled to 10% commission on overall company profits after charging such commission. General Manager is also entitled to a salary of ` 2,000 p.m. General expenses incurred by H.O. ` 24,000.

Prepare Branch Account in the head office books and also prepare the Arnold's Trading and Profit and Loss A/c (excluding branch transactions).

Question 17 (ICAI Module)

M/s Rahul operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.20X2:

Stock at the outlet 1.4.20X1	30,000
Goods invoiced to the outlet during theyear	3,24,000
Gross profit made by the outlet	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.20X2	36,000

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

- Outlet Stock Account.
- Outlet Profit & Loss Account.

(c) *Stock Reserve Account.*

Question 18 (ICAI Module)

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

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

Trial Balance of the Delhi Branch as on 31-12-20X1

<i>Debit</i>		<i>Credit</i>	
<i>Head office opening balance on 1-1-20X1</i>	<i>15,000</i>	<i>Sales</i>	<i>1,00,000</i>
<i>Goods from H.O.</i>	<i>50,000</i>	<i>Goods to H.O.</i>	<i>3,000</i>
<i>Purchases</i>	<i>20,000</i>	<i>Head Office Current A/c</i>	<i>15,000</i>
<i>Opening Stock (H.O. supplies goods at invoice prices)</i>	<i>4,000</i>	<i>Sundry Creditors</i>	<i>3,000</i>
<i>Opening Stock of other goods</i>	<i>500</i>		
<i>Salaries</i>	<i>7,000</i>		
<i>Rent</i>	<i>3,000</i>		
<i>Office expenditure</i>	<i>2,000</i>		
<i>Cash on Hand</i>	<i>500</i>		
<i>Cash at Bank</i>	<i>4,000</i>		
<i>Sundry Debtors</i>	<i>15,000</i>		
	<i>1,21,000</i>		<i>1,21,000</i>

The Branch balances as on 1st January, 20X1, were as under: Furniture ` 5,000; Sundry Debtors ` 9,500; Cash ` 1,000, Creditors ` 30,000. The closing stock at branch of the head office goods at invoice price is ` 3,000 and that of purchased goods at cost is ` 1,000. Depreciation is to be provided at 10 per cent on branch assets.

ACCOUNTING FOR INDEPENDENT BRANCHES

- (1) In case of independent branches both branch as well as HO maintain their books.
- (2) Since branch maintains their own books, it can independently calculate its result by preparing its own Trail balance, Trading a/c and P&L a/c, also it can make its own Balance Sheet.
- (3) The accounts are prepared in usual manner and both HO and Branch maintain an account for each other in their own books. (i.e. branch a/c in HO books and HO a/c in branch books)
- (4) There are certain transactions which need to be focused. These are as under:
 - (a) Inter-branch transactions
 - (b) Accounting for Fixed Assets of the branch
 - (c) Common expenses incurred by HO to be charged to the branch.

INTER-BRANCH TRANSACTIONS:

For accounting point of view, whenever transactions between branches occur, they are recorded in the books of HO/Branches as if they have been done through the HO. The following journal entries shall be made in the books of HO and branches:

Example: Goods transferred by Bhopal branch to Delhi branch

Books of HO	Books of Bhopal Branch	Books of Delhi branch
Delhi Branch a/c Dr. To Bhopal Branch a/c	HO a/c Dr. To Goods received from HO. a/c	Goods received from HO a/c Dr. To HO a/c

ACCOUNTING FOR FIXED ASSETS OF THE BRANCH:

There may be two possibilities as follows:

(i) **Account of FA maintained by Branch:**

Transactions	HO Books	Branch Books
Payment of FA made by branch	No Entry	FA a/c Dr. To Cash/Bank a/c
Payment of FA made by HO	Branch a/c Dr. To Cash/Bank a/c	FA a/c Dr. To HO a/c
Payment for FA to be made by branch	No Entry	FA a/c Dr. To Creditor for FA a/c
Depreciation on FA	No Entry	Depreciation a/c Dr. To FA a/c

(ii) Account of FA maintained by HO:

