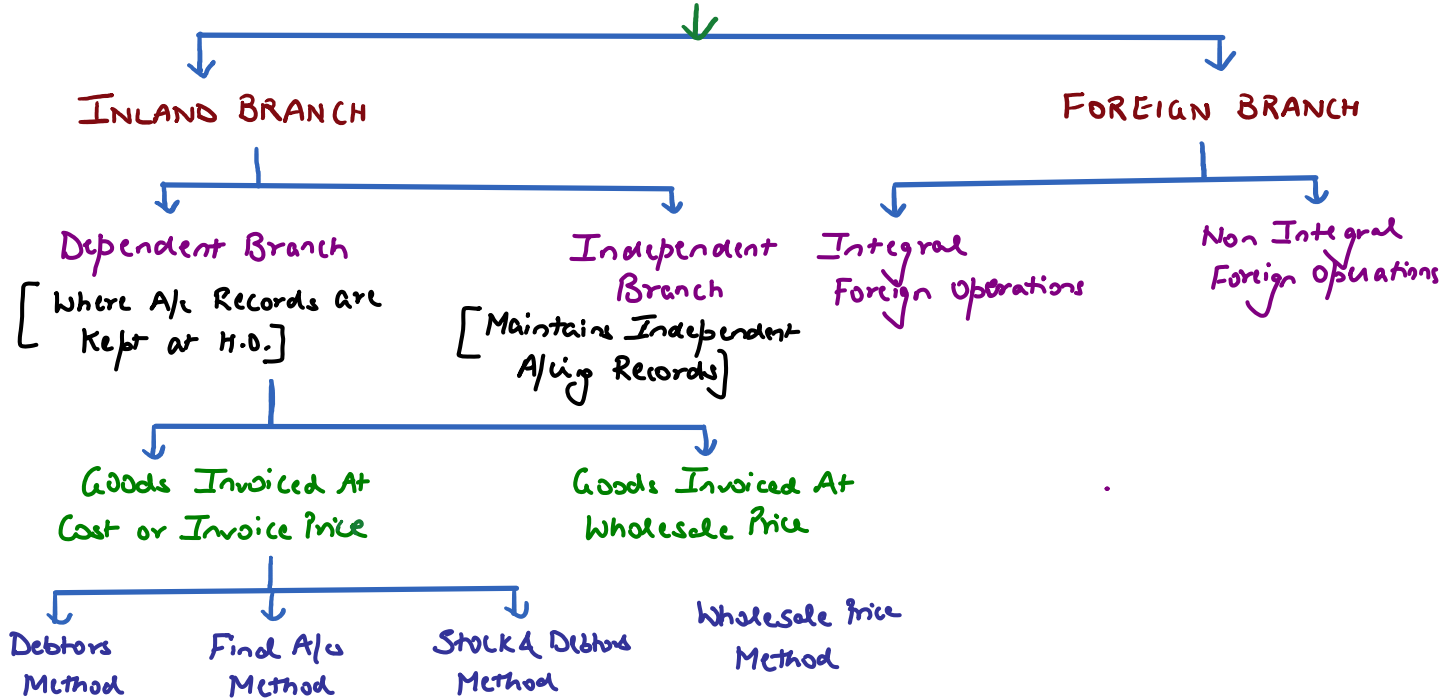


BRANCH ACCOUNTING



Concept 1A: Debtors Method

BRANCH ACCOUNT

Particulars	Amount	Particulars	Amount
To Balance b/d		By Balance b/d	
Stock (At Invoice Price)	xx	Creditors	xx
Debtors	xx	O/s Expenses	xx
Cash in hand	xx	By Stock Reserve (on Opening stock)	xx
Fixed Assets	xx	By Goods sent to branch (Loading)	xx
Prepaid expenses	xx	By Goods Returned to H.O. (At I.P.)	xx
To Goods sent to branch (At I.P.)	xx	By Bank (Remittances to H.O.)	
To Goods returned to H.O. (Loading)	xx	• Cash Sales	xx
To Bank (Cash sent by H.O. to branch for expenses/Purchase of fixed assets)	xx	• Collection from Debtors	xx
		• Recovery from Insurance Co.	xx
		• Expenses paid by branch	(xx)
		• Assets purchased by branch	(xx)
To Stock Reserve (on Closing stock)	xx	By Balance c/d	
To Balance c/d		Stock (At I.P.)	xx
Creditors	xx	Debtors	xx
O/s Expenses	xx	Cash in hand	xx
To Net Profit (Bal. Fig.)*	xx	Fixed Assets	xx
		Prepaid expenses	xx
		By Net Loss (Bal. Fig.)*	xx
	XXX		XXX

*Any one of these

Notes:

1) If any figure is missing with respect to stock, debtors, cash etc., we make

Memorandum Stock A/c, Memorandum Debtors A/c, Memorandum Cash A/c



[Eg. closing stock, GSTB, etc.] [Eg. Collection, closing Bal., etc.] [Eg. Remittance, closing Bal., etc.]

