

ACCOUNTING FOR BRANCHES INCLUDING FOREIGN BRANCHES

Illustration 1 (a)

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:

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

Solution

In the Books of Buckingham Bros, Bombay Nagpur Branch Account

Particulars	₹	Particulars		₹
To Opening Branch Assets-		By Bank –		
Stock (24,000+16,000)	40,000	Remittances received from branch		
Debtors	25,000	Cash Sales	45,000	
Imprest Cash	2,000	Cash from Debtors *	1,20,000	
To Goods sent to Branch A/c	60,000	Cash in transit *	5,000	1,70,000
To Creditors (Direct	45,000	By Closing Branch Assets		
		Stock (15,000 +10,000)		25,000
		Debtors (W.N. 1)		24,000

Purchases)		Imprest Cash (W.N. 2)		2,000
To Bank (Sundry exp.)	30,000			
To Bank (Petty cash exp.)	4,000			
To Net Profit transferred to General Profit & Loss A/c	15,000			
	2,21,000			2,21,000

Working Notes:**1. Memorandum Debtors A/c**

Particulars	₹	Particulars	₹
To Bal b/d	25,000	By Sales Return	3,000
To Sales	130,000	By Bad Debts	1,000
		By Discount	2,000
		By Cash *	125,000
		By Bal c/d	24,000
	155,000		155,000

2. Memorandum Petty Cash

Particulars	₹	Particulars	₹
To Bal b/d	2,000	By Expenses (met by Branch)	4,000
To Transfer from H.O.	4,000	By Bal c/d	2,000
	6,000		6,000

* Collection from Debtors = Total Remittances (1,65,000+5,000) – Cash Sales (45,000) = ₹ 1,25,000

Illustration 1 (b)

From the information given in the illustration 1(a), prepare Nagpur Branch Trading and Profit and Loss Account in the books of head office.

Solution

Buckingham Bros. Bombay
Nagpur Branch-Trading and Profit and Loss Account
for the year ending 31st December, 20X1

Particulars	₹	Particulars	₹	₹
To Opening Stock	40,000	By Sales		
To Goods transferred from Head Office	60,000	Cash	45,000	
To Purchases	45,000	Credit sales	1,30,000	
To Gross Profit c/d	52,000	Less: Returns	1,75,000	
			(3,000)	1,72,000
		By Closing Stock		25,000
	1,97,000			1,97,000
To Expenses	30,000	By Gross Profit b/d		52,000
To Discounts	2,000			

To Bad Debts	1,000			
To Petty Cash Expenses	4,000			
To Net Profit transferred to General P&L A/c	15,000			
	52,000			52,000

The students may note that Gross Profit and Net Profit earned by the branch are ascertainable in this method and also evaluating the performance of the branch is very much easier in this method than in the 'Debtors method'.

Solving Illustration by all three methods

Given below is a simple problem, the solution where to has been prepared in all the three methods so as to show the distinguishing features of these methods.

Illustration 2

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, 20X1.

	₹		₹
Balances as on 1.1.20X1:			
Stock	7,000	Bad Debts	600
Debtors	12,600	Goods returned by customers	500
Petty Cash,	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	
Credit Sales	28,400	Debtors	28,500
Allowances to customers	200	Balances as on 31.12.20X1:	
Discount to customers	1,400	Stock	6,500
		Debtors	9,800
		Petty Cash	100

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

Solution

(a) Debtors Method

Delhi Branch Account

20X1		₹	₹	20X1		₹	₹
Jan. 1	To Opening branch assets:			Dec 31	24 Bank		
	Stock	7,000			Cash Sales	17,500	
	Debtors	12,600			Cash from sundry		
	Petty cash	200	19,800				

Customers					
To Discounts		1,400			
To Bad Debts		600			
To Net Profit		9,400			
		19,900			19,900

Illustration 3 (a) (MTP Apr'24)

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		
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	2,5000

Show necessary ledger accounts in the books of the head office and determine the Profit or Loss of the Branch for the year ended 31st December, 20X1. **(6 Marks)**

Solution

Books of Harrison
Branch Stock Account

	₹		₹
To Balance b/d – Op Stock	30,000	By Branch Debtors (Sales)	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Cash	59,000
To Branch Adjustment A/c	2,000	By Balance c/d	
(Balancing Figure –		Goods in Transit	
Excess of Sale over Invoice		(₹ 2,40,000 – ₹ 2,20,000)	20,000
Price)		Closing Stock at	28,000
		Branch	
	2,72,000		2,72,000

Branch Debtors Account

	₹		₹
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock A/c (Sales)	1,65,000	By Branch Cash (bal.fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		1,97,750

Branch Cash Account

	₹		₹
To Balance b/d	5,000	By Bank Remittance to H.O.	2,22,500
To Branch Stock	59,000	By Branch Expenses	10,000
To Branch Debtors	1,71,000	[met by Branch (Bal. fig.)]	
		By Balance c/d	2,500
	2,35,000		2,35,000

Branch Adjustment Account

	₹		₹
		By Stock Reserve opening (25,000 × 20%)	5,000
To Branch P & L - Gross Profit (Bal. fig.)	39,000	By Goods sent to Branch A/c	40,000
To Stock Reserve (on closing stock (48,000 × 1/6))	8,000	By Branch Stock A/c	2,000
	47,000		47,000

Branch Expenses

	₹		₹
To Cash (H.O)	12,000		
To Branch Cash	10,000	By Branch P&L A/c	22,000
	22,000		22,000

Branch Profit and Loss Account

	₹		₹
To Branch Expenses	22,000	By Gross Profit (from Branch Adjustment A/c)	39,000
To Branch Debtors (bad debts)	750		
To Net Profit	16,250		
	39,000		39,000

Goods Sent to Branch Account

	₹		₹
To Branch Adjustment A/c	40,000	By Branch to Stock A/c	2,40,000

To Purchase A/c - Transfer	2,00,000		
	2,40,000		2,40,000

Illustration 3 (b)

Take figures from Illustration 3 (a) and prepare branch account following debtors' method.

Solution

Books of Harrison
New Delhi Branch Account

	₹		₹
To Balance B/d			
Stock	30,000	By Stock Reserve	5,000
Debtors	32,750		
Cash	5,000		
To Goods Sent to Branch A/c (2,00,000 + 20%)	2,40,000	By Goods Sent to Branch A/c	40,000
To Cash (Exp. paid by H.O.)	12,000	By Cash – Remittance from branch	2,22,500
To Net Profit ts/f to H.O.	16,250	By Balance c/d	26,000
Profit & Loss A/c (Balancing Figure)		Debtors	
To Stock reserve (48,000X20/120)	8,000	Stock (including Transit – W.N 2)	48,000
		Cash	2,500
	3,44,000		3,44,000

Working Note:

Closing Stock = Stock at branch + Stock in Transit (Goods sent by HO – Goods Received by Branch) = ₹ 28,000 + (₹ 2,40,000 - ₹ 2,20,000) = ₹ 48,000.