Transactions	HO Books	Branch Books
Payment of FA made by branch	Branch FA a/c Dr. To Branch a/c	HO a/c Dr. To Cash/Bank a/c
Payment of FA made by HO	Branch FA a/c Dr. To Cash/Bank a/c	No Entry
Payment for FA to be made by branch	Branch FA a/c Dr. To Branch a/c	HO a/c Dr. To Creditor for FA a/c
Depreciation on FA	Branch a/c Dr. To Branch FA a/c	Depreciation a/c Dr. To HO a/c

COMMON HO EXPENSES CHARGED TO BRANCH:

- (1) The expenses which are incurred for the sole benefit of the HO are to be fully charged to HO Trading/P&L a/c.
- (2) The expenses which are incurred for the sole benefit of Branch are to be fully charged to Branch Trading/P&L a/c.
- (3) The expenses which are incurred for the benefit of both are needed to be allocated between HO and Branch in the ratio of benefit derived by both of them. Following accounting entries are made:

HO BOOKS	BRANCH BOOKS
(1) Expenses a/c Dr. To Cash/Bank a/c	Expenses A/c Dr. To HO A/c (Proportionate Expenses of Branch)
And	
If the expenses a/c is not closed Branch a/c Dr. To Expenses a/c (Proportionate share of branch)	
(Or)	
If expenses a/c is closed Branch a/c Dr. To Trading/P&L a/c (Proportionate share of branch)	

Questions 19

Record the following transactions in the books of Delhi HO and its two branches namely, Mussoorie and Dehradun:

1. The HO sends goods costing 50,000/- and 70,000/- respectively to Mussoorie and Dehradun branch.

2. *Mussoorie and Dehradun branch return goods costing 3,000/- and 4,750/- respectively to HO.*
3. *The HO sends cash to Mussoorie branch of 10,000/- and pays the salary bill of Dehradun branch of 23,000/-.*
4. *Mussoorie & Dehradun branch remit cash to HO of 20,000/- and 10,500/-.*
5. *Out of total salary bill of HO (still in the trail balance) of 1,00,000, Mussoorie & Dehradun branch need to be charged 10% and 15% as their proportionate share.*
6. *Mussoorie branch transferred goods to Dehradun branch of 55,000/- on HO instruction.*
7. *Dehradun branch paid rent of Mussoorie branch of 27,000/-.*
8. *Due to intimate connection between Mussoorie and Dehradun branch, Mussoorie branch is to be charged 5,000/- out of the office expense of Dehradun branch.*
9. *Furniture of Mussoorie branch of 50,000 and Machinery of Dehradun branch of 35,000 maintained in the books of HO is to be depreciated @ 10% and 15% respectively.*
10. *The HO has paid for the purchase of Air conditioner for both the branches of 22,500/- each. Mussoorie maintains the account of AC in its books whereas Dehradun account of AC is maintained in the HO books.*
11. *Mussoorie branch pays the HO creditors directly of 6,500/- and Dehradun branch receives 5,600/- on behalf of HO from HO debtors.*

RECONCILIATION OF HO AND BRANCH BALANCE:

1. In case of independent branches, branch prepares its own Trail balance.
2. Hence we need to incorporate the branch trail balance in the books of HO in order to ascertain the position of the group as a whole.
3. But before incorporation of branch TB in the books of HO, it is to be ensured that branch a/c in the books of HO and HO a/c in the books of branch should have equal and reciprocal balance.
4. If the both accounts in either books are not matched then they need to be reconciled before incorporating the branch Trail balance in HO books. Following are some CASES by which we can understand the reconciliation process:

CASE 1

When disagreement in the two accounts is because of the transit items, it would mean that record of transaction in one set of books only. It can be corrected by recording the aspect in the set of books where it is still not recorded.

Example 1: HO has sent goods to branch of 50,000 but branch received goods of the value of 30,000 till the end of accounting year. Here, HO has already done its part of recording . The branch should record these goods as Goods in transit as follows:

Goods in Transit a/c Dr.

To HO a/c

Later on, when goods are actually received by the branch in the next accounting year, the branch can pass following entry:

Goods received from HO a/c Dr.

To Goods in Transit a/c

Example 2: Similarly, if branch has sent cash of 80,000 to HO but HO received cash of 70,000 till the end of accounting year. Here HO should record such transaction as follows:

Cash in transit a/c Dr.

To Branch a/c

Later on, when cash is actually received by the HO in the next accounting year, the HO can pass following entry:

Cash a/c Dr.