2) Discount Allowed, Bad debts, etc.

Branch A/c : No Effect

Memo. Debtors A/c : Shown on Credit side

3) Sales Return by Debtor:

Branch A/c : No Effect

Memo. stock & Memo. Debtors A/c : Shown

4) Normal loss / Abnormal loss :

Branch A/c : No Effect

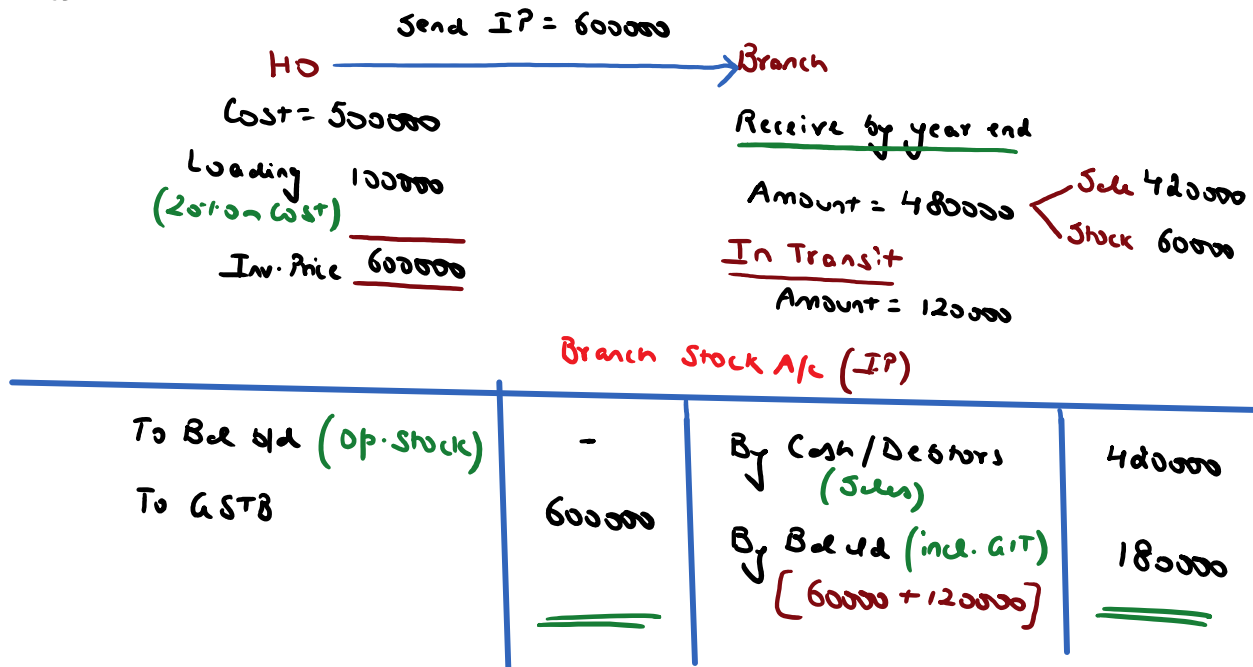
Memo. Stock A/c : Shown

However Insurance claim Received/ Receivable to be shown in Branch A/c

5) Branch stock (opening & closing) & GSTB (Net) to be shown at Invoice Price

A loading reversed always, unless Over specifies to show on Cost Basis

6) Goods in Transit



Concept 18: FINAL ACCOUNTS METHOD

BRANCH TRADING AND P & L A/C

Particulars	Amount	Particulars	Amount
To Opening stock (at cost)	xx	By Sales	
To Goods sent to branch xx		Cash xx	
(-) Returns (xx)	xx	Credit xx	
To Direct Expenses	xx	(-) Sales Return (xx)	xx
To Gross Profit (Bal. Fig.)	xx	By Abnormal Loss	xx
		By Closing stock (at cost)	xx
	XXX		XXX
To Indirect expenses	xx	By Gross Profit	xx
To Abnormal Loss	xx	By discount received	xx
To Net Profit (Bal. Fig.)	xx		
	XXX		XXX

Question

XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. All expenses are paid by head office except petty expenses which are met by the Branch Manager. Prepare branch account in the books of Head Office.

