



MEANING

A Branch is a part of an organisation, which is carrying out business activity on behalf of its parent body, i.e., Head Office (HO). Usually, a Branch is located away from the Head Office but at the same time it controlled/managed as per the instructions from the HO. The State Bank of India is having over 10,000 branches at various location including foreign countries. Similarly, a Retail chain like PANTALOON, CROMA, SHOPPER's STOP, BATA etc. are involved mainly in marketing of finished goods.

The Section 2(9) of the Companies Act, 1956 defines:

A "Branch Office" in relation to a company means any establishment:

1. Described as a Branch by the company; or
2. Carrying on either the same or substantially the same activity as that carried on by the Head Office of the company; or
3. Engaged in any production, processing or manufacture, excluding those specified in any order by the Central Government under Section 8.

Classification of a Branch

1. An Independent Branch keeps complete record for all accounting transactions at the location of the Branch itself. Such branches are not covered by our Syllabus.
2. A Dependent Branch does not maintain complete record for all accounting transactions at the location of the Branch. The HO maintains complete accounts for such branches to keep a watch on the activities carried out at Branch level. The Branch keeps only essential records like Stock Register, Rough Petty Cash Book, Customer's A/c for recovery purpose etc. and correspondence with HO.

The popular options in practice to keep accounts for such Dependent Branches are:

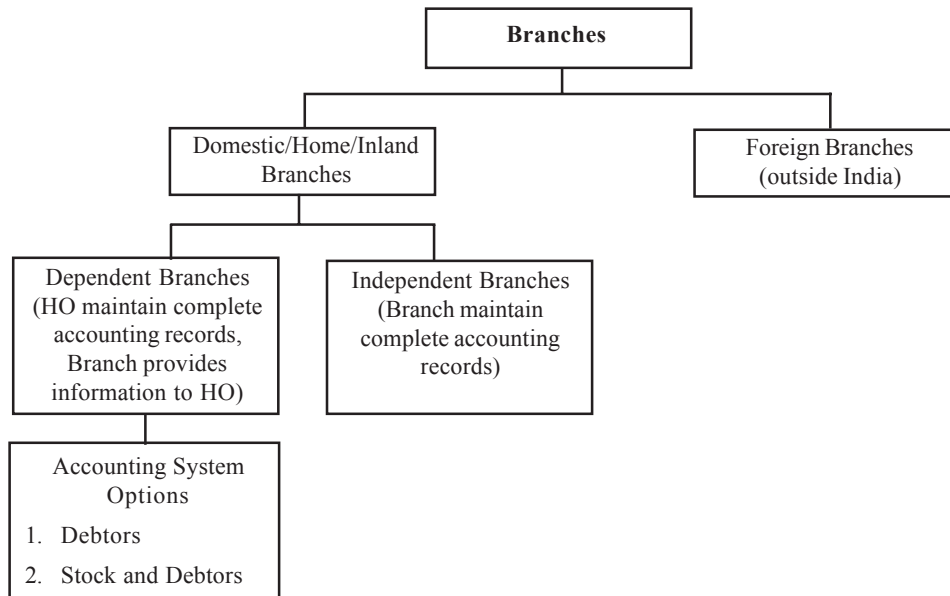


Figure 3.1

DEBTORS METHOD GOODS AT COST PRICE (IN THE BOOKS OF THE HO)

Usually, this method is applied for small-scale business activity. The HO maintains separate account for each Branch to know the profit earned or loss suffered by a particular Branch. The concept is similar to Consignment Accounts.

It is a National Account (i.e., Similar to P & L A/c). Finally, it shows the profit earned or loss suffered in respect of a particular Branch (usually indicated by location of the area).

Throughout the accounting period, this Ledger Account operates like the Realisation A/c in case of Dissolution of a Partnership Firm.

(A) Debit

1. All Assets (mainly cash and cash equivalents like goods, benefits etc.) provided for:
 - (i) By HO to this Branch
 - (ii) Via other Branch of HO to this Branch
 - (iii) Goods/Cash received by this Branch from HO Suppliers/Debtors
2. Branch Liabilities at the year-end
3. Profit earned

(B) Credit

1. All benefits (mainly cash and cash equivalents like goods etc.) forwarded by this Branch:
 - (i) Directly to HO
 - (ii) Via another Branch to HO
 - (iii) Goods/Cash supplied to HO Suppliers/Debtors

2. Branch Assets at the year-end
3. Loss suffered

(C) Revaluation Method to Derive Depreciation is Being Applied for

Under this method, we add “Purchases” to “Opening Balance” and deduct therefrom the “Closing Balance”.

