Student Notes

Additional Information:

- *Stock on 31st March, 2013 was valued at ₹ 62 lacs.*
- *On 29th March, 2013 the Head Office despatched goods costing ₹ 10 lacs to its branch. Branch did not receive these goods before 1st April, 2013.*
- *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 centralised services for which the branch has not passed the entry.*

You are required to:

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

Question 10

Show adjustment Journal entry in the books of Head Office at the end of April, 2013 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch accounts in its books.

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.*

Mumbai Branch (apart from the above) :

1. *Received goods from Kolkata – ₹ 15,000, Delhi – ₹ 20,000.*
2. *Cash sent to Delhi – ₹15,000, Kolkata – ₹ 7,000.*

Chennai Branch (apart from the above) :

1. *Received goods from Kolkata – ₹ 30,000.*
2. *Acceptances and Cash sent to Kolkata – ₹ 20,000 and ₹10,000 respectively.*

Kolkata Branch (apart from the above) :

1. *Sent goods to Chennai – ₹ 35,000.*
2. *Paid cash to Chennai – ₹15,000.*
3. *Acceptances sent to Chennai – ₹15,000.*

Question 10:-

Inter Branch Transactions

Particulars	Delhi	Mumbai	Chennai	Kolkata
Delhi Branch				
1.	50000 Dr.	35000 Cr.	–	15000 Cr.
2.	45000 Cr.	–	25000 Dr.	20000 Dr.
3.	20000 Dr.	–	20000 Cr.	–
4.	35000 Cr.	25000 Dr.	–	10000 Dr.
Mumbai Branch				
1.	20000 Cr.	35000 Dr.	–	15000 Cr.
2.	15000 Dr.	22000 Cr.	–	7000 Dr.
Chennai Branch				
1.	–	–	30000 Dr.	30000 Cr.
2.			30000 Cr.	30000 Dr.
Kolkata Branch				
1.			35000 Dr.	35000 Cr.
2.			15000 Dr.	15000 Cr.
3.			15000 Dr.	15000 Cr.
	15000 Cr.	3000 Dr.	70000 Dr.	58000 Cr.

H/O Books

Chennai Branch	Dr. 70000	
Mumbai Branch	Dr. 3000	
To Delhi Branch		15000
To Kolkata Branch		58000

Independent Branch

JE

Reconci

Inter Branch Transaction adjustment

Ragho

Rec → Dr.

- Liab → Cr.