To Cash in Transit a/c

Question 20

At the end of the year the HO books showed the balance of Branch account at 70,000 (Dr.) and Branch books showed the HO account at 40,000 (Dr.). The difference was accounted for by the following:

(1) The HO has sent goods worth 95,000 to branch during the year but not received by the branch till the end of the year.

(2) The branch has remitted 15,000 cash to HO during the year but not received by the HO till the end of the year.

(Answer: Balance in both books 55,000/-)

CASE 2

Disagreement in two accounts is because of items other than transit items. Following are some examples:

Example 1: Entries for reconciliation needed in HO books:

Particulars	Entry in branch books already done	Entry in HO books needed for reconciliation
HO creditors paid by branch	HO a/c Dr. To Cash a/c	Creditors a/c Dr. To Branch a/c
HO debtors made payment to branch	Cash a/c Dr. To HO a/c	Branch a/c Dr. To Debtors a/c
HO income (e.g. rent received on behalf of HO) received by branch	Cash a/c Dr. To HO a/c	Branch a/c Dr. To Rent a/c

Example 2: Entries for reconciliation needed in branch books:

Particulars	Entry in HO books already done	Entry in Branch books needed for reconciliation
Branch creditors paid by HO	Branch a/c Dr. To Cash a/c	Creditors a/c Dr. To HO a/c
Branch debtors made payment to HO	Cash a/c Dr. To Branch a/c	HO a/c Dr. To Debtors a/c
Branch income (e.g. rent received on behalf of branch) received by HO	Cash a/c Dr. To Branch a/c	HO a/c Dr. To Rent a/c

Question 21

The HO books show the balance of Branch a/c as 2,000 (Cr.) and Branch books show the HO a/c at 25,000 (Cr.). On scrutiny, it is found that:

- 1. The HO has sent goods worth 1,50,000 to branch during the year but out of which goods worth 15,000 was not received by branch till the end.*
- 2. The branch has remitted 75,000 cash to HO during the year, out of which cash of 5,000 not received by HO till the end.*
- 3. Branch has received 3,000 on account of interest on deposits of HO with third party.*
- 4. HO has received 40,000 as payment from the branch debtors.*
- 5. HO debtors have paid 7,000 to the branch.*
- 6. Branch creditors have been paid by the HO to the extent of 3,000.*

Reconcile the accounts in the books of both.

(Answer: Balance in both a/c 3,000..... Debit balance in the books of Branch and Credit balance in the books of HO)

INCORPORATION OF BRANCH TRIAL BALANCE IN HO BOOKS

For incorporation of Branch Trial balance in the books of HO, following entries are needed to be made in the books of HO:

1. For incorporating branch profit/loss:

Branch a/c Dr. (with the amount of Branch Profit)
To Profit and Loss a/c

Profit and Loss a/c Dr. (with the amount of Branch Loss)
To Branch a/c

2. For incorporating the Assets of the branch:

Branch Assets a/c Dr.
To Branch a/c

(all assets individually including transit items recorded by branch)

3. For incorporating the Liabilities of the branch:

Branch a/c Dr.
To Branch Liabilities a/c (all liabilities individually excluding HO a/c)

Question 22

A firm has its HO in Mumbai and an independent branch in Kolkata. The following were the balances as at the end of the year:

Particulars	HO		Branch	
	Dr.	Cr.	Dr.	Cr.
HO a/c	-	-	-	1,28,020
Branch a/c	1,29,860	-	-	-
Creditors	-	1,23,960	-	31,920
Capital	-	3,00,000	-	-
Fixed assets	2,36,000	-	1,16,000	-
Stock	35,200	-	20,740	-
Debtors	17,820	-	24,840	-
Cash/Bank	19,740	-	1,420	-
P&L a/c	-	14,660	-	3,060

Information to be adjusted was as follows:

- (1) Branch had sent a cheque for 1,000/- to HO during the year but not received by HO till the end of the year.
- (2) Depreciation of branch assets, of which accounts were maintained by the HO, not provided 250/-.

(3) It was agreed that branch should be charged with 300/- for administration expenses incurred by HO during the year.

(4) Goods worth 840/- forwarded by HO to branch during the year but not received by branch till the end of the year.