	Rs.		Rs.
Stock on 1st April 2019 (invoice price)	30,000	Expenses paid by head office:	
Sundry Debtors on 1st April, 2019	18,000	Rent	1,800
Petty Cash as on 1st April, 2019	800	Salary	3,200
Office furniture on 1st April, 2019	3,000	Stationery & Printing	800
O/s Salary as on 1 st April 2019	200		
Prepaid Rent as on 1 st April 2019	300		
Goods invoiced from the head office (invoice price)	1,60,000	Petty expenses paid by the branch	600
Goods return to Head Office	2,000	Discount allowed to debtors	160
Goods return by debtors	960	Furniture purchased by branch From collections (01.10.2019)	8,000
Cash received from debtors	60,000	Abnormal Loss (Invoice Price)	5,000
Cash Sales	1,00,000	Insurance claim received	3,000
Credit sales	60,000	Depreciation to be provided on branch furniture at 10% p.a.	
		O/s Salary as on 31 st March 2020	350
		Prepaid Rent as on 31 st March 2020	500

Solution**Branch Account**

Particulars	Amount	Particulars	Amount
To Balance b/d		By Balance b/d O/s Salary	200
Stock	30,000	By Stock Reserve (Opening) {30,000 * 20/100}	6,000
Debtors	18,000	By Goods sent to branch (Loading) {1,60,000 * 20/100}	32,000
Petty Cash	800	By Goods Returned to H.O.	2,000
Office furniture	3,000	By Bank (Remittances)	
Prepaid Rent	300	Cash Sales	1,00,000
To Goods sent to branch	1,60,000	Collection from Debtors	60,000
To Goods returned to H.O. (Loading) {2,000 * 20/100}	400	Insurance Claim Rec.	3,000
To Bank:		Purchase of Furniture	(8,000)
Rent	1,800	By Balance c/d	
Salary	3,200	Stock (W.N.-2)	23,960
Stationery & Printing	800	Debtors (WN-1)	16,880
To Stock Reserve (Closing) {23,960 * 20/100}	4,792	Cash in hand (800 - 600)	200
To Balance c/d		Office furniture (3,000-10%)+(8000- 8000*10%*6/12)	10,300
O/s Salary	350	Prepaid Rent	500
To Net Profit (Bal. Fig.)	23,598		
	2,47,040		2,47,040

WN-1

Memorandum Debtors A/c

To Balance b/d	18,000	By Bank	60,000
To Credit Sales	60,000	By Discount allowed	160
		By Sale Returns	960
		By Balance c/d (Bal. Fig)	16,880
	78,000		78,000

WN-2

Memorandum Stock A/c

To Balance b/d	30,000	By Goods returned to HO	2,000
To Goods sent to branch	1,60,000	By Cash Sales	1,00,000
To Sales Returns	960	By Credit sales	60,000
		By Abnormal Loss	5,000
		By Balance c/d (Bal. Fig)	23,960
	1,90,960		1,90,960

SOLVING SAME QUESTION WITH FINAL ACCOUNTS METHOD

Branch Trading and P & L A/c

Particulars	Amount	Particulars	Amount
To Opening stock (30,000-6,000)	24,000	By Sales:	
To Goods sent 1,60,000		Cash 1,00,000	
(-) Returns (2,000)		Credit 60,000	
(1,58,000-31,600)	1,26,400	(-) Sales Return (960)	1,59,040
		By Abnormal Loss (5,000-1,000)	4,000
To Gross Profit (Bal. Fig.)	31,808	By Closing stock (23,960-4,792)	19,168
	1,82,208		1,82,208
To Discount Allowed	160	By Gross Profit	31,808
To Abnormal Loss (4,000-3,000)	1,000		
To Rent (1800+300-500)	1,600		
To Salary (3,200-200+350)	3,350		
To Stationary & Printing	800		
To Depreciation on Furniture (300+400)	700		
To Petty expenses	600		
To Net Profit (Bal. Fig.)	23,598		
	31,808		31,808

Concept 1C: **STOCK & DEBTOR SYSTEM**

Branch Stock Account (At Invoice Price)

Particulars	Amount	Particulars	Amount
To Balance b/d	xx	By Goods sent to branch (returns)	xx
To Goods sent to branch	xx	By Bank (Cash Sales)	xx
To Branch Debtors A/c (Returns)	xx	By Branch Debtors A/c (Credit Sale)	xx
To Surplus transferred to Branch adjustment a/c [SP > IP]	xx	By Shortage/Abnormal Loss	xx
		By Branch Adjustment (Normal loss)	xx
		By Balance c/d	xx
	XXX		XXX

Note In case of Branch Stock Account, if Balance figure is on credit side then:

Case 1: Closing stock not given → then balance figure will be considered as Closing Stock.

Case 2: Closing stock is given → then consider the balance figure to be shortage/abnormal loss and separate the same accordingly in Branch adjustment & Branch P&L account.