Illustration 4

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:

	Jan. 20X1	Feb. 20X1	March 20X1
	₹	₹	₹
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, 20X1 amounted to ₹ 53,400 at invoice to branch.

Adjustment A/c		A/c	
To Cochin Branch Stock	12,000	By Cochin Branch Stock	2,400
A/c (Returns)		Adj. A/c	
To Purchases A/c	4,70,400		
	6,02,400		6,02,400

Branch Debtors Account

	₹		₹
To Balance b/d	72,000	By Bank	3,20,000
To Branch Stock		By Branch P&L A/c	6,000
		Discount	
A/c	3,60,000	By Branch P&L A/c - Bad	4,000
		Debts	
		By Branch Stock - Sales	8,000
		Returns	
		By Balance c/d	94,000
	4,32,000		4,32,000

Branch Expenses Account

	₹		₹
To Bank A/c (Rent, Rates & Taxes)	18,000	By Branch Profit & Loss	
To Bank A/c (Salaries & Wages)	60,000	A/c (Transfer)	84,000
To Bank A/c (office exp.)	6,000		
	84,000		84,000

Branch Profit & Loss Account for the year ending 31st Dec. 20X1

	₹		₹
To Branch Expenses A/c	84,000	By Branch Stock Adj. A/c	1,29,600
To Branch Debtors A/c	6,000		
To Branch Debtors A/c	4,000		
To Net Profit transferred to Profit & Loss A/c	35,600		
	1,29,600		1,29,600

Illustration 7 (RTP May'22)

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).

Solution

In the books of Arnold
Lucknow Branch Account

	₹		₹
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To Balance b/d		By Bank (Remittance)	6,13,250
-Opening Branch Assets		By Closing Branch Assets	
Opening stock:		Closing stock:	
Ghee	17,000	Ghee	13,250
Oil	27,000	Oil	44,750
Debtors	75,750	Debtors (W.N. 1)	86,900
Cash on hand	7,540	Cash on hand (W.N. 2)	12,350
Furniture & fittings	6,250	Furniture & fittings	5,625
To Goods sent to Branch			
A/c			
Ghee (15 x 1500 x 12)	2,70,000		
Oil (25 x 1000 x 12)	3,00,000		
To Bank (Expenses paid)	14,250		
To Branch Manager Commission (₹ 58,335 × 1/11)	5,303		
To Net Profit transferred to General P & L A/c	53,032		
	7,76,125		7,76,125

Arnold

**Trading and Profit and Loss account for the year ended 31st December, 20X1
(Excluding branch transactions)**

	₹		₹
To Opening Stock:		By Sales:	
Ghee	1,50,000	Ghee	18,46,350
Oil	3,50,000	Oil	27,41,250
To Purchases:		By Closing Stock:	
Ghee 14,75,000		Ghee	3,12,500
Less: Goods sent		Oil	4,17,250
to Branch <u>(2,70,000)</u>	12,05,000		
Oil 29,32,000			
Less: Goods sent	26,32,000		
to Branch <u>(3,00,000)</u>			
To Direct Expenses	3,83,275		
To Gross Profit c/d	5,97,075		
	53,17,350		53,17,350
To Manager's Salary	24,000	By Gross Profit b/d	5,97,075
To General Expenses	24,000	By Branch Profit transferred	53,032
To Depreciation:			
Furniture @10% 2,150			
Plant & Machinery			
@ 15% (W.N.3) <u>1,36,500</u>	1,38,650		

To General Manager's Commission @ 10% (i.e., $4,63,457 \times 1/11$)	42,132		
To Net profit	4,21,325		
	6,50,107		6,50,107

Working Notes:**1. Memorandum Branch Debtors Account**

	₹		₹
To Balance b/d	75,750	By Cash Collections (including Cash Sales)	6,47,330
To Sales (including Cash Sales)		By Balance c/d	86,900
Ghee	3,42,750		
Oil	3,15,730		
	7,34,230		7,34,230

2. Memorandum Branch Cash Account

	₹		₹
To Balance b/d	7,540	By Remittance	6,13,250
To Collections	6,47,330	By Exp. (Balance fig.)	29,270
		By Balance c/d	12,350
	6,54,870		6,54,870

3. Depreciation on Plant & Machinery $3,07,250 \times 15\% + 6,02,750 \times 15\% = ₹1,36,500$ **Illustration 8**

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 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 31.3.20X2	36,000

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

a) Outlet Stock Account.

b) Outlet Profit & Loss Account.

c) Stock Reserve Account.

Solution**Outlet Stock Account**

	₹		₹
To Balance b/d	30,000	By Sales (Working Note 1)	3,60,000
To Goods sent outlet to	3,24,000	By Goods lost by fire (b.f.)	18,000
To Gross Profit c/d	60,000	By Balance c/d	36,000
	4,14,000		4,14,000

Outlet Profit & Loss Account

	₹		₹
To Expenses	20,000	By Gross Profit b/d	60,000
To Goods lost by fire (W.N.2)	18,000		
To Profit transferred	22,000		
	60,000		60,000

Stock Reserve Account

	₹		₹
To HO P & L A/c – Transfer	6,000	By Balance b/d	6,000
To Balance c/d (Stock Res. required)	7,200	By HO P&L A/c (W.N. 3)	7,200
	13,200		13,200

Working Notes:

₹

1) Wholesale Price $100 + 25 = 125$
 Retail Price $125 + 20\% = 150$
 Gross Profit at the outlet
 Wholesale Price – Retail Price $(150 - 125) = 25$
 Retail sales value $= 60,000 \times \frac{150}{125} = ₹ 3,60,000$

2) Goods lost by fire

Opening Stock + Goods Sent + Gross Profit – Sales – Closing Stock
 $30,000 + 3,24,000 + 60,000 - 3,60,000 - 36,000 = ₹18,000$

3) Stock Reserve

Opening Stock $= 30,000 \times \frac{25}{125} = ₹6,000$
 Closing Stock $= 36,000 \times \frac{25}{125} = ₹7,200$

Illustration 9 (Past Exam Jan'21)

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

- (i) Branch paid ₹ 5,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.
- (ii) Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.
- (iii) A remittance of ₹ 8,000 sent by the branch has not been received by H.O.
- (iv) H.O collected ₹ 25,000 directly from the customer of Branch but fails to give the intimation to branch.
- (v) Remittance of funds by H.O to branch ₹ 5,000 not entered in branch books. **(5 Marks)**

Solution**Journal Entries in Books of Branch**

	Particulars	Dr. Amount	Cr. Amount
(i)	Head office account Dr. To Salaries account (Being the rectification of salary paid on behalf of H.O.)	5,000	5,000
(ii)	Head office account Dr. To Bank / Liability A/c (Being Asset purchased by branch but Asset account retained at head office books)	25,000	25,000
(iii)	No Entry in Branch Books		
(iv)	Head office account Dr. To Debtors account (Being the amount of branch debtors collected by H.O.)	25,000	25,000
(v)	Bank A/c Dr. To Head Office (Remittance of Funds by H.O. to Branch)	5,000	5,000

Illustration 10

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 are to be done.