Prepare Balance sheet of the firm for the whole business after passing journal entries for recording adjustments and profits in the books of HO and Branch. Also prepare Branch a/c in the books of HO and HO a/c in the books of Branch.

(Answer: Total of B/s- 4,73,350/- and actual profit of branch is 2,510/-)

Question 23 (ICAI Module)

Ring Bell Ltd. Delhi has a branch at Bombay where a separate set of books is used. The following is the Trail balance extracted on 31st Dec., 2010:

Particulars	HO		Branch	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital	-	8,00,000	-	-
Profit & Loss a/c (01/01/2010)	-	25,310	-	-
Profit for 2010	-	82,200	-	31,700
Interim dividend paid	30,000	-	-	-
General Reserve	-	1,00,000	-	-
Fixed Assets	5,30,000	-	95,000	-
Stock	2,22,470	-	50,460	-
Debtors and Creditors	50,500	21,900	19,100	10,400
Cash Balance	62,730	-	6,550	-
HO a/c in branch books	-	-	-	1,29,010
Branch a/c in HO books	1,33,710	-	-	-

The difference between the balance of HO a/c and Branch a/c in both set of books is accounted for as follows:

(1) Cash remitted by the branch on 31st Dec 2010 but received by the HO on 1st Jan. 2011- 3,000/-

(2) Stock Stolen in transit from HO and charged to branch by the HO, but not credited to HO a/c in the branch books as the branch manager declined to admit any liability (not covered by insurance)- 1,700/-.

Give the Branch a/c in the HO books after incorporating the branch Trail balance through journal entries. Also prepare company's Balance Sheet as on 31st Dec., 2010.

(Answer: Balance Sheet Total- 10,39,810/-)

Question 24 (ICAI Module)

KP manufactures a range of goods which it sells to wholesale customers only from its head office. In addition, the H.O. transfers goods to a newly opened branch at factory cost plus 15%. The branch then sells these goods to the general public on only cash basis.

The selling price to wholesale customers is designed to give a factory profit which amounts to 30% of the sales value. The selling price to the general public is designed to give a gross margin (i.e., selling price less cost of goods from H.O.) of 30% of the sales value.

KP operates from rented premises and leases all other types of fixed assets. The rent and hire charges for these are included in the overhead costs shown in the trial balances.

From the information given below, you are required to prepare for the year ended 31st Dec., 20X1 in columnar form.

(a) A Profit & Loss account for (i) H.O. (ii) the branch (iii) the entire business.

(b) Balance Sheet as on 31st Dec., 20X1 for the entire business.

	H.O.		Branch	
Raw materials purchased	35,000			
Direct wages	1,08,500			
Factory overheads	39,000			
Stock on 1-1-20X1				
Raw materials	1,800			
Finished goods	13,000		9,200	
Debtors	37,000			
Cash	22,000		1,000	
Administrative Salaries	13,900		4,000	
Salesmen Salaries	22,500		6,200	
Other administrative & selling overheads	12,500		2,300	
Inter-unit accounts	5,000			2,000
Capital		50,000		
Sundry Creditors		13,000		
Provision for unrealized profit in stock		1,200		
Sales		2,00,000		65,200
Goods sent to Branch		46,000		
Goods received from H.O.			44,500	
	3,10,200	3,10,200	67,200	67,200

Notes:

(1) On 28th Dec., 20X1 the branch remitted ` 1,500 to the H.O. and this has not yet been recorded in the H.O. books. Also on the same date, the H.O. dispatched goods to the branch invoiced at ` 1,500 and these too have not yet been entered into the branch books. It is the company's policy to adjust items in transit in the books of the recipient.

(2) The stock of raw materials held at the H.O. on 31st Dec., 20X1 was valued at ` 2,300.

(3) You are advised that:

- There were no stock losses incurred at the H.O. or at the branch.
- It is KP's practice to value finished goods stock at the H.O. at factor ycost.
- There were no opening or closing stock of work-in-progress.

(4) Branch employees are entitled to a bonus of ` 156 under a bilateral agreement.