Branch Adjustment Account

Particulars	Amount	Particulars	Amount
To Goods sent to branch>Returns (Loading)	xx	By Stock Reserve (Opening stock)	xx
To Stock Reserve (Closing stock)	xx	By Goods sent to branch (Loading)	xx
To Abnormal Loss (Loading)	xx	By Surplus tfd from Branch Stock A/c	xx
To Branch Stock a/c (Normal loss)	xx		
To Branch P&L {Gross Profit}	xx		
	XXX		XXX

Branch Expenses Account

Particulars	Amount	Particulars	Amount
To Bank A/c (expenses) [salaries, rent & rates, other expense, etc.]	xx	By Branch P & L A/c	xx
	XXX		XXX

Branch P & L Account

Particulars	Amount	Particulars	Amount
To Branch Expenses A/c	xx	By Branch Adjustment (G.P.)	xx
To Branch Debtors A/c : Discount , Bad Debts	xx	By Branch Cash a/c (Claim received from insurance Co.)	xx
To Abnormal Loss (Cost)	xx		
To Net Profit (Bal. Fig.)	xx		
	XXX		XXX

Goods Sent to Branch Account

Particulars	Amount	Particulars	Amount
To Branch stock A/c	xx	By Branch stock A/c	xx
To Branch Adjustment A/c	xx	By Branch Adjustment A/c	xx
To Purchases/Trading A/c (Bal. Fig.)	xx		
	XXX		XXX

Branch Debtors Account

Particulars	Amount	Particulars	Amount
To Balance b/d	xx	By Branch stock A/c (Returns)	xx
To Branch stock A/c (Credit Sales)	xx	By Branch P&L A/c (Discount, Bad Debts, etc.)	xx
		By Bank A/c (Collection)	xx
		By Balance c/d	xx
	XXX		XXX

Question

X & Co. invoices goods to its branch at cost plus 33 1/3%. Prepare ledger accounts as per Stock & Debtors System as they would appear in the books of head office.

Stock at commencement at Branch at invoice Price	3,60,000
Branch Debtors as on 1 st April 2019	2,00,000
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 31.03.2020 but not received by Branch before close of the year).	24,00,000
Return of goods to head office (invoice Price)	1,20,000
Sales return by Debtors to Branch	20,000
Credit Sales at Branch	1,40,000
Invoice value of goods pilfered	24,000
Insurance Claim Received	10,000
Normal loss at Branch due to wastage and deterioration of stock (at invoice price)	36,000
Cash Sales at Branch	21,60,000
Branch Expenses paid by Head Office	20,000
Discount Allowed	5,000
Collection from Debtors	1,80,000

X & Co. closes its books on 31st March, 2020

Solution**Branch Stock Account**

Particulars	Amount	Particulars	Amount
To Balance b/d	3,60,000	By Goods sent to branch (returns)	1,20,000
To Goods sent to branch	24,00,000	By Bank (Cash Sales)	21,60,000
To Branch Debtors A/c (Sales Return)	20,000	By Branch Debtors A/c (Credit Sale)	1,40,000
To Surplus (Bal.Fig.)	36,000	By Goods Pilfered (Abnormal loss)	24,000
		By Branch Adjustment (Normal Loss)	36,000
		By Balance c/d	
		In Hand	2,88,000
		In Transit	48,000
	28,16,000		28,16,000

Branch Adjustment Account

Particulars	Amount	Particulars	Amount
To Goods sent to branch>Returns (Loading) [1,20,000 × 25%]	30,000	By Stock Reserve (Opening stock) [3,60,000 × 25%]	90,000
To Goods Pilfered (Loading on Abnormal Loss) [24,000 × 25%]	6,000	By Goods sent to branch (Loading) [24,00,000 × 25%]	6,00,000
To Branch Stock A/c (Normal Loss)	36,000	By Surplus	36,000
By Stock Reserve (Closing stock) [3,36,000 × 25%]	84,000		
To Branch P&L {G.P} (Bal. Fig)	5,70,000		
	7,26,000		7,26,000

Branch Expenses Account

Particulars	Amount	Particulars	Amount
To Bank A/c (expenses)	20,000	By Branch P & L A/c (Bal. Fig.)	20,000
	20,000		20,000

Branch P & L Account

Particulars	Amount	Particulars	Amount
To Goods Pilfered (Cost of Abnormal Loss) [24,000 × 75%]	18,000	By Branch Adjustment (G.P.)	5,70,000
To Branch Expenses	20,000	By Bank (Insurance Claim)	10,000
To Branch Debtors (Discount Allowed)	5,000		
To Net Profit (Bal. Fig.)	5,37,000		
	5,80,000		5,80,000