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

Note:

1. Goods transferred from Head Office to the Branch are invoiced at cost plus 10% and both Revenue Accounts have been prepared on the basis of the prices charged.
2. Relating to the Head Office goods held by the Branch on 1st January, 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.

Solution

H.O. Books
Branch Account

20X1		₹	20X1		₹
Dec. 31	To Balance b/d	31,536	Dec. 31	By Cash in transit	3,500
				By Balance c/d	28,036
		31,536			31,536

Cash in transit Account

20X1		₹	20X1		₹
Dec. 31	To Branch A/c	3,500	Dec. 31	By Balance c/d	3,500

Stock Reserve Account

20X1		₹	20X1		₹
Dec. 31	To Balance c/d (4,565+3,641) x 10/110	746	Jan. 1	By Balance b/d	693
				By Revenue A/c (b.f.)	53
		746			746

Revenue Account

20X1		₹	20X1		₹
Dec. 31	To Stock Reserve	53	Dec. 31	By Balance b/d	43,210
	To Balance c/d	43,157			
		43,210			43,210

Branch Books

Head Office Account

20X1		₹	20X1		₹
Dec. 31	To Current Assets	750	Dec. 31	By Balance b/d	22,645
				By Goods in transit	3,641
	To Balance c/d	28,036		By Motor Vehicle	2,500
		28,786			28,786

Goods in Transit Account

20X1		₹	20X1		₹
Dec. 31	To Head Office	3,641	Dec. 31	By Balance c/d	3,641

Motor Vehicle Account

20X1		₹	20X1		₹
Dec. 31	To Head Office	2,500	Dec. 31	By Balance c/d	2,500

Sundry Current Assets A/c

20X1		₹	20X1		₹
Dec. 31	To Balance b/d	23,715	Dec. 31	By H.O. (Remittance by Debtor)	750
				By Balance c/d	22,965
		23,715			23,715

Illustration 11

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

Note:

- 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.
- The stock of raw materials held at the H.O. on 31st Dec., 20X1 was valued at ₹ 2,300.
- 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 factory cost.
 - there were no opening or closing stock of work-in-progress.
- Branch employees are entitled to a bonus of ₹ 156 under a bilateral agreement.

Solution**In the books of KP****Trading and Profit & Loss Account for the year ended 31st Dec., 20X1**

	H.O. ₹	Branch ₹	Total ₹		H.O. ₹	Branch ₹	Total ₹
To Opening stock of finished goods	13,000	9,200	22,200	By Sales	2,00,000	65,200	2,65,200
To Material consumed (W.N.1)	34,500	-	34,500				
To Wages	1,08,500	-	1,08,500	By Goods Sent to Branch	46,000	-	-
To Factory	39,000	-	39,000				

Overheads							
To Goods from H.O.		46,000		By Closing stock including transit (W.N.2)	15,000	9,560 (Bal Fig)	24,560
To Gross Profit c/d (W.N.3)	66,000	19,560	85,560				
	(Bal Fig)						
	2,61,000	74,760	2,89,760		2,61,000	74,760	2,89,760
To Admn. Salaries	13,900	4,000	17,900	By Gross Profit b/d	66,000	19,560	85,560
To Salesmen Salaries	22,500	6,200	28,700				
To Other Admn. & selling Overheads	12,500	2,300	14,800				
To Stock Reserve (W.N.4)	47	-	47				
To Bonus to Staff	-	156	156				
To Net Profit	17,053	6,904	23,957				
	66,000	19,560	85,560		66,000	19,560	85,560

Balance Sheet as on 31st Dec., 20X1

		₹	H.O. ₹	Branch ₹	Total ₹		H.O. ₹	Branch ₹	Total ₹
Capital			50,000	-	50,000	Fixed Assets	-	-	-
Profit:	H.O.	17,053				Current Assets:			
	Branch	6,904	23,957		23,957	Raw material	2,300		2,300
Trade			13,000		13,000	Finished Goods	15,000	9,560	23,313*
Creditors									
Bonus Payable				156	156	(Less Stock Res.)			
H.O. Account*				10,404		Debtors	37,000	-	37,000
Stock Reserve (W.N.4)			1,247			Cash (including transit item)	23,500	1,000	24,500
						Branch A/c	10,404**		
			88,204	10,560	87,113		88,204	10,560	87,113

* $9,560 \times 100/115$ i.e., $(8,313 + 15,000) = ₹ 23,313$ or $(15,000 + 9,560) - 1,247$ (Stock reserve) ** $(5,000 + 6,904) - 1500 = ₹ 10,404$.

Working Notes:

1) Material consumed

$$\begin{aligned} &\text{Opening raw material} + \text{Raw Material Purchased} - \text{Closing raw material} \\ &= 1,800 + 35,000 - 2,300 = 34,500 \end{aligned}$$

2) Closing stock at head office

$$\begin{aligned} \text{a) Calculation of total factor cost} &= \text{Material consumed} + \text{Wages} + \text{Factory overhead} \\ &= 34,500 + 1,08,500 + 39,000 = 1,82,000 \end{aligned}$$

$$\begin{aligned} \text{b) Cost (factory cost) of goods sold} &= \text{Sales} - \text{Gross profit} \\ &= 2,00,000 - 2,00,000 \times 30\% = 1,40,000 \end{aligned}$$

$$\text{c) Stock transferred to branch} = 46,000 \times 100/115 = 40,000$$

$$\text{d) Closing stock} = 13,000 (\text{Opening Stock}) + 1,82,000 - 1,40,000 - 40,000 = 15,000$$

3) Gross profit of Branch = Sales x Gross profit ratio

$$= 65,200 \times 30\% = 19,560$$

4) Closing stock reserve = $9,560 \times 15/115 = 1,247$

$$\text{Charge to profit and loss} = 1,247 - 1,200 (\text{existing}) = 47$$

Illustration 12 (Past Exam July'21) (MTP Sep'23)

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	1,200v
General Expenses	1,600	Cash paid to Creditors	60,000
		Building Account (further payment)	4,000
Fire Insurance (paid for one year)	3,200	Cash in Hand	1,600
Remittance to H.O.	38,400	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. **(10 Marks)**

Solution

Goods-in-transit account	Dr.	10,000	10,000
To Head Office account			
(Being goods sent by head office is still in transit)			

Illustration 21

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?