Similarly, all Assets (including Opening Balances) provided to the Branch are shown as a Debit for Expenditure. This amount is be compared at the year-end with Assets returned by the Branch including Closing Balances at Branch (which are ultimately owned by HO).

Therefore, separate entries are not passed by HO for:

1. **Loss of Goods-in-transit or at Branch:** Such losses get booked indirectly/automatically by crediting the actual stock at the year-end (which is also similar to Trading A/c).
2. **Movement in Branch Debtors:** Sales (Cash and Credit), Goods returned to Branch by Branch customers, Bad Debts, Bills Receivables, Discount Allowed etc.
3. **Branch Expenses paid by Branch, i.e., not paid by HO:** (a) Paid by Branch, e.g., Salaries, Rent etc. (Closing Cash and Bank balances credited to Branch A/c are already reduced to the extent of such expenses.
(b) Depreciation of Fixed Assets used by the Branch (same as (1) above).
4. **Normal Loss of Goods due to Loss of Weight, Evaporation etc.:** Such loss gets indirectly debited since we credit to the Branch A/c the actual Closing Stock (reduced by such Normal Loss).

(D) Abnormal Loss of Good Due to Fire etc.

| | | | |
|--------------------------|-----------|-----------|----------------------------|
| 1. Abnormal Loss A/c | x x x x x | | |
| To Branch A/c | | x x x x x | Total Loss |
| 2. General P & L A/c | | x x x x x | Loss Not Recoverable |
| Insurance Claim/Bank A/c | x x x x x | | Loss Recoverable/Recovered |
| To Abnormal Loss A/c | | x x x x x | Total Loss |

Such entries ensure that the Branch A/c shows fair profit under usual (normal) conditions. Thus, profit shown by Branch A/c is not affected by abnormal factors. Abnormal loss appears in General P & L A/c.

| Journal Entries (Debtors Method – Goods at COST price) | In the Books of HO | | Entries with Reversal Aspects |
|--|---------------------------------------|----------------------------------|-------------------------------|
| | Dr. | | Cr. |
| 1. Opening Balance | | | |
| A. Branch Assets | Branch A/c | ... Particular Branch Assets A/c | 1.A vs. 1.B |
| B. Branch Liabilities | ... Particular Branch Liabilities A/c | Branch A/c | |

| | | | |
|--|--|--|--|
| <p>2. Goods from HO/Other Branch/ HO Suppliers</p> <p>A. Inward/Inflow</p> <p>(a) Received by this Branch/ Branch Customer</p> <p>(b) But not received by this Branch</p> <p>B. Outward/Outflow – Goods returned by</p> <p>(a) This Branch to HO</p> <p>(b) This Branch to another Branch</p> <p>(c) Branch customers to HO directly</p> | <p>Branch A/c</p> <p>Goods in Transit A/c</p> <p>Goods Sent to Branch A/c</p> | <p>Goods Sent to Branch A/c</p> <p>Branch A/c</p> | <p>2.A vs. 2.B</p> |
| <p>3. Cash/Bank Remittance</p> <p>A. From HO</p> <p>(a) Branch Expenses</p> <p>– HO paid directly</p> <p>– HO remitted Cash</p> <p>– HO paid to Branch suppliers</p> <p>(b) Cash received from another Branch</p> <p>(c) Branch collected directly from HO Debtor</p> <p>B. To HO</p> <p>(a) Branch/Branch Debtors remits to HO</p> <p>(b) Branch paid directly to HO Creditor</p> <p>(c) This Branch sends cash to other Branch</p> <p>(d) Remitted but not received by HO</p> | <p>Branch A/c</p> <p>Cash/Bank A/c</p> <p>HO Creditors A/c</p> <p>...Other Branch A/c</p> <p>Cash in Transit A/c</p> | <p>Cash/Bank A/c</p> <p>... Other Branch A/c</p> <p>HO Debtors A/c</p> <p>Branch A/c</p> | <p>3.A vs. 3.B</p> |
| <p>4. Goods Sent to Branch A/c – Balance Transfer</p> <p>Purchase A/c (in Trading Co.)</p> <p>Trading A/c (in Manufacturing Co.)</p> | <p>Goods Sent to Branch A/c</p> | <p>Purchases A/c (in Trading Co.)</p> <p>Trading A/c (in Mfg. Co.)</p> | |
| <p>5. Closing Balance (Appears in HO Balance Sheet)</p> <p>A. Branch Assets</p> <p>B. Branch Liabilities</p> <p>C. Profit/Loss</p> <p>(a) If Profit</p> <p>(b) If Loss</p> | <p>... Particular Branch Assets A/c</p> <p>Branch A/c</p> <p>General P & L A/c</p> | <p>Branch A/c</p> <p>...Particular Branch Liabilities</p> <p>General P & L A/c</p> <p>Branch A/c</p> | <p>5.A vs. 5.B</p> <p>5.C(a) vs. 5C(b)</p> |