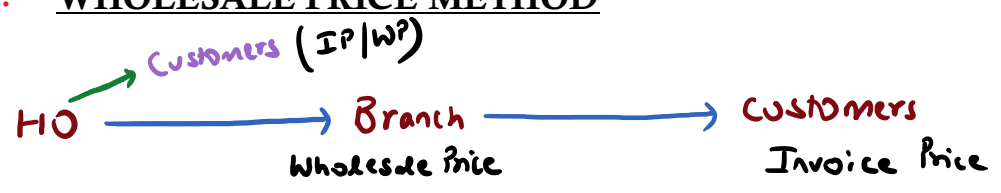
Goods Sent to Branch Account

Particulars	Amount	Particulars	Amount
To Branch stock A/c	1,20,000	By Branch stock A/c	24,00,000
To Branch Adjustment A/c	6,00,000	By Branch Adjustment A/c	30,000
To Purchases (Bal. Fig.)	17,10,000		
	24,30,000		24,30,000

Branch Debtors Account

Particulars	Amount	Particulars	Amount
To Balance b/d	2,00,000	By Branch stock A/c (Returns)	20,000
To Branch stock A/c (Credit Sales)	1,40,000	By Branch P&L A/c (Discount)	5,000
		By Bank A/c (Collection)	1,80,000
		By Balance c/d (Bal. Fig.)	1,35,000
	3,40,000		3,40,000

Concept 1D: WHOLESALE PRICE METHOD



TRADING AND P & L A/C

Particulars	Head Office	Branch	Particulars	Head Office	Branch
To Opening stock	√	√	By Goods sent to Branch	√	×
To Purchases	√	×	By Sales	√	√
To Goods Received from Head Office	×	√	By Closing Stock	√	√
To Gross Profit	√	√		×	
	XXX	XXX		XXX	XXX
To Indirect expenses	√	√	By Gross Profit	√	√
To Stock Reserve	√	×			
To Net Profit	√	√			
	XXX	XXX		XXX	XXX

Question

M/s. Ravi having Head Office at Delhi has a Branch at Kolkata. 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 Kolkata wholly engaged in retail trade and the goods are sold at cost to Head Office plus 100%.

Following details are furnished for the year ended 31st March, 2020:

	Head Office	Kolkata Branch
Opening Stock (As on 01.04.2019)	1,25,000	36,000
Purchases	21,50,000	-
Goods sent to Branch (cost to H.O. plus 80%)	7,38,000	
Sales	23,79,600	7,30,000
Office Expenses	50,000	4,500
Staff Salary	45,000	8,000

You are required to prepare Trading and Profit & Loss Account of the Head Office and Branch for the Year ended 31st March, 2020.

Solution**Trading and P&L Account**

Particulars	H.O	Branch	Particulars	H.O	Branch
To Opening stock	1,25,000	36,000	By Goods sent to branch	7,38,000	-
To Purchases	21,50,000	-	By Sales	23,79,600	7,30,000
To Goods received from HO	-	7,38,000	By Closing Stock (WN-1 & 2)	5,43,000	1,17,000
To Gross Profit	13,85,600	73,000			
	36,60,600	8,47,000		36,60,600	8,47,000
To Office Expenses	50,000	4,500	By Gross Profit	13,85,600	73,000
To Staff Salaries	45,000	8,000	By Stock Reserve (Opening) (WN-3)	16,000	
To Stock Reserve (Closing) (WN3)	52,000	-			
To Net Profit (Bal. Fig.)	12,54,600	60,500			
	14,01,600	73,000		14,01,600	73,000

WN-1 Calculation of closing stock of Head Office

Opening Stock of Head Office	1,25,000
Goods purchased by Head Office	21,50,000
	22,75,000
Less : Cost of goods sold [31,17,600 *100/180]	(17,32,000)
Closing Stock	5,43,000

WN-2 Calculation of closing stock of Branch

Opening Stock of Branch	36,000
Goods received from Head Office (At Invoice Value)	7,38,000
Less : Invoice value of goods sold [7,30,000 *180/200]	(6,57,000)
Closing Stock	1,17,000

WN-3 Calculation of unrealized profit in branch stock:

	Closing	Opening
Branch stock	1,17,000	36,000
Profit Included	80% of cost	80% of cost
Unrealized Profit	1,17,000 *80/180 = 52,000	36,000 *80/180 = 16,000

Concept 2:

INDEPENDENT BRANCH

Features of Accounting System

1. Branch maintains its entire book of accounts under double entry system.
2. Branch opens in its books a Head Office Account to record all the transactions that takes place between Head Office & Branch.
3. Head Office maintains a Branch account to record these transactions.
4. Branch prepares its trial balance, Trading & P & L a/c at the end of accounting period & sends copy of these statements to Head Office for incorporation.
5. After receiving final statement from branch, Head Office reconciles between the two – Branch A/c in Head Office Books & Head Office A/c in Branch Books.
6. Head Office prepares necessary entries to incorporate Branch trial balance in its books.