Solution:

Nagpur branch must include the inventory in its books as goods in transit. The following journal entry must be made by the branch:

Goods in transit A/c	Dr.	50,000	
To Head office A/c			50,000

[Being Goods sent by Head office is still in transit on the closing date]

Illustration 22

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.

Solution:**Journal entry in the books of Head Office**

Date	Particulars	Dr.	Cr.
		₹	₹
30 th April,	Mumbai Branch Account	3,000	
20X1	Chennai Branch Account	70,000	
	To Delhi Branch Account		15,000
	To Kolkata Branch Account		58,000

(Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 20X1)

Working Note:**Inter – Branch transactions**

	Delhi	Mumbai	Chennai	Kolkata
	₹	₹	₹	₹
A. Delhi Branch	50,000 (Dr.)	35,000 (Cr.)		15,000 (Cr.)
1. Received goods				
2. Sent goods	45,000 (Cr.)		25,000 (Dr.)	20,000 (Dr.)
3. Received Bills receivable	20,000 (Dr.)		20,000 (Cr.)	
4. Sent acceptance	35,000 (Cr.)	25,000 (Dr.)		10,000 (Dr.)
B. Mumbai Branch	20,000 (Cr.)	35,000 (Dr.)		15,000 (Cr.)
5. Received goods	15,000 (Dr.)	22,000 (Cr.)		7,000 (Dr.)
6. Sent cash				
C. Chennai Branch				
7. Received goods			30,000 (Dr.)	30,000 (Cr.)
8. Sent cash and acceptances			30,000 (Cr.)	30,000 (Dr.)
D. Kolkata Branch				
9. Sent goods			35,000 (Dr.)	35,000 (Cr.)
10. Sent cash			15,000 (Dr.)	15,000 (Cr.)
11. Sent acceptances			15,000 (Dr.)	15,000 (Cr.)
	15,000 (Cr.)	3,000 (Dr.)	70,000 (Dr.)	58,000 (Cr.)

Illustration 23

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.

Solution:**Books of Branch A****Journal Entries**

	Particulars	Dr. Amount ₹	Cr. Amount ₹
(i)	Expenses account Dr.	3,500	

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

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

Illustration 24 (RTP Nov '23)

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 invoiced at ₹ 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.

Solution:

In the Head Office Books

Branch Account

for the year ended 31st March, 20X2

	₹ '000		₹'000
To Balance b/d		By Balance b/d	
Cash in hand	10	Stock reserve ₹ 1,080 × 1/6	180
Trade debtors	384	By Goods sent to branch A/c (Returns to H.O.)	72
Stock	1,080	By Goods sent to branch A/c	2,188
Furniture and fittings	500	(Loading on net goods sent to branch –	
To Goods sent to branch A/c	13,200	$\left(13,128 \times \frac{1}{6}\right)$	
To Bank A/c	100	By Bank A/c (Remittance from branch to H.O.) (W.N.5)	11,700
(Payment for furniture)		By Balance c/d	
To Balance c/d Stock reserve	245	Cash in hand	10
$\left(1470 \times \frac{1}{6}\right)$		Trade debtors (W.N.3)	485
To Net profit transferred to		Stock (W.N.1)	1,470
General P/L account	1,096	Furniture and fittings (W.N.4)	516
To Balance c/d -	6		
Outstanding expenses			
	16,621		16,621

Working Notes:

1. Invoice price and cost

Let cost be	100
So, invoice price	120
Loading	20
Loading: Invoice price= 20 : 120	= 1 : 6

2. Memorandum Branch Stock Account

	₹ '000		₹ '000
To Balance b/d	1,080	By Goods sent to branch	72
To Goods sent to branch	13,200	By Branch Cash	9,700
To Branch debtors	102	By Branch debtors	3,140
		By Balance c/d	1,470
	14,382		14,382

3. Memorandum Branch Debtors Account

	₹ '000		₹ '000
To Balance b/d	384	By Branch cash	2,842
To Branch stock	3,140	By Branch expenses discount	58
		By Branch stock	102
		(Returns)	
		By Branch expenses	
		(Bad debts)	37
		By Balance b/d	485
	3,524		3,524

4. Memorandum Branch Furniture and Fittings Account

	₹ '000		₹ '000
To Balance b/d	500	By Depreciation	84
		[(500x16%) + (100 x 16% x 3/12)]	
To Bank	100	By Balance c/d	516
	600		600

Note: Since the new furniture was purchased on 1st Jan 20X2 depreciation will be for 3 months.

5. Memorandum Branch Cash Account

	₹ '000		₹ '000
To Balance b/d	10	By Branch expenses	842
To Branch stock	9,700	By Remittances to H.O.	11,700
		(b.f)	
To Branch debtors	2,842	By Balance b/d	10
	<u>12,552</u>		<u>12,552</u>

Illustration 25 (MTP Mar'23) (RTP May'19, May'20)

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

Debit Balances	₹ in lacs
Furniture and Equipment	18
Depreciation on furniture	2
Salaries	25
Rent	10
Advertising	6
Telephone, Postage and Stationery	3
Sundry Office Expenses	1
Stock on 1st April, 20X1	60
Goods Received from	288
Head Office Debtors	20
Cash at bank and in hand	8

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 under Stock and Debtors Method'.

Branch does not maintain any books of account, but sends weekly returns to the Head Office.

	₹
Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1st January, 20X1	4,50,000
Sales during the year - Cash	15,00,000
- Credit	27,00,000
Sundry Debtors at Bangalore as on 1st January, 20X1	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31st December, 20X1 at invoice price	9,00,000

Solution:

Bangalore Branch Stock Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	4,50,000	By Goods sent to branch A/c (Returns)	90,000
Goods sent to branch A/c	45,00,000	By Bank A/c (Cash sales)	15,00,000
To Branch debtors A/c (Returns)	60,000	By Branch debtors A/c (credit sales)	27,00,000
To Branch adjustment A/c		By Balance c/d	9,00,000
(Surplus over invoice price)*	1,80,000		
	51,90,000		51,90,000

*Alternatively, this may directly be transferred to Branch P&L A/c without routing it through Branch Adjustment Account.