In the Books of HO
Branch A/c

| | Dr. | | Cr. | | |
|--|------------------------------------|----------|---|----------|--|
| | Particulars | ₹ | Particulars | ₹ | |
| 1. A Opening Bal. Branch Assets | To Balance b/d | | By Balance b/d | | 1. B Opening Bal. Branch Liabilities |
| | Stock xxx | | Creditors xxx | | |
| | Debtors xxx | | Expenses Payable (O/s) xxx | xxx1B | 2. A(b) Non-Receipt of Goods Supplied by HO/another Branch/HO Supplier |
| 1. A(a) Goods from – HO/ other Branch/ HO Suppliers Inward/Inflow to this Branch | Cash & Bank xxx | | | | |
| | Prepaid Expenses xxx | | | | |
| | Fixed Assets xxx | xxx1(A) | By Goods in Transit A/c | xxx2A(b) | 2. B Goods returned by – (a) This Branch to HO (b) This Branch to another Branch (c) Branch customers to HO directly |
| | To Goods sent to Branch A/c | | | | |
| 3. Cash/Bank Remittance | From HO xxx | | By Goods sent to Branch A/c | | |
| A. From HO | Other Branch xxx | | By Branch xxx | | |
| (a) Branch Expenses – HO paid directly | HO Suppliers xxx | xxx2A(a) | By Branch Debtors xxx | | |
| – HO remitted Cash | | | Sent to Other Branch xxx | xxx2B | |
| – HO paid to Branch Suppliers | To Cash/Bank A/c | xxx3A(a) | By Cash/Bank A/c | xxx3B(a) | 3. B Cash/Bank Remittance to HO (a) Branch/Branch Debtors remit to HO (b) Branch provides cash to other Branch (c) This Branch provides cash to other Branch (d) Remitted but not received by HO |
| (b) Cash received from another Branch | (Remittance by HO) | | By HO Creditors A/c | xxx3B(b) | |
| (c) Branch collected directly from HO Debtor | To... Other Branch A/c | xxx3A(b) | By ... Other Branch A/c | xxx3B(c) | |
| | To HO Debtors A/c | xxx3A(c) | By Cash-in-Transit A/c | xxx3B(d) | |
| | (Branch collected directly) | | | | |
| | To Balance c/d | | By Balance c/d | | |
| | Creditors xxx | | Stock xxx | | |
| | Expenses payable xxx | xxx5B | Debtors xxx | | |
| 5. B Closing Bal. Branch Liabilities (to appear in HO Balance Sheet) (Reverse of 1. B) | | | Prepaid Expenses xxx | | |
| | To General P & L A/c | xxx5C(a) | Cash & Bank Balance xxx | | |
| | (Net Profit Transfer) | | Fixed Assets xxx | xxx5A | |
| | | | By General P & L A/c | xxx5C(b) | |
| | | | (Net Loss Transfer) | | |
| | | xxxx.xx | | xxxx.xx | |
| 5. C(a) Profit – Transfer to General P & L A/c (Reverse of 5. C(b)) | | | 5. C(b) Loss – Transfer to General P & L A/c (Reverse of 5. C(a)) | | 5. A Closing Bal. Branch Assets (to appear in HO Balance Sheet) (Reverse of 1. A) |

We prepare such Ledger Accounting in vertical order (in chronological sequence, Datewise Debits and Credits in historical order). Now, look at above Ledger Account, with horizontal pattern of Journal Entries posted. You will observe that the entries on the credit side are exactly reverse of entries on the debit side and *vice versa*.