JOURNAL ENTRIES

S. No.	Transaction	Books of H.O	Books of Branch
1	Goods Dispatched by Head Office	Branch A/c Dr. To Goods Sent to Branch A/c	Goods Rec. from HO A/c Dr. To HO A/c
2	Goods Returned by Branch	Goods Sent to Branch A/c Dr. To Branch A/c	HO A/c Dr. To Goods Rec. from HO A/c
3	Remittance by Branch to Head Office	Cash & Bank A/c Dr. To Branch A/c	HO A/c Dr. To Cash & Bank A/c
4	Head Office sending cash to Branch	Branch A/c Dr. To Cash & Bank A/c	Cash & Bank A/c Dr. To HO A/c
5	Direct purchases by Branch	No Entry	Purchases A/c Dr. To Cash/Creditors A/c
6	Purchases by Branch but payment by HO	Branch A/c Dr. To Cash/Creditors A/c	Purchases A/c Dr. To HO A/c
7	Sales by Branch	No Entry	Cash / Debtors A/c Dr. To Sales A/c
8	Collection from Debtors by branch	No Entry	Cash & Bank A/c Dr. To Debtors A/c
9	Collection from Debtors directly by HO	Cash & Bank A/c Dr. To Branch A/c	HO A/c Dr. To Debtors A/c
10	Expenses incurred at Branch	No Entry	Expenses A/c Dr. To Cash & Bank A/c
11	Expenses of Branch paid by Head Office	Branch A/c Dr. To Cash & Bank A/c	Expenses A/c Dr. To HO A/c
12	Head Office expenses charged to Branch (Allocation to Branch)	Branch A/c Dr. To Expenses A/c	Expenses A/c Dr. To HO A/c
13	Transfer of goods from one branch to another	Receiving Branch A/c Dr. To Sending Branch A/c	<u>Sending Branch</u> HO A/c Dr. To Goods Rec. from HO A/c <u>Receiving Branch</u> Goods Rec. from HO A/c Dr. To HO A/c
14	Fixed Assets A/c maintained at Branch		
a)	Fixed Asset purchased by Branch	No Entry	Fixed Assets A/c Dr. To Cash & Bank A/c
b)	Fixed Asset purchased by Branch paid by Head Office	Branch A/c Dr. To Cash & Bank A/c	Fixed Assets A/c Dr. To HO A/c
c)	Depreciation on the above	No Entry	Depreciation A/c Dr.

			To Fixed Assets A/c
15	Fixed Asset A/c maintained at HO		
a)	Fixed asset purchased at Branch & recorded at Head Office Books	Branch Fixed Assets A/c Dr. To Branch A/c	HO A/c Dr. To Cash & Bank A/c
b)	Branch Fixed Asset recorded in HO books & payment by HO	Branch Fixed Assets A/c Dr. To Cash & Bank A/c	No Entry
c)	Depreciation on the above	Branch A/c Dr. To Branch Fixed Assets A/c	Depreciation A/c Dr. To HO A/c
16	Goods in Transit	No Entry	Goods in Transit A/c Dr. To HO A/c
17	Cash in Transit	Cash in Transit A/c Dr. To Branch A/c	No Entry

Question

Pass necessary Journal Entries (with narration) in the books of branch to rectify or adjust the following:

- Branch Paid Rs. 20,000 as salary to HO Supervisor and the amount was debited to Salaries Account by the branch.
- Head Office Expenses allocated to branch were Rs. 15,000, but these expenditure were not recorded by the branch.
- HO collected Rs. 70,000 directly from the customer on branch's behalf.
- Branch has sent remittance of Rs. 1,50,000 but the same has not yet been received by HO.
- Branch assets accounts retained at head office, depreciation charged for the year Rs. 15,000 not recorded by Branch.
- Goods dispatched by the Head office amounting to Rs. 50,000, but not received by the Branch till date of reconciliation.