Question 25 (ICAI Module)

AFFIX of Kolkata has a branch at Delhi to which the goods are supplied from Kolkata but the cost thereof is not recorded in the Head Office books. On 31st March, 20X1 the Branch Balance Sheet was as follows:

Liabilities		Assets	
Creditors Balance	40,000	Debtors Balance	2,00,000
Head Office	1,68,000	Building Extension A/c closed by transfer to H.O. A/c	—
		Cash at Bank	8,000
	2,08,000		2,08,000

During the six months ending on 30-9-20X1, the following transactions took place at Delhi.

Sales	2,40,000	Manager's Salary	4,800
Purchases	48,000	Collections from Debtors	1,60,000
Wages paid	20,000	Discounts allowed	8,000
Salaries (inclusive of advance of ` 2,000)	6,400	Discount earned	1,200
General Expenses	1,600	Cash paid to Creditors	60,000
Fire Insurance (paid for one year)	3,200	Building Account (further payment)	4,000
Remittance to H.O.	38,400	Cash in Hand	1,600
		Cash at Bank	28,000

Set out the Head Office Account in Delhi books and the Branch Balance Sheet as on 30-9-20X1. Also give journal entries in the Delhi books.

Question 26 (ICAI Module)

The following Trial balances as at 31st December, 20X1 have been extracted from the books of Major Ltd. and its branch at a stage where the only adjustments requiring to be made prior to the preparation of a Balance Sheet for the undertaking as a whole.

	Head Office		Branch	
	Dr.	Cr.	Dr.	Cr.
Share Capital		1,50,000		
Fixed Assets	75,125		18,901	
Current Assets	1,21,809		23,715	(Note 3)

Current Liabilities		34,567		9,721
Stock Reserve, 1st Jan., 20X1				
(Note 2)		693		
Revenue Account		43,210		10,250
Branch Account	31,536			
Head Office Account				22,645
	2,28,470	2,28,470	42,616	42,616

You are required to record the following in the appropriate ledger accounts in both sets of books:

Notes:

1. Goods transferred from Head Office to the Branch are invoiced at cost plus 10% and both Revenue Accounts have been prepared on the basis of the price charged.
2. Relating to the Head Office goods held by the Branch on 1st January, 20X1.
3. Includes goods received from Head Office at invoice price ` 4,565.
4. Goods invoiced by Head Office to Branch at ` 3,641 were in transit at 31st December, 20X1, as was also a remittance of ` 3,500 from the Branch.
5. At 31st December, 20X1, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.

The purchase price of lorry, ` 2,500, which reached the Branch on December 25th; a sum received on December 30, 20X1 from one of the Branch debtors, ` 750.

Question 27 (ICAI Module)

On 31st December, 20X2 the following balances appeared in the books of Chennai Branch of an English firm having its HO office in New York:

	Amount in `	Amount in `
Stock on 1st Jan., 20X2	2,34,000	
Purchases and Sales	15,62,500	23,43,750
Debtors and Creditors	7,65,000	5,10,000
Bills Receivable and Payable	2,04,000	1,78,500
Salaries and Wages	1,00,000	-
Rent, Rates and Taxes	1,06,250	-
Furniture	91,000	-
Bank A/c	5,68,650	
New York Account	-	5,99,150
	36,31,400	36,31,400

Stock on 31st December, 20X2 was ` 6,37,500.

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

The rate of exchange for 1 \$ on 31st December, 20X1 was ` 52 and on 31st December, 20X2 was ` 51. The average rate for the year was ` 50.

Prepare in the Head Office books the Profit and Loss a/c and the Balance Sheet of the Branch assuming integral foreign operation.

Question 28 (ICAI Module)

S & M Ltd., Bombay, have a branch in Sydney, Australia. Sydney branch is an integral foreign operation of S & M Ltd.

At the end of 31st March, 20X2, the following ledger balances have been extracted from the books of the Bombay Office and the Sydney Office

	Bombay (` thousands)		Sydney (Australdollars 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 (1.4.20X1)	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 31.3.20X2: Bombay ` 1,50,000 Sydney A \$3,125

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

Opening rate A \$ = `20

Closing rate A \$ = `24

Average rate A \$ = `22

For Fixed Assets A \$ = `18).

Question 29 (ICAI Module)

M/s Carlin has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch is an integral foreign operation of Carlin & Co.