Illustration 1: Amit Traders of Pune have their branch at Mumbai. Prepare the Branch A/c in the books of the HO from the following transactions with the branch for the year.

| Opening Balance | ₹ |
|--|----------|
| Petty cash at Bank | 1,250 |
| Stock at Branch | 77,000 |
| Debtors at Branch | 41,250 |
| Goods supplied to Branch during the year | 3,78,000 |
| Amount Remitted to the Branch: | |
| For petty cash expenses | 7,500 |
| For Salary | 18,500 |
| For Rent & Taxes | 6,000 |
| Closing Balance: | |
| Petty cash at Bank | 1,880 |
| Stock at Branch | 57,880 |
| Debtors at Branch | 1,26,150 |
| Discount allowed to customers | 1,060 |
| Amount Remitted by the Branch: | |
| Cash Sales | 26,250 |
| Realisation from debtors | 4,10,350 |
| Mr. Shah to whom goods were sold by the Branch | |
| Directly remitted the amount to the HO | 9,000 |

Solution:

In the Books of Head Office at Pune

| Dr. | Mumbai Branch A/c | | Cr. |
|-------------------------|-------------------|--------------------------|----------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d: | | By Bank A/c: | |
| Petty cash | 1,250 | Cash Sales | 26,250 |
| Stock | 77,000 | Realisation from Debtors | 4,10,350 |
| Debtors | 41,250 | Remitted to HO | 9,000 |
| | 1,19,500 | | 4,45,600 |
| To Goods Sent to Branch | 3,78,000 | | |
| To Bank A/c: | | By Balance c/d: | |
| Petty cash expenses | 7,500 | Petty cash | 1,880 |
| Salary | 18,500 | Stock | 57,880 |
| Rent & Taxes | 6,000 | Debtors | 1,26,150 |
| | 32,000 | | 1,85,910 |
| To General P & L A/c | 1,02,010 | | |
| | 6,31,510 | | 6,31,510 |

Illustration 2: Idea Traders, Mumbai opened a branch at Delhi on 1st Jan, 2014. The following information is available in respect of the branch for the year 2014.

| Transactions during the year | ₹ |
|--|--------|
| Goods sent to branch GSTB | 85,000 |
| Cash sales at the branch | 45,000 |
| Credit sales at the branch | 75,000 |
| Salaries of the branch staff paid by HO | 16,500 |
| Office expenses of the branch paid by HO | 12,000 |
| Cash remittance to branch towards petty cash | 6,000 |
| Closing Balance on 31 st Dec, 2014: | |
| Petty cash at branch | 500 |
| Debtors at branch | 5,000 |
| Stock at branch | 27,000 |

Prepare Branch A/c to show the profit or loss from the Branch for year 2014.

Solution:

In the Books of Head Office at Mumbai

| Dr. | | Delhi Branch A/c | | Cr. | |
|----------------------------------|-----------------|------------------|--------|-----|-----------------|
| Particulars | ₹ | Particulars | ₹ | | ₹ |
| To Goods Sent to Branch | 85,000 | By Cash A/c: | | | |
| To Cash A/c: | | Cash Sales | 45,000 | | |
| Salaries | 16,500 | Realisation from | | | |
| Office expenses | 12,000 | debtors | 70,000 | | 1,15,000 |
| To Cash A/c (for petty expenses) | 6,000 | By Balance c/d: | | | |
| To General P & L A/c | 28,000 | Petty cash | 500 | | |
| | | Stock | 27,000 | | |
| | | Debtors | 5,000 | | 32,500 |
| | 1,47,500 | | | | 1,47,500 |

| Dr. | | Memorandum Debtors A/c | | Cr. | |
|-----------------|---------------|------------------------|--------|-----|---------------|
| Particulars | ₹ | Particulars | ₹ | | ₹ |
| To Credit Sales | 75,000 | By Cash Received | 70,000 | | |
| | | By Balance c/d | 5,000 | | |
| | 75,000 | | | | 75,000 |

Illustration 3: Following particulars related to Ahmedabad Branch for the year ended 31st March, 2014.

| Particulars | ₹ |
|------------------------------|--------|
| Opening Balance on 1.4.2013: | |
| Petty cash at Branch | 450 |
| Stock at Branch | 22,500 |
| Debtors at Branch | 45,000 |

| | |
|--------------------------------------|----------|
| Transaction During the Year: | |
| Goods sent to branch | 3,78,000 |
| Goods returned by the branch | 3,000 |
| Remittance at Branch: | |
| For cash sales | 90,000 |
| Collection from debtors | 3,15,000 |
| Credit Sales | 3,42,000 |
| Cheques Sent to Branch: | |
| For Salaries | 13,500 |
| For Rent | 2,250 |
| For Petty Cash | 1,650 |
| Closing Balance on 31.3.2014: | |
| Petty cash | 300 |
| Stock at Branch | 37,500 |

You are required to prepare necessary accounts in the books of Bombay HO.