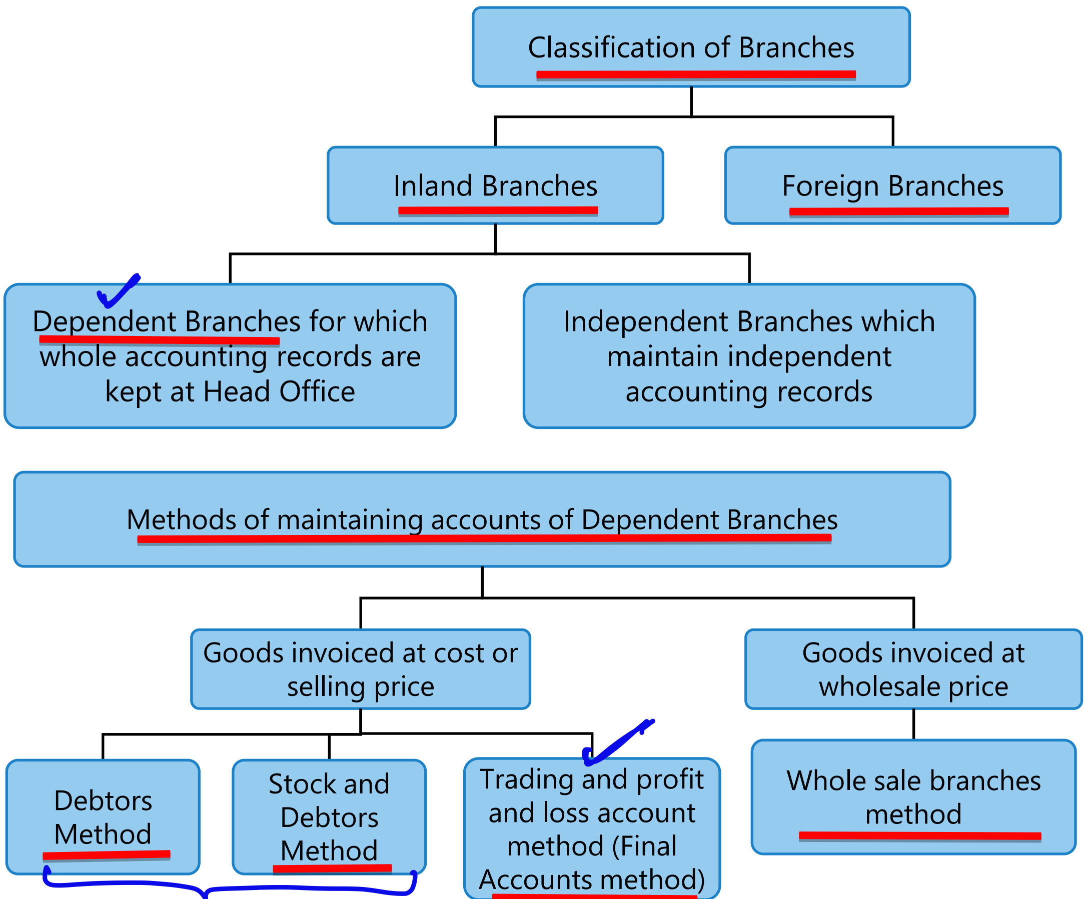
Ritessss

Rec. → Dr.

Asset → Dr.

Dr

CHAPTER OVERVIEW



Accounting :- Head Office
Same books of accounts

Accounting :- Head Office
H/O → separate books for branch.

1. INTRODUCTION

A branch can be described as any establishment carrying on either the same or substantially the same activity as that carried on by head office of the company. It must also be noted that the concept of a branch means existence of a head office; for there can be no branch without a head office - the principal place of business. Branch offices are of a great utility in the sense that they allow business to be

Goods Sent to Branch Account

	₹		₹
To Branch A/c – Loading	15,000	By Branch A/c	1,65,000
To Branch A/c – Returns	4,200	By Branch A/c – Loading on returns	382
To Purchases A/c	1,46,182		
	1,65,382		1,65,382

(iii) Trading and Profit and Loss Account (Final Accounts) Method

All items of memorandum Branch Trading and Profit and Loss Account are to be converted into cost price if the goods are invoiced to branch at selling price. Other points will remain same as already discussed in Para 5.1 for this method if goods are invoiced at cost.

Illustration 5

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

H/O → Branch → Outsider

C	L	IP	P	SP
100	20	120	30	150

(1) Goods are invoiced to the branch at cost plus 20%.

(2) The sale price is cost plus 50%

(3) Other information:

183333 36667 220000

₹ 183333 1100000

960000 1200000

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*

60000 360000

Ascertain

(i) the profit earned by the branch during the year. → from H/O pov.

(ii) branch stock reserve in respect of unrealized profit.

↳ closing stock : unrealised profit

Br. Stock Reserve (adjustment) a/c

To, Br. Tr./P&L	160000	By, bal b/d	36667
To,	60000	By.	183333

Accounting → Jammu Branch → IP
Head office : Accounting : Cost

Solution

(i) IP → Cost

Calculation of profit earned by the branch
In the books of Jammu Branch
Trading Account and Profit and Loss Account

COGS: OS + P − S = CS
100 + 500 − 300 = 300
183333 + 916667 − 800000 = 300000 → IP

Particulars	*Amount*	*Particulars*	*Amount*
	₹		₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Net profit (Bal fig)	1,95,000		
	15,60,000		15,60,000

Trading → C

OS	c	183333	S	1200000
P	c	916667	CS	300000
GP		400000		
− E		45000		
NP		355000		

SP − IP − C: 195000 + 160000 = 355000

(ii) **Stock reserve in respect of unrealised profit**

= ₹ 3,60,000 x (20/120) = ₹ 60,000

355000: SP → IP → C: 195000, 160000

Working Note:

	₹	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
Calculation of closing stock at invoice price	₹	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	11,00,000	
	13,20,000	
Less: Cost of goods sold at invoice price	(9,60,000)	[12,00,000 x (120/150)]
Closing stock	3,60,000	

IP: OS + P − S = CS
220000 + 1100000 − 960000 = 360000

C 100, IP 120, SP 150; x = 960000, 1200000

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

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) H/O	
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*	2150 *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.