Mumbai branch furnishes you with its trial balance as on 31st March, 20X2 and the additional information given thereafter:

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 20X1	300	–
Purchases and sales	800	1,200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	–
Rent, rates and taxes	360	–
Sundry charges	160	–
Computers	240	–
Bank balance	420	–
New York office a/c	–	1,620
	3,360	3,360

Additional information:

- (a) Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- (b) Unsold stock of Mumbai branch was worth ` 4,20,000 on 31st March, 20X2.
- (c) The rates of exchange may be taken as follows:
- on 1.4.20X1 @ ` 40 per US\$
 - on 31.3.20X2 @ ` 42 per US\$
 - average exchange rate for the year @ ` 41 per US\$
 - conversion in \$ shall be made upto two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 20X2 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US \$ 39609.18 on 31.3.20X2 in New York books and there were no item spend in gre conciliation.

Question 30 (ICAI Module)

Goods worth ` 50,000 sent by head office but the branch has received till the closing date goods for worth ` 40,000 only. Give journal entry in the books of H.O. and branch for goods in transit.

Question 31 (ICAI Module)

Alphs having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.20X1, it was found that the goods dispatched by head office for ` 2,00,000 was received by the branch only to the extent of ` 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

Question 32 (ICAI Module)

Show adjustment journal entry in the books of head office at the end of April, 20X1 for incorporation of inter – branch transactions assuming that only head office maintains different branch accounts in its books.

A. Delhi branch:

- (1) Received goods from Mumbai – ` 35,000 and ` 15,000 from Kolkata.
- (2) Sent goods to Chennai – ` 25,000, Kolkata – ` 20,000.
- (3) Bill Receivable received – ` 20,000 from Chennai.
- (4) Acceptances sent to Mumbai – ` 25,000, Kolkata – ` 10,000.

B. Mumbai Branch (apart from the above) :

- (5) Received goods from Kolkata – ` 15,000, Delhi – ` 20,000.
- (6) Cash sent to Delhi – ` 15,000, Kolkata – ` 7,000.

C. Chennai Branch (apart from the above) :

- (7) Received goods from Kolkata – ` 30,000.
- (8) Acceptances and Cash sent to Kolkata – ` 20,000 and ` 10,000 respectively.

D. Kolkata Branch (apart from the above) :

- (9) Sent goods to Chennai – ` 35,000.
- (10) Paid cash to Chennai – ` 15,000.
- (11) Acceptances sent to Chennai – ` 15,000.

Question 33 (ICAI Module)

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

- (i) Head Office expenses ` 3,500 allocated to the Branch, but not recorded in the Branch Books.
- (ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ` 1,500.
- (iii) Branch paid ` 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.
- (iv) H.O. collected ` 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(v) A remittance of ` 15,000 sent by the Branch has not yet been received by the Head Office.

(vi) Branch A incurred advertisement expenses of ` 3,000 on behalf of Branch B.

Question 34 (ICAI Module)

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

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

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

Additional Information:

Stock on 31st March, 20X2 was valued at ` 62 lacs. On 29th March, 20X2 the Head Office dispatched goods costing ` 10 lacs to its branch. Branch did not receive these goods before, 1st April, 20X2. Hence, the figure of goods received from Head Office does not include these goods. Also the head office has charged the branch ` 1 lac for centralized services for which the branch has not passed the entry.

You are required to:

- (i) Pass Journal Entries in the books of the Branch to make the necessary adjustments*
- (ii) Prepare Final Accounts of the Branch including Balance Sheet, and*
- (iii) Pass Journal Entries in the books of the Head Office to incorporate the whole of the Branch Trial Balance.*

Question 35 (ICAI Module)

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

	\$	\$
Head office A/c	-	22,800
Sales	-	84,000
Debtors and creditors	4,800	3,400
Machinery	24,000	-
Cash at bank	1,200	-
Stock, 1 January, 20X1	11,200	-
Goods from H.O.	64,000	-
Expenses	5,000	-
	1,10,200	1,10,200

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

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

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

Rates of exchange were:

1 st January, 20X1	\$ 1.00	=	` 46
31 st December, 20X1	\$ 1.00	=	` 48
Average	\$ 1.00	=	` 47

Machinery is depreciated @ 10% and the branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to:

- (i) Prepare the Branch Trading & Profit & Loss A/c in dollars.
- (ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.



Student Notes:-

COVID-19