Solution: **In the Books of Head Office**

| Dr. | Branch A/c | | Cr. |
|------------------------------------|-----------------|------------------------------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d: | | By Cash A/c | |
| Petty cash | 450 | Cash Sales | 90,000 |
| Stock | 22,500 | Realisation from | |
| Debtors | 45,000 | Debtors | 3,15,000 |
| <u>To Goods Sent to Branch A/c</u> | 3,78,000 | <u>By Goods sent to Branch A/c</u> | 3,000 |
| To Bank A/c | | (Returned) | |
| Petty cash expenses | 1,650 | By Balance c/d | |
| Salaries | 13,500 | Petty cash | 300 |
| Rent | <u>2,250</u> | Stock | 37,500 |
| <u>To General P & L A/c</u> | 54,450 | Debtors | 72,000 |
| | <u>5,17,800</u> | | 1,09,800 |
| | | | <u>5,17,800</u> |

| Dr. | Memorandum Debtors | | Cr. |
|-----------------|--------------------|------------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 45,000 | By Cash Received | 3,15,000 |
| To Credit Sales | 3,42,000 | By Balance c/d | 72,000 |
| | <u>3,87,000</u> | | <u>3,87,000</u> |

SAQ 1: Goods are invoiced by Head Office at cost and Branch sales are party cash and partly credit. From the following particulars, prepare Branch A/c in the books of Head Office under the Debtors Method.

| Particulars | ₹ |
|--|----------|
| Stock of goods at Branch on 01.01.2014 | 3,500 |
| Stock of goods at Branch on 31.12.2014 | 3,750 |
| Goods sent to Branch | 2,75,000 |
| Goods return to Head Office | 15,000 |
| Cash Sales | 60,000 |
| Credit Sales | 3,46,000 |
| Return from customers | 8,000 |
| Discount to customers | 12,000 |
| Bad debts | 1,000 |
| Cash received from customers | 3,29,000 |
| Debtors on 1.1.2007 | 48,000 |
| Debtors on 31.12.2007 | ? |
| Branch expenses | 95,550 |

(Ans.: Closing Debtors – ₹ 44,000, Net Profit – ₹ 27,700)

SAQ 2: A trader having his Head Office at Delhi supplies goods to his Branch at Pune at cost. The Branch sells the goods for cash and on credit and remits the proceeds to the Head Office by cheque. Following transactions relate to the Branch for the year ended 31st March, 2014. Prepare branch Account in the Books of Head Office.

| Particulars | ₹ | Particulars | ₹ |
|-------------------------------|----------|-------------------------------|----------|
| Opening Balance: | | Collection from Debtors: | 4,20,000 |
| Branch stock | 60,000 | Discount Allowed | 20,000 |
| Branch Debtors | 80,000 | Bad debts written off | 10,000 |
| Transactions during the year: | | Expenses paid by Head Office: | |
| Goods sent to Branch | 4,50,000 | Salaries | 50,000 |
| Cash Sales by Branch | 2,20,000 | Rent | 25,000 |
| Credit Sales by Branch | 5,20,000 | Petty Expenses | 5,000 |
| Returns from Debtors | 20,000 | Closing Balance: | |
| | | Stock at Branch | 90,000 |
| | | Debtors at Branch | ? |

(Ans.: Branch Profit – ₹ 1,90,000)

SAQ 3: Reliable Bros, Mumbai had a Branch at Delhi. All purchases are made by Head Office. Branch expenses are paid out of an imprest which is reimbursed by the Head Office. From the following particulars, prepare Delhi Branch Account in the Books of Head Office.

| Particulars | ₹ |
|----------------------|--------|
| Balance on 1.1.2014: | |
| Stock at cost | 8,000 |
| Cash | 800 |
| Machinery | 10,000 |

| | | |
|---|-------|--------|
| Balance on 31.12.2014: | | |
| Stock at cost | | 7,000 |
| Transactions during the year: | | |
| Goods sent to Branch | | 50,000 |
| Petty Expenses paid by Branch out of Imprest | 700 | |
| Expenses paid by Head Office | 5,000 | 5,700 |
| Cash Sales | | 70,000 |
| Sale of machinery on 1.7.2014 (Book value ₹ 1000/-) | | 800 |

Provide Depreciation on machinery @ 20% p.a.