Solution**Entries in the Books of Branch**

S.No.	Particulars	L.F.	Dr. Amount	Cr. Amount
(a)	Head Office A/c	Dr.	20,000	
	To Salaries A/c			20,000
	(Being the rectification of salary paid on behalf of H.O.)			
(b)	Expenses A/c	Dr.	15,000	
	To Head Office A/c			15,000
	(Being the allocated expenditure by the head office recorded in branch books)			
(c)	Head Office A/c	Dr.	70,000	
	To Debtors A/c			70,000
	(Being the adjustment of collection from branch debtors)			
(d)	No entry in the books of branch for remittance sent by branch not received by Head Office till end of year			
(e)	Depreciation A/c	Dr.	15,000	
	To Head Office A/c			15,000
	(Being depreciation of assets accounted for)			
(f)	Goods in transit A/c	Dr.	50,000	
	To Head Office A/c			50,000
	(Being goods sent by Head Office still in-transit)			

Note: In entry (d) the cash in transit entry will be passed in the Books of the Head Office.

Question

Show adjustment Journal entry alongwith working notes in the books of Head Office at the end of April, 2020 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch account in its books.

A. Delhi Branch:

- Received goods from Mumbai – Rs. 1,40,000 and Rs. 60,000 from Kolkata.
- Sent goods to Chennai – Rs. 1,00,000, Kolkata – Rs. 80,000.
- Bill Receivable received – Rs. 80,000 from Chennai.
- Acceptances sent to Mumbai – Rs. 1,00,000, Kolkata – Rs. 40,000.

B. Mumbai Branch (apart from the above):

- Received goods from Kolkata – Rs. 60,000, Delhi – Rs. 80,000.
- Cash sent to Delhi – Rs. 60,000, Kolkata – Rs. 28,000.

C. Chennai Branch (apart from the above):

(7) Received goods from Kolkata – Rs. 1,20,000.

(8) Acceptances and Cash sent to Kolkata – Rs. 80,000 and Rs.40,000 respectively.

D. Kolkata Branch (apart from the above):

(9) Sent goods, cash & Acceptances to Chennai – Rs. 2,60,000

Solution

Journal Entry in the Books of Head Office

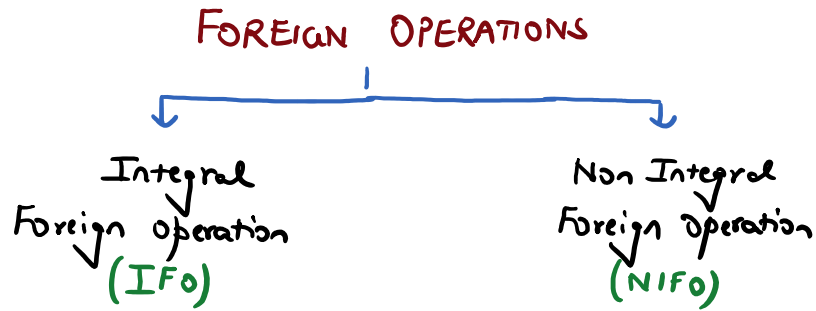
Date	Particulars	L.F.	Dr. Amount	Cr. Amount
30.04.2020	Mumbai Branch A/c	Dr.	12,000	
	Chennai Branch A/c	Dr.	2,80,000	
	To Delhi Branch A/c			60,000
	To Kolkata Branch A/c			2,32,000
	(Being adjustment entry passed by HO in respect of inter-branch transactions for month of April, 2020)			

Working Note:

Inter - Branch transactions

		Delhi	Mumbai	Chennai	Kolkata
A. Delhi Branch					
(1)	Received goods	2,00,000 (Dr.)	1,40,000 (Cr.)		60,000 (Cr.)
(2)	Sent goods	1,80,000 (Cr.)		1,00,000 (Dr.)	80,000 (Dr.)
(3)	Received B/R	80,000 (Dr.)		80,000 (Cr.)	
(4)	Sent acceptance	1,40,000 (Cr.)	1,00,000 (Dr.)		40,000 (Dr.)
B. Mumbai Branch					
(5)	Received goods	80,000 (Cr.)	1,40,000 (Dr.)		60,000 (Cr.)
(6)	Sent cash	60,000 (Dr.)	88,000 (Cr.)		28,000 (Dr.)
C. Chennai Branch					
(7)	Received goods			1,20,000 (Dr.)	1,20,000 (Cr.)
(8)	Sent cash & acceptances			1,20,000 (Cr.)	1,20,000 (Dr.)
D. Kolkata Branch					
(9)	Sent goods			2,60,000 (Dr.)	2,60,000 (Cr.)
		60,000 (Cr.)	12,000 (Dr.)	2,80,000 (Dr.)	2,32,000 (Cr.)

Concept 3:



IFO	It is a foreign operation, the activities of which are integral part of those of the reporting enterprise. The business of IFO is carried on as if it were an extension of the reporting enterprises operations.
NIFO	It is a foreign operation that is not an integral foreign operation. The business of NIFO is carried on in substantially independent way by accumulating cash & other monetary items, incurring expenses, generating income & arranging borrowing in its own local currency.