Debtors Method

H/O

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

	₹		₹
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	NP before man. comm = 58335 110	
To Branch Manager commission		- man. comm = 5303 10	
(₹ 58,335 × 1/11)	5,303	NP after man. comm = 53032 100	
To Net Profit transferred to General P & L A/c	53,032		
	7,76,125		7,76,125

HW

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 to Branch (2,70,000)	12,05,000	Oil	4,17,250
Oil 29,32,000			
Less: Goods sent to Branch (3,00,000)	26,32,000		
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) 1,36,500	1,38,650		
To General Manager's Commission @ 10% (i.e., 4,63,457 × 1/11)	42,132		
To Net profit	4,21,325		
	6,50,107		6,50,107

NP before man. comm = 463457 = 110
- managers comm = 42132 10
NP after man. comm = 100

Working Notes:

Cash | credit

(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) 50000 ₹		By Balance c/d 50000 ₹	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 x 15% + 6,02,750 x 15% = ₹1,36,500

C WP SP
100 25 125 25 150
+20%
60000 360000
(G/P)

HW

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 to outlet	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

60000 | By. bal 6000
3600 | 64800
7200

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 = $60{,}000 \times \frac{150}{25}$ = ₹ 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

Branch → Accounting

6. ACCOUNTING FOR INDEPENDENT BRANCHES

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

T/L/TB ↓ FA ↓ Head Office ↓ payable

match

H/O → Accoun → ✓
↓
Branch a/c → Receivable

Goods dispatched by the Head office not received by the branch. These goods may be in transit or loss in transit.

Goods returned by the branch to Head Office may have been received by the H.O. Again, these goods may be in transit or lost in transit.

Amount remitted by Head office to branch or vice versa remaining in transit on the closing date.

Receipt of income or payment or expenses relating to the Branch transacted directly by the head office or vice versa, hence not recorded at the respective ends wherein they are normally to be recorded.

The technique of reconciliation has been illustrated through the example given below :

"Trial Balance"

	Head office		Branch	
	Dr.	Cr.	Dr.	Cr.
Goods sent to Branch		1,50,000	-	
Goods recd. from H.O. A/c	"Receivable"	-	1,40,000	
Branch A/c	$\boxed{1,12,000}$			"Payable"
Head office A/c	-	-	-	$\boxed{78,500}$

On analysis of Branch A/c in Head office books and Head office A/c in branch books, you find:

- Goods valued ₹10,000 sent by head office has not been received by branch, hence not recorded in the branch books. Record → Branch : Goods in Transit Dr.
  To, Head Office.
- ₹ 15,000 remitted by the branch has not been received, hence not recorded in the head office books. Record → H/O : Cash in Transit a/c Dr.
  To, Branch a/c
- Direct collection of ₹ 10,500 from a customer of the branch by Head office not informed to the branch, hence not recorded by the branch.
  Record → Branch : Head Office Dr. 10,500
  To, Debtor a/c 10,500

H/O: Branch a/c

Bal.	112000	CIT	15000
Int Inc.	7500	Creditor	14500
		Bal.	90000

Branch: H/O a/c

Debtor	10500	Bal.	78500
Bal.	90000	GIT	10000
		Expenses	12000

- A sum of ₹ 14,500 paid by branch to the suppliers of head office not recorded at Head office. Record : H/O : Creditor Dr. 14500 To Branch a/c 14500
- Head office expenditure allocation to the branch ₹12,000 not recorded in the branch. Record: Branch : Expenses (allocated) Dr. 12000 To Head Office 12000
- ₹ 7,500 being FD interest of head office received by the branch on oral instructions from H.O., not recorded in the head office books. Record: H/O : Branch Dr. 7500 To Interest Inc. 7500