Bangalore Branch Adjustment Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock reserve - 20% of ₹ 9,00,000 (closing stock)	1,80,000	By Stock reserve - 20% of ₹ 4,50,000 (Opening stock)	90,000
To Branch profit & loss A/c	9,72,000	By Goods sent to branch A/c –	8,82,000

	(Being the income allocated by the Head office not recorded earlier, now recorded)		
(ii)	Head Office Account Dr. To Salaries Account	3,000	3,000
	(Being rectification of salary paid on behalf of Head Office)		
(iii)	Head Office Account Dr. To Cash Account	5,000	5,000
	(Being expenditure incurred on account of other branch, now recorded in books)		
(iv)	No entry in Branch Books is required.		
(v)	Expenses Account Dr. To Head Office Account	75,000	75,000
	(Being allocated expenses of Head Office recorded)		
(vi)	Head Office Account Dr. To Debtors Account	30,000	30,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)		
(vii)	Goods -in- transit Account Dr. To Head Office Account	10,000	10,000
	(Being goods sent by Head Office still in-transit)		

Illustration 29

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	3,400v
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	29,26,000	By Balance c/d	8,60,000
	37,36,000		37,36,000

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired in past, when \$ 1.00 = ₹ 40.

Rates of exchange were:			
1st January, 20X1	\$ 1.00	=	₹ 46
31st 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:

- Prepare the Branch Trading & Profit & Loss A/c in dollars.
- 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.

Solution:

(i)

In the Books of Head Office

Branch Trading and Profit & Loss A/c (in Dollars)

for the year ended 31st December, 20X1

Particulars	\$	Particulars	\$
To Opening stock	11,200	By Sales	84,000
To Goods from H.O.	64,000	By Closing stock (W.N.2)	8,000
To Gross profit c/d	16,800		
	92,000		92,000
To Expenses	5,000	By Gross profit b/d	16,800
To Depreciation (24,000 x 10%)	2,400		
To Manager's commission (W.N.1)	470		
To Net profit c/d	8,930		
	16,800		16,800

(ii) (a) Converted Branch Trial Balance (into Indian Currency)

Particulars	Rate per \$	Dr. (₹)	Cr. (₹)
Machinery	40	9,60,000	-
Stock January 1, 20X1	46	5,15,200	-
Goods from head office	Actual	29,26,000	-
Sales	47	-	39,48,000
Expenses	47	2,35,000	-
Debtors & creditors	48	2,30,400	1,63,200
Cash at bank	48	57,600	-
Head office A/c	Actual	-	8,60,000
Difference in exchange rate (b.f.)		47,000	-
		49,71,200	49,71,200
Closing stock \$ 8,000 (W.N. 2)	48		₹

3,84,000

(b) Branch Trading and Profit & Loss A/c for the year ended 31st December, 20X1

	₹		₹
To Opening stock	5,15,200	By Sales	39,48,000
To Goods from head office	29,26,000	By Closing stock (W.N.2)	3,84,000
To Gross profit c/d	8,90,800		
	43,32,000		43,32,000
To Expenses	2,35,000	By Gross profit b/d	8,90,800
To Depreciation @ 10% on ₹ 9,60,000	96,000		
To Exchange difference	47,000		
To Manager's commission (W.N.1)	22,560		
To Net Profit c/d	4,90,240		
	8,90,800		8,90,800

(c) Branch Account

	₹			₹
To Balance b/d	8,60,000	By Machinery	9,60,000	
To Net profit	4,90,240	Less: Depreciation	(96,000)	
To Creditors	1,63,200			8,64,000
To Outstanding commission		By Closing stock		3,84,000
	22,560	By Debtors		2,30,400
		By Cash at bank		57,600
	15,36,000			15,36,000

Working Notes:**1. Calculation of manager's commission @ 5% on profit**

i.e. 5% of \$[16,800 – (5,000 + 2,400)]

Or 5% × \$9,400 = \$ 470

Manager's commission in Rupees = \$ 470 × ₹ 48 = ₹ 22,560

2. Calculation of closing stock

	\$
Opening stock	11,200
Add: Goods from head office	<u>64,000</u>
	75,200

Less: Cost of goods sold (at invoice price) i.e. $\frac{100}{125} \times 84,000$	<u>(67,200)</u>
Closing stock	<u>8,000</u>
Closing stock in Rupees = \$8,000 x ₹ 48 = ₹ 3,84,000.	

Note: Manager is entitled to commission on profits earned at the end of the year.

MTP / RTP / Past Exam**Question 1 (MTP Oct'19, RTP Nov'22)**

M & S Co. of Lucknow has a branch in Canberra, Australia (as an integral foreign operation of M & S Co.). At the end of 31st March 2019, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra.

	Lucknow office (Rs. In thousand)		Canberra Branch (Aust. Dollars in thousand)	
	Dr.	Cr.	Dr.	Cr.
Capital		2,000		
Reserves & Surplus		1,000		
Land	500			
Buildings (Cost)	1,000			
Buildings Dep. Reserves		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery Dep.				
Reserves		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2018	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salary	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

The following information is also available:

(i) Stock as at 31st March, 2019

Lucknow Rs. 1,50,000

Canberra A\$ 3125 (all stock is out of purchases made at Abroad)

(ii) Head Office always sent goods to the Branch at cost plus 25%

(iii) Provision is to be made for doubtful debts at 5%

(iv) Depreciation is to be provided on Buildings at 10% and on Plant and Machinery at 20% on written down value.

You are required to:

(1) Convert the Branch Trial Balance into rupees by using the following exchange rates:

Opening rate	1 A \$ = Rs. 50
Closing rate	1 A \$ = Rs. 53
Average rate	1 A \$ = Rs. 51.00
For Property, Plant & Equipment	1 A \$ = Rs. 46.00

(2) Prepare Trading and Profit and Loss Account for the year ended 31st March 2019 showing to the extent possible H.O. results and Branch results separately. **(12 Marks)**

Solution:

M & S Co. Ltd. Canberra, Australia Branch Trial Balance As on 31st Mar 2019

			(\$ 'thousands)		(Rs. 'thousands)
	Dr.	Cr.	Conversion	Dr.	Cr.
			rate per \$		
Plant & Machinery (cost)	200		Rs. 46	9,200	
Plant & Machinery Dep. Reserve		130	Rs. 46		5,980
Trade receivable/payable	60	30	Rs. 53	3,180	1,590
Stock (1.4.2018)	20		Rs. 50	1,000	
Cash & Bank Balances	10		Rs. 53	530	
Purchase / Sales	20	123	Rs. 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		Rs. 51	2,295	
Rent	12		Rs. 51	612	
Office expenses	18		Rs. 51	918	
Commission Receipts		100	Rs. 51		5,100
H.O. Current A/c 7			Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063
Closing stock	3.125		53	165.625	

Trading and Profit & Loss Account for the year ended 31st March, 2019 (Rs.'000)

	H.O.	Branch	Total		H.O.	Branch	Total
To Opening Stock	100	1,000.000	1,100.000	By Sales	520	6,273.000	6,793.000