(Ans.: Net Profit – ₹ 3,300)

DEBTORS METHOD – GOODS AT INVOICE PRICE (IN THE BOOKS OF THE HO)

Where HO despatches goods at Cost Price, the Branch can easily find out the profit earned by HO against such despatches (by deducting the Cost Price from the Sales realised).

HO can add certain percentage or fixed amount to the Cost Price so that profit is not disclosed to the Branch. The price at which goods are invoiced is called as “**Loaded**” Price, i.e., profit or mark-up is loaded on the Cost Price due to which Original Cost gets inflated.

In addition to the entries explained in Para 2 above, the typical accounting treatment to deal with the Profit element hidden within Invoice Price (Higher than the Cost Price) is as under:

(1) Unloading from Opening Stock

| | |
|-------------------|-------|
| Stock Reserve A/c | xxxxx |
| To Branch A/c | xxxxx |

Opening Stock is overvalued (above Cost Price) Hence, the hidden unrealised profit is kept in “Stock Reserve”.

(2) Unloading from Goods Sent to Branch

| | |
|--------------------------|-------|
| Goods Sent to Branch A/c | xxxxx |
| To Branch A/c | xxxxx |

Despatches include Profit, which is not yet realised. Therefore, Reversal of “Goods Sent to Branch A/c”.

(3) Unloading from Closing Stock

| | |
|----------------------|-------|
| Branch A/c | xxxxx |
| To Stock Reserve A/c | xxxxx |

Closing Stock is overvalued (above Cost Price). Hence, the hidden unrealised profit is retained in “Stock Reserve”.

(4) Mark-up Loaded on the Cost Price or Included in Invoice Price: Computation

HO may add certain percentage or fixed amount to the Cost Price to disclose the Invoice Price.

(a) If the Cost/Invoice Price is available in the problem, direct calculation possible.

Illustration 4:

| | Loading/Mark-up | Cost Price ₹ | Invoice Price ₹ |
|------|--|--------------|---|
| a.1. | 20% on Cost Price | 50,000 | ? |
| | | | $(50,000 + 20\% \text{ of } 50,000) = 60,000$ |
| a.2. | 20% on Invoice Price | ? | 60000 |
| | $(60,000 + 20\% \text{ of } 60,000) =$ | 72,000 | |

(b) If the Cost Price is available in the problem, but Loading is a % of Invoice Price.

Illustration 5:

| | Loading/Mark-up | Cost Price (CP) ₹ | Loading/Mark-up | Invoice Price (IP) |
|------|--|-------------------|---|--------------------|
| b.1. | 10% on IP (i.e., $1/10^{\text{th}}$ of IP) = | 90,000 | $= (1/9)^{\text{th}}$ of CP 90,000 = 10,000 | 1,00,000 |
| b.2. | 20% on IP (i.e., $1/5^{\text{th}}$ of IP) = | | $= (1/4)^{\text{th}}$ of CP 90,000 = 22,500 | 1,12,500 |
| b.3. | 25% on IP (i.e., $1/4^{\text{th}}$ of IP) = | | $= (1/3)^{\text{rd}}$ of CP 90,000 = 30,000 | 1,20,000 |
| b.4. | 33.33% on IP (i.e., $1/3^{\text{rd}}$ of IP) = | | $= (1/2)$ of CP 90,000 = 45,000 | 1,35,000 |
| b.5. | 50% on IP i.e., $1/2$ of IP) = | | $= (1/1) = 100\%$ of CP 90,000 $= 90,000$ | 1,80,000 |
| | Hence, $(1/n)^{\text{th}}$ of IP = | | $= [1/(n - 1)]^{\text{th}}$ of CP | |

(c) If the Invoice Price is available in the problem, but Loading is a % of Cost Price.