Conversion Rates

	Particulars	IFO	NIFO
1.	Opening Stock	Opening rate	Opening rate
2.	Expenses & Incomes	Average rate	Average rate
3.	Closing Assets & Liabilities (Other than Fixed Assets)	Closing rate	Closing rate
4.	Fixed Assets (& Depreciation)	Actual rate on purchase date	Closing rate
5.	Goods received from Head Office /Remittance to HO and Head Office account balance	Value appearing in HO Trial Balance	Value appearing in HO Trial Balance
6.	Difference in Trial Balance (Exchange Difference)	Transferred to P&L A/c as Exchange Gain/Loss	Transferred to Foreign Currency Translation Reserve A/c in Balance sheet

Points to Note while making converted Trial Balance:

- 1) O/s Expenses, prepaid Expenses, Accrued Income, Pre Received Income

↓
Always give both effect while making Trial Balance
(Consider in Trial Balance itself)

- 2) Depreciation on Fixed Assets: Both the treatments are correct.
ie. whether in Trial Bal. / P&L A/c & B/s

However if Ques. specifies to consider in Trial Balance then do that.

- 3) Closing stock: Never shown in Trial Balance.
Give 2 effects later on 1) Trading A/c 2) B/s.

- 4) Ques is silent whether IFO or NIFO:

If Fixed Assets Purchase Date: Exchange Rate given: Prefer IFO

Question

Omega has a branch at Washington. Its Trial Balance as at 30th September, 2020 is as follows:

	Dr. (US \$)	Cr. (US \$)
Plant and machinery	1,20,000	-
Furniture and fixtures	8,000	-
Stock, Oct. 1, 2019	56,000	-
Purchases	2,40,000	-
Sales	-	4,16,000
Goods from Omega (H.O.)	80,000	-
Wages	2,000	-
Carriage inward	1,000	-
Office Expenses	10,000	-
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, 2020 – \$ 52,000.
- (6) There were no in transit items either at the start or at the end of the year.
- (7) On September 1, 2018, when fixed assets were purchased, the rate of exchange was Rs. 38 to one \$.
On October 1, 2019, the rate was Rs. 39 to one \$.
On September 30, 2020, the rate was Rs. 41 to one \$.
Average rate during the year was Rs. 40 to one \$.

You are asked to prepare:

- (a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.
- (b) Trading and Profit and Loss Account for the year ended 30th September, 2020 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

Solution

**Washington Branch Trial Balance (in Rupees)
As on 30th September, 2020**

Particulars	Dr. (In US \$)	Cr. (in US \$)	Conversion Rate	Dr. (in Rs.)	Cr. (in Rs.)
Plant & Machinery	1,08,000		38	41,04,000	
Furniture & Fixtures	7,200		38	2,73,600	
Depreciation on P&M = 12,000 F&F = <u>800</u>	12,800		38	4,86,400	
Stock (01/10/19)	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 HO (Omega)	80,000		Actual	39,40,000	
Wages 2,000	3,000		40	1,20,000	

(+) O/S	1,000				
Carriages inward	1,000		40	40,000	
Office Expenses	10,000		40	4,00,000	
Head Office A/c		1,14,000	Actual		43,00,000
Debtors	24,000		41	9,84,000	
Creditors		17,000	41		6,97,000
Cash at Bank	5,000		41	2,05,000	
Cash in hand	1,000		41	41,000	
O/s Wages		1,000	41		41,000
Exchange gain (Bal. Fig.)					7,00,000
				2,23,78,000	2,23,78,000

Trading and P&L A/c

Particulars	Amount	Particulars	Amount
To Opening stock	21,84,000	By Sales	1,66,40,000
To Goods from Head Office	39,40,000	By Closing Stock (52,000 x 41)	21,32,000
To Purchases	96,00,000		
To Carriage inward	40,000		
To Wages	1,20,000		
To Gross Profit (Bal. Fig.)	28,88,000		
	1,87,72,000		1,87,72,000
To Depreciation	4,86,400	By Gross Profit	28,88,000
To Office Expenses	4,00,000	By Exchange gain	7,00,000
To Net Profit (Bal. Fig.)	27,01,600		
	35,88,000		35,88,000

Balance Sheet

Liabilities	Amount	Assets	Amount
Head Office	43,00,000	Plant & Machinery	41,04,000
(+) NP	27,01,600	Furniture & Fixtures	2,73,600
Creditors	6,97,000	Stock	21,32,000
O/s Wages	41,000	Debtors	9,84,000
		Cash at Bank	2,05,000
		Cash in Hand	41,000
	77,39,600		77,39,600

Note: The above solution has been given assuming that the Washington branch is Integral foreign operation of the Omega