To Purchases	240	1,020.000	1,260.000	By Goods sent to Branch	100	-	100.000
To Goods received from Head Office	-	100.000	100.000	By Closing Stock	150	165.625	315.625
To Wages & Salaries	75	2,295.000	2,370.000				
To Gross profit c/d	355	2,023.625	2,378.625				
	770	6,438.625	7,208.625		770	6,438.625	7,208.625
To Rent	-	612.000	612.000	By Gross profit b/d	355	2,023.625	2,378.625
To Office expenses	25	918.000	943.000	By Commission receipts	256	5,100.000	5,356.000
To Provision for doubtful debts@ 5%	14	159.000	173.000				
To Depreciation	460	644.000	1,104.000				
To (W. N.) Balance c/d	112	4,790.625	4,902.625				
	611	7,123.625	7,734.625		611	7,123.625	7,734.625
To Managing Partner's Salary			30.000	By Balance b/d			4,902.625
To Exchange Loss			208.000	By Branch stock reserve			4,000
To Balance c/d			4,668.625				
			4,906.625				4,906.625

Working Note:**Calculation of Depreciation**

	H. O	Branch
	Rs. '000	Rs. '000
Building. Cost	1,000	
Less: Dep. Reserve	(200)	
	800	
Depreciation @ 10% (A)	80	
Plant & Machinery Cost	2,500	9,200
Less: Dep. Reserve	(600)	(5,980)
	1,900	3,220
Depreciation @ 20% (B)	380	644
Total Depreciation (A+B)	460	644

Note: As the closing stock of Branch does not consist any stock transferred from M& S Co., there is no need to create closing stock reserve. But the opening branch stock reserve has to be reversed in the P&L A/c.

Question 2 (MTP Mar'19, Mar'18)

XYZ is having its Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars, you are required to prepare branch account in the books of Head Office.

	Rs.		Rs.
Stock on 1st April 2017 (invoice price)	30,000	Discount allowed to debtors	160
Sundry Debtors on 1st April, 2017	18,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2017	-	Rent	1,800
Office furniture on 1st April, 2017	3,000	Salary	3,200
Goods invoiced from the head office (invoice price)	1,60,000	Stationery & Printing	800
Goods returned to Head Office (invoice price)	2,000	Petty expenses paid by the branch	600
Goods returned by debtors	960	Depreciation to be provided on branch furniture at 10% p. a.	
Cash received from debtors	60,000	Stock on 31st March, 2018 (at invoice price)	28,000
Cash Sales	1,00,000		
Credit sales	60,000		

Solution:

(8 Marks)

In the books of Head Office – Kolkata Branch Account (at invoice)

	Rs.		Rs.
To Balance b/d		By Stock reserve (opening)	6,000
Stock	30,000	By Remittances:	
Debtors	18,000	Cash Sales	1,00,000
Furniture	3,000	Cash from Debtors	60,000
To Goods sent to branch	1,60,000	Less: Petty expenses (600)	1,59,400
To Goods returned by branch (loading)	400	By Goods sent to branch (loading)	32,000
To Bank (expenses paid by H.O.)		By Goods returned by branch (Return to H.O.)	2,000
Rent	1,800	By Balance c/d	
Salary	3,200	Stock	28,000
		Debtors	16,880

	85,63,000		85,63,000
To Salaries	1,62,000	By Gross profit b/d	15,92,200
To Rent, rates and taxes	36,000		
To Insurance	18,000		
To Trade expenses	18,000		
To Depreciation on office equipment	2,40,000		
To Depreciation on furniture and fixtures	16,000		
To Net Profit c/d	11,02,200		
	15,92,200		15,92,200

Question 8 (RTP Nov'21, Past Exam Nov'20, Nov'23)

Lal & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts but sends monthly returns to the head office.

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

	Amount (₹)
Goods received from Head office at Invoice Price	4,20,000
Goods returned to Head office at Invoice Price	30,000
Cash sales for the year 2019-20	92,500
Credit Sales for the year 2019-20	3,12,500
Stock at Branch as on 01-04-2019 at Invoice price	36,000
Sundry Debtors at Patna branch as on 01-04-2019	48,000
Cash received from Debtors	2,19,000
Discount allowed to Debtors	3,750
Goods returned by customer at Patna Branch	7,000
Bad debts written off	2,750
Amount recovered from Bad debts previously written off as Bad	500
Rent, Rates & taxes at Branch	12,000
Salaries & wages at Branch	36,000
Office Expenses (at Branch)	4,600
Stock at Branch as on 31-03-2020 at cost price	62,500

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit. **(10 Marks)**

Solution:

Branch Stock Account

		₹			₹	₹	₹
1.4.19	To Balance b/d (opening stock)	36,000	31.3.20	By Sales:			
31.3.20	To Goods Sent to Branch A/c	4,20,000		Cash		92,500	
				Credit	3,12,500		
	To Branch P&L	47,000		Less: Return	(7,000)	3,05,500	3,98,000
				By Goods sent to branch – returns			30,000
				By Balance c/d (closing stock)			75,000
		5,03,000					5,03,000
1.4.20	To Balance b/d	75,000					

Branch Debtors Account

			₹		₹
1.4.19	To Balance b/d	48,000	31.3.20	By Cash	2,19,000
31.3.20	To Sales	3,12,500		By Returns	7,000
				By Discounts	3,750
				By Bad debts	2,750
				By Balance c/d	1,28,000
		3,60,500			3,60,500
1.4.20	To Balance b/d	1,28,000			

Branch Expenses Account

		₹			₹
31.3.20	To Salaries & Wages	36,000	31.3.20	By Branch P&L A/c	59,100
	To Rent, Rates & Taxes	12,000			
	To Office Expenses	4,600			
	To Discounts	3,750			
	To Bad Debts	2,750			
		59,100			59,100

Branch Profit & Loss Account for year ended 31.3.20

		₹			₹
31.3.20	To Branch Expenses A/c	59,100	31.3.20	By Branch stock	47,000

	To Net Profit transferred to General P & L A/c	46,900		By Branch Stock Adjustment account	58,500
				By Bad debts recovered	500
		1,06,000			106,000

Branch Stock Adjustment Account for year ended 31.3.20

		₹			₹
31.3.20	To Goods sent to branch (30,000x1/6) –returns	5,000	31.3.20	By Balance b/d (36,000x1/6)	6,000
	To Branch P & L A/c	58,500		By Goods sent to branch (4,20,000x1/6)	70,000
	To Balance c/d (75,000x1/6)	12,500			
		76,000			76,000

Question 9 (RTP May 18, May'21)

Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31 st March, 2020.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch from head office. The following details for the year ended 31st March, 2020 are given as follows:

	Rs.		Rs.
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2020.

Solution:

In the books of Alpha Ltd.