			Head Office Books			Branch Books	
			Dr. ₹	Cr. ₹		Dr. ₹	Cr. ₹
(i)	Goods in transit (₹ 10,000)		-	-	Goods in Transit A/c	10,000	
					To Head office A/c		10,000
(ii)	Cash in Transit:	Cash in Transit A/c	15,000		(No Entry)		
		To Branch A/c		15,000			
(iii)	Direct Collection by H.O. on behalf of the Branch				Head Office A/c	10,500	
					To Debtors A/c		10,500
(iv)	Direct payment of ₹ 14,500 by Branch on behalf of H.O	Sundry Creditors A/c	14,500				
		To Branch A/c		14,500			
(v)	Expenditure Allocated to Branch				Branch Exp. A/c	12,000	
					To H.O. A/c		12,000

like a transaction with H/O

Gondegaon Cash/Goods Bhandup

Branch POV H/O POV Bhandup Dr. Gondegaon Cr.

7.2 Other points

(1) Inter-Branch Transactions

Inter-branch transactions (i.e. transaction between two branches) are usually adjusted as if they were entered into only with the head office. It is a very convenient method of treating such transaction especially where the number of branches are large. Suppose Kolkata Branch incurred an expenditure on advertisement of ₹ 1,000 on account of Delhi Branch, the entries that would be made in such a case would be as follows:

		Dr.	Cr.
		₹	
In Kolkata Books:			
Head Office A/c	Dr.	1,000	
To Cash			1,000
In Delhi Books:			
Advertisement A/c Cash Dr./GRF H/O Dr.	Dr.	1,000	
To H.O. A/c To, H/O			1,000
In H.O. Books:			
Delhi Branch A/c	Dr.	1,000	
To Kolkata Branch A/c			1,000

(2) Fixed Assets

Often the accounts of fixed assets of a branch are kept in the head office books; in such a case, at the end of the year, the amount of depreciation on the assets is debited to the branch concerned by recording the following entry by head office:

Branch Account Dr.

To Branch Asset Account

The branch will pass the following entry:

Depreciation Account Dr.

To Head Office Account

(3) Head office Expenses charged to Branch

Usually the head office devotes considerable time in attending to the affairs of the branch; on that account, it may decide to raise a charge against the branch in respect of the cost of such time. In such a case the amount is debited to the branch (being receivable from branch) and is credited to appropriate expense head such as Salaries Accounts, General Charges Account, Entertainment Account etc (i.e. reducing the expense in head office books). The branch credits the H.O. Account and debits Expenses Account.

Illustration 9

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.*

H/O Dr.
Salary Cr.

(ii) *Asset Purchased by branch for ₹ 25,000, but the Asset account was retained in H.O Books.*

H/O Dr. 25000
To, Cash 25000

(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.*

H/O Dr.
To, Debtor

(v) *Remittance of funds by H.O to branch ₹ 5,000 not entered in branch books.*

Cash Dr
To, H/O

Solution

Journal Entries in Books of Branch

	Particulars		Dr. Amount ₹	Cr. Amount ₹
(i)	Head office account	Dr.	5,000	
	To Salaries account			5,000
	(Being the rectification of salary paid on behalf of H.O.)			

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

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*

CS = 4535 + 3641
IP
L
unreal. = 8206
L: elim

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

C 100 L 10 IP 110
746 8206

Note:

1. *Goods transferred from Head Office to the Branch are invoiced at cost (100) plus 10% and both Revenue Accounts have been prepared on the basis of the prices charged.* infor
2. *Relating to the Head Office goods held by the Branch on 1st January, 20X1.* info.
3. *Includes goods received from Head Office at invoice price ₹ 4,565* CS
4. *Goods invoiced by Head Office to Branch at ₹ 3,641 were in transit (GIT) at 31st December, 20X1, as was also a remittance of ₹ 3,500 from the Branch.* IP
5. *At 31st December, 20X1, the following transactions were reflected in the Head Office books but unrecorded in the Branch books.* L

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. unreal.

Solution

8min.

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
		746			693
	To Balance c/d	43,157			
	realised	43,210			43,210

normal
os: URP
realised

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