Step 1: Calculation of Deficiency Branch stock account (at invoice price)

Particulars	Rs.	Particulars	Rs.
To Opening Stock (Rs. 74,736 + 1/3 of Rs. 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (Rs. 2,89,680 + 1/3 of Rs. 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	1,280

	4,85,888		4,85,888
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Step 2: Calculation of Net Profit before Commission**Branch account**

Particulars	Rs.	Particulars	Rs.
To Opening Stock [Rs.74,736 + 1/3 of Rs. 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (Rs. 2,89,680 + 1/3 of Rs. 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c [Rs. 1,23,328 x 25/100]	30,832	By Goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		6,06,080

Step 3: Calculation of Commission still due to manager

	Rs.
A Calculation at 10% profit before charging his commission [Rs. 40,240 x 10/100]	4,024
B Less: 25% of cost of deficiency in stock [25% of (75% of Rs. 1,280)]	(240)
C Commission for the year [A-B]	3,784
D Less: Paid on account	(2,400)
E Balance due (C-D)	1,384

Question 10 (RTP Nov'19, Sep'24)

From the following particulars relating to Pune branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office.

	₹
Stock at Branch on January 1, 2018	10,000
Branch Debtors on January 1, 2018	4,000
Branch Debtors on Dec. 31, 2018	4,900
Petty cash at branch on January 1, 2018	500
Furniture at branch on January 1, 2018	2,000
Prepaid fire insurance premium on January 1, 2018	150
Salaries outstanding at branch on January 1, 2018	100
Good sent to Branch during the year	80,000
Cash Sales during the year	1,30,000

			Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x Rs.600)		150
		1,81,600			1,81,600

Working Note:

Calculation of petty cash balance at the end:	₹
Opening balance	500
Add: Cash received from the Head Office	1,000
Total Cash with branch	1,500
Less: Spent by the branch	850
Closing balance	650

Question 11 (RTP Nov'18)

Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

- Branch paid ₹ 5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
- A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.
- Branch assets accounts retained at head office, depreciation charged for the year ₹ 15,000 not recorded by Branch.
- Head Office expenses ₹ 75,000 allocated to the Branch, but not yet been recorded by the Branch.
- Head Office collected ₹ 60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.
- Goods dispatched by the Head office amounting to ₹ 50,000, but not received by the Branch till date of reconciliation.
- Branch incurred advertisement expenses of ₹ 10,000 on behalf of other Branches, but not recorded in the books of Branch.
- Head office made payment of ₹ 16,000 for purchase of goods by branch, but not recorded in branch books.

Solution:**Books of Branch Journal Entries**

			Amounts ₹	
			Dr.	Cr.
(i)	Head Office Account	Dr.	5,000	
	To Salaries Account			5,000
	(Being rectification of salary paid on behalf of Head Office)			

(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c	Dr.	15,000	
	To Head Office Account (Being depreciation of assets accounted for)			15,000
(iv)	Expenses Account	Dr.	75,000	
	To Head Office Account (Being allocated expenses of Head Office recorded)			75,000
(v)	Head Office Account	Dr.	60,000	
	To Debtors Account (Being adjustment entry for collection from Branch Debtors directly by Head Office)			60,000
(vi)	Goods in-transit Account	Dr.	50,000	
	To Head Office Account (Being goods sent by Head Office still in-transit)			50,000
(vii)	Head Office Account	Dr.	10,000	
	To expenses Account (Being expenditure incurred, wrongly recorded in books)			10,000
(viii)	Purchases account A/c	Dr.	16,000	
	To Head Office Account (Being purchases booked)			16,000

Question 12 (RTP May'23)

PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2022 is as follows:

	US\$	
Particulars	Debit	Credit
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840
Opening Stock as on 1st April, 2021	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	
Carriage inward	256	

Rent, Rates & Taxes	956	
Trade receivables	12,560	
Trade payables		8,650
Cash at bank	2,540	
Cash in hand	500	
Head office Account	_____	37,322
Total	2,34,462	2,34,462

Following further information are given:

- (i) Salaries outstanding as on 31st March, 2022 is US\$ 600.
- (ii) Depreciate office equipment and furniture & fixtures @ 10% at written down value.
- (iii) Closing stock as on 31st March, 2022 is US \$, 24,650.
- (iv) You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31st March, 2022. No transaction in respect of the Branch is pending in Head office.
- (v) Office equipment (cost) includes one office equipment of US \$ 2,400 purchased on 1/04/2021.
- (vi) One furniture of carrying value of US \$ 450 as on 01/04/2021 (cost: US \$ 500 and Accumulated depreciation: US \$ 50) has been sold for US \$ 405 on 31/03/2022 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.
- (vii) The rate of exchange on different dates are:

Date	1 US \$ is equivalent to
1st April, 2021	₹ 64
31st December, 2021	₹ 70
31st March, 2022	₹ 75
Average for the year	₹ 72

You are required to prepare the trial Balance after incorporating adjustments given and converting US \$ into rupees.

Solution:

In the books of PQR

Trial Balance (in Rupees) of Houston (USA) Branch – Non-Integral foreign operation as on 31st March, 2022

	Dr.	Cr.	Conversion	Dr.	Cr.
	US \$	US \$	rate	₹	₹
Office Equipment	56,400		75	42,30,000	
Depreciation on Office Equipment (Accumulated)		10,500	75		7,87,500
(5,400+5,100)					
Depreciation	8,016		75	6,01,200	
Furniture and fixtures (36,000-500)	35,500		75	26,62,500	

Depreciation on furniture and fixtures (Accumulated)		9,661	75		7,24,575
(6,840-50-45 +2,916)					
Stock (1st April, 2021)	24,500		64	15,68,000	
Purchases	96,500		72	69,48,000	
Sales		1,76,250	72		126,90,000
Carriage inward	256		72	18,432	
Salaries (4,250+600)	4,850		72	3,49,200	
Rent, rates and taxes	956		72	68,832	
Salaries payable		600	75		45,000
Head Office A/c		37,322			23,75,614
					(given)
Trade receivables	12,560		75	9,42,000	
Trade payables		8,650	75		6,48,750
Cash at bank	2,540		75	1,90,500	
Cash in hand	500		75	37,500	
Mr. M	405		75	30,375	
(Receivable for sale of furniture)					
Exchange gain (bal. fig.)					3,75,100
	2,42,983	2,42,983		176,46,539	176,46,539

Closing stock 24,650 US\$ x ₹ 75 = ₹18,48,750.

Question 13 (Past Exam May'18)

Ayan Ltd. invoices goods to its branch at cost plus 33 % . 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.

	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.

Solution:

In the books of Head Office Branch Stock Account

Particular	Rs.	Particular	Rs.
To Balance b/d	3,60,000	By Bank A/c (cash Sales)	21,60,000
To Goods sent to Branch A/c	24,00,000	By Branch Debtors A/c (Credit Sales)	1,20,000
To Branch Adjustment	36,000	By Goods sent to Branch A/c (Returns to H.O.)	1,20,000
A/c balancing fig. (Surplus)***		By Branch Adjustment A/c* (Rs.24,000 x 25/100)	6,000
		By Branch P&L A/c* (Cost of Abnormal Loss)	18,000
		By Branch Adjustment A/c** (invoice price of normal loss)	36,000
		By Balance c/d:	
		In hand	2,88,000
		In transit	48,000
	27,96,000		27,96,000

*Alternative, combined posting for the amount of Rs.24,000 may be passed through Goods preferred account.

** Alternatively, it may first be transferred to normal Loss account which may ultimately be closed by transfer to Branch Adjustment account. The final amount of net profit will however remain same.

*** It has been considered that the surplus may be due to sale of goods by branch at price higher than invoice price.

Branch Stock Adjustment Account

Particulars	Rs.	Particulars	Rs.
To Branch Stock A/c	6,000	By Stock Reserve A/c	90,000
(Loading on Abnormal Loss)		(Rs. 3,60,000x25/100)	
To Branch Stock A/c	36,000	By Goods Sent to Branch A/c	5,70,000
(Normal Loss)		(Rs.24,00,000 - Rs.1,20,000) x 25/100	
To Stock Reserve A/c	84,000	By Branch Stock A/c (Surplus)	36,000
(Rs.3,36,000x25/100)			
To Gross Profit t/f to P & LA/c	5,70,000		
	6,96,000		6,96,000

Branch Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
-------------	-----	-------------	-----

To Branch Stock A/c	18,000	By Branch Adjustment A/c	5,70,000
(Cost of Abnormal Loss)		(Gross Profit)	
To Net Profit t/f to General P&LA/c	5,52,000		
	5,70,000		5,70,000

Question 14 (Past Exam, Dec'21)

Delta Ltd. Has a branch at Kanpur. Goods are invoiced from head office to Branch at cost plus 50%. Branch remits all cash received to head office and all expenses are met by head office. Prepare necessary Ledger accounts in the books of Delta Ltd. Under Stock and Debtors system to show profit earned at the branch for the year ending 31 st March, 2021.

Following information related to Branch is given:

Stock on 1st April, 2020 (Invoice price)	31,200	Goods returned by Debtors	3,000
Debtors on 1st April, 2020	17,400	Surplus in stock (Invoice price)	600
Goods invoiced at cost	72,000	Expenses at Branch	13,400
Sales at Branch: Cash sales	20,000	Discount allowed to Debtors	700
Credit sales	68,200	Debtors on 31st March, 2021	14,300

Solution:

(10 Marks)

Books of Delta Ltd. Kanpur Branch Stock Account

	₹		₹
To Balance b/d – Opening Stock	31,200	By Bank A/c – Cash Sales	20,000
To Branch Debtors A/c – Sales Return	3,000	By Branch Debtors A/c - Credit Sales	68,200
To Goods sent to Branch A/c (72,000 +50% of 72,000)	1,08,000	By Balance c/d - Closing stock	54,600
To Surplus in stock	600		
	1,42,800		1,42,800

Kanpur Branch Stock Adjustment Account

	₹		₹
To Branch Profit and Loss Account	28,400	By Balance b/d (1/3 of ₹ 31,200)	10,400
To Balance c/d (1/3 of 54,600)	18,200	By Goods sent to Branch A/c (1/3 of ₹ 1,08,000)	36,000
		By Surplus in stock	200
	46,600		46,600

Goods Sent to Branch Account

	₹		₹
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(c) Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided:

(i) Debit Balances (in USD)

Expenditure (excluding Depreciation)	:	1,03,095
Cash & bank balances	:	2,175
Debtors	:	7,365
Fixed Assets (Gross)	:	34,200
(Rate of Depreciation on Fixed Assets: 20%)		
Inventory-Stock 'P'	:	5,520
Inventory- Stock 'Q'	:	1,035

(ii) Credit Balances (in USD)

Incomes	:	1,32,000
Creditors	:	15,570
HO Control a/c	:	5,820

The following additional information is provided:

- (1) The average exchange rate during the above financial year was 1 USD = ₹ 56.
- (2) The fixed assets were purchased when the exchange rate was 1 USD ₹ 55.
- (3) The closing exchange rate on reporting date is 1 USD = ₹ 58.
- (4) Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this item is ₹ 2,85,000.
- (5) Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065, It was purchased when exchange rate was 1 USD = ₹ 53.
- (6) Branch Control Account as per HO books was ₹ 2,66,265.

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an Integral Foreign Operation.

(6 Marks)

(c) Converted branch trial balance (in the books of head office)

Particular	Dr. \$	Cr. \$	Rate per \$	₹ Dr.	₹ Cr.
Expenditure	1,03,095		56	57,73,320	
Cash & bank balance	2,175		58	1,26,150	
Debtors	7,365		58	4,27,170	
Fixed assets	27,360		55	15,04,800	
Depreciation 20%	6,840		55	3,76,200	
Inventory P	5,520		Direct	2,85,000	
Inventory Q	1,065		53	56,445	
Income		1,32,000	56		73,92,000
Creditors		15,570	58		9,03,060
HO control A/c		5,820			2,66,265
Exchange difference				<u>12,240</u>	<u> </u>
				<u>85,61,325</u>	<u>85,61,325</u>

Working Note:

Inventory P	\$ 5,520	Inventory Q	\$ 1,065
Purchased Cost rate	56.50	NRV	\$ 1,035
NRV	₹ 2,85,000	Closing rate	58
Cost	₹ 3,11,880	Purchased Cost rate	53
Value at cost or NRV whichever is less	₹ 2,85,000	Value at cost or NRV whichever is less	\$ 1,035 @ ₹ 58 or \$1,065 @ ₹ 53 = 56,445 or 60,030

MCQs

1. If goods are invoiced to branches at cost, trading results of branch can be ascertained by
 - a. Debtors method.
 - b. Stock and debtors method.
 - c. Either (a) or (b).
 - d. Both (a) and (b).
2. Under branch trading and profit loss account method
 - a. H.O prepares profit and loss account.
 - b. Each branch is treated separate entity.
 - c. Both (a) and (b).
 - d. Either (a) or (b).
3. Goods may be invoiced to branch at
 - a. Cost or Selling price.
 - b. Wholesale price.
 - c. Both (a) and (b).
 - d. Either (a) or (b).
4. Under debtors method, opening balance of debtors is
 - a. Debited to branch account.
 - b. Credited to branch account.
 - c. Debited to H.O account.
 - d. Credited to H.O account.
5. Cost of goods returned by branch will have the following effect
 - a. Goods sent to branch account will be debited.
 - b. Branch stock account will be credited.
 - c. Both (a) and (b).
 - d. Either (a) or (b).

MCQs

1.	(c)	2.	(c)	3.	(c)	4.	(a)	5.	(c)
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