Illustration 6:

| | Loading/Mark-up | Inv. Price (IP) ₹ | Loading/Mark-up | Cost Price (IP) |
|------|--|-------------------|---|-----------------|
| c.1. | 10% on CP (i.e., $1/10^{\text{th}}$ of CP) = | 3,30,000 | $= (1/11)^{\text{th}}$ of IP 3,30,000 = 30,000 | 3,00,000 |
| c.2. | 20% on CP (i.e., $1/5^{\text{th}}$ of CP) = | | $= (1/6)^{\text{th}}$ of IP 3,30,000 = 55,000 | 2,75,000 |
| c.3. | 25% on CP (i.e., $1/4^{\text{th}}$ of CP) = | | $= (1/5)^{\text{th}}$ of 3,30,000 = 66,000 | 2,64,000 |
| c.4. | 33.33% on CP (i.e., $1/3^{\text{rd}}$ of CP) = | | $= (1/4)^{\text{th}}$ of IP 3,30,000 = 82,500 | 2,47,500 |
| c.5. | 50% on IP (i.e., $1/2$ of CP) = | | $= (1/3)^{\text{rd}}$ of 3,30,000 = 1,10,000 | 2,20,000 |
| | Hence, $(1/n)^{\text{th}}$ of IP = | | $= [1/(n + 1)]^{\text{th}}$ of IP | |

The tables shown in Para 5.2 E are revised to include the above accounting aspect as under:

| Journal Entries (Debtors Method – Goods at INVOICE (= Cost + Price) Price | In the Books of HO | | Entries with Reversal Aspects |
|---|--|-------------------------------------|-------------------------------------|
| | Dr. | Cr. | |
| 1. Opening Balance | | | |
| A. Branch Assets | Branch A/c | ... Particular Branch Assets A/c | 1.A vs. 1.B |
| B. Branch Liabilities | ... Particular Branch Liabilities A/c | Branch A/c | |
| C. Loading in Opening Stock | Stock Reserve A/c | | |
| 2. Goods from HO/Other Branch/ HO Suppliers | | | 2.A vs. 2.B |
| A. Inward/Inflow | | | |
| (a) Received by this Branch/ Branch Customer | Branch A/c | Goods Sent to Branch A/c | |
| (b) But not received by this Branch | Goods in Transit A/c | | |
| (c) Loading in these items* | | | |
| B. Outward/Outflow – Goods returned by: | | | |
| (a) This Branch to HO | Goods Sent to Branch A/c | Branch A/c | |
| (b) Branch Customers to HO directly | | | |
| (c) This Branch to another Branch | | | |
| 3. Cash/Bank Remittance | | | |
| A. From HO | | | 3.A vs. 3.B |
| (a) Branch Expenses | | | |
| – HO paid directly | | | |
| – HO remitted cash | | | |
| – HO paid to Branch suppliers | Branch A/c | Cash/Bank A/c | |
| (b) Cash received from another Branch | | ... Other Branch A/c | |
| (c) Branch collected directly from HO Debtors | | HO Debtors A/c | |

| | | | |
|---|----------------------------------|-----------------------------------|------------------|
| B. To HO | | | |
| (a) Branch/Branch Debtors remits to HO | Cash/Bank A/c | Branch A/c | |
| (b) Branch paid directly to HO Creditor | HO Creditors A/c | | |
| (c) This Branch sends cash to other Branch | ... Other Branch A/c | | |
| (d) Remitted but not received by HO | Cash in Transit A/c | | |
| 4. Goods sent to Branch A/c – Balance Transfer | | | |
| Purchase A/c (in Trading Co.) | Goods Sent to Branch A/c | Purchases A/c (in Trading Co.) | |
| Trading A/c (in Manufacturing Co.) | | Trading A/c (in Mfg. Co.) | |
| 5. Closing Bal. (Appears in HO Balance Sheet) | ... Particular Branch Assets A/c | Branch A/c | 5.A vs. 5.B |
| A. Branch Assets | Branch A/c | | |
| B. Branch Liabilities | | ... Particular Branch Liabilities | 5.D(a) vs. 5D(b) |
| C. Loading in Closing Stock | | Stock Reserve A/c | |
| D. Profit/Loss | | | |
| (a) If Profit | | | |
| (b) If Loss | General P & L A/c | Branch A/c | |

The above journal entries would appear in the Ledger Account for the concerned Branch as under:

**Debtors Method – Goods at Invoice Price
(In the Books of HO)
... Branch A/c**

| | Dr. | | | Cr. | | |
|---|--|-----------|---|----------|--|--|
| | Particulars | ₹ | Particulars | ₹ | | |
| 1. A Opening Bal. Branch Assets | To Balance b/d | | By Balance b/d | | (1) Opening Bal. Branch Liabilities | |
| | Stock (Inv. Price) xxx | | Creditors xxx | | 1.C Opening Bal. Loading in Opening Stock now unloaded | |
| 2. A (a) Goods from – HO/ other Branch/ HO Suppliers Inward/Inflow to this Branch | Debtors xxx | | Expenses xxx | xxx1B | | |
| | Cash & Bank xxx | | Payable (O/s) | | 2.A(b) Non-receipt of Goods Supplied by HO/ another Branch | |
| | Prepaid Expenses xxx | | | | 2.A(c) Unloading of Profit from 2A(a)&(b) | |
| 3. Cash/Bank Remittance | Fixed Assets xxx | xxx1(A) | | | 2.B Outward/ Outflow – Goods returned by: | |
| A. From HO | To Goods sent to Branch A/c | | By Stock Reserve A/c (Loading Opening Stock) | xxx1C | (a) This Branch to HO | |
| (a) Branch Expense – HO paid directly | From HO xxx | | By Goods in Transit A/c | xxx2A(b) | (b) This Branch to another Branch | |
| – HO remitted Cash | HO Suppliers xxx | xxx2A(a) | By Goods Sent to Branch A/c | xxx2A(c) | (c) Branch Customers to HO directly | |
| – HO paid to Branch Suppliers | Other Branch xxx | | By Goods sent to Branch A/c | | | |
| (b) Cash received from another Branch | | | By Branch xxx2B(a) | | | |
| (c) Branch collected directly from HO Debtors | To Cash/Bank A/c (Remittance by HO) | xxx3A(a) | By Branch Debtors xxx2B(b) | | | |
| | | | Sent to other Branch xxx2B(c) | xxx2B | | |
| | To... Other Branch A/c | xxx3A(b) | By Cash/Bank A/c | xxx3B(a) | | |
| | To HO Debtors A/c (Branch collected directly) | xxx3A (c) | By HO Creditors A/c | xxx3B(b) | | |
| | To Balance c/d | | By ... Other Branch A/c | xxx3B(c) | | |
| | Creditors xxx | | By Cash-in-Transit A/c | xxx3B(d) | 3. B Cash/Bank Remittance to HO | |
| | Expenses Payable xxx | xxx5B | | | (a) Branch/ Branch Debtors remits to HO | |
| | To Stock Reserve A/c (Loading in Closing Stock) | xxx5C | By Balance c/d | | (b) Branch paid directly to HO Creditor | |
| | | | Stock (Inv. Price) xxx | | (c) This Branch provides cash to other Branch | |
| | To General P & LA/c (Net Profit Transfer) | xxx5D(a) | Debtors xxx | | (d) Remitted but not received by HO | |
| | | | Prepaid Expenses xxx | | | |
| | | | Cash & Bank Balance xxx | | | |
| | | | Fixed Assets xxx | xxx 5A | | |
| | | | By General P & LA/c (Net Loss Transfer) | xxx5D(a) | | |
| | | xxxx.xx | | | | |
| | | | | xxxx.xx | | |

5.D(b) Transfer to General P&L (Reverse of 5.D(a))

5. A Closing Bal. Branch Assets (to appear in HO Balance Sheet)(Reverse of a.A)

Note: In case of Abnormal Loss of goods, similar pattern could be used for unloading the Profit element. If we record these entries with zero profit element in Invoice Price, then there is no need to unload any Profit. In that case, these Formats are same as (Debtors Method – Goods at cost price). Thus, students should use these formats regularly for Debtors Method.

Illustration 7: A Company having Head Offices at Mumbai, has a branch in Nagpur to which goods are invoiced at cost plus 20%. From the following particulars, prepare a Branch Account in the books of Head Office.

| Particulars | ₹ |
|--|----------|
| Opening Balance: | |
| Stock (Invoice price) | 60,000 |
| Debtors | 40,000 |
| Petty Cash | 320 |
| Goods sent to Branch (Cost) | 1,60,000 |
| Goods returned by Branch (Invoice price) | 3,000 |
| Total sales | 2,48,000 |
| Cash sales | 1,04,000 |
| Cash received from Debtors | 1,36,000 |
| Discount received by Debtors | 4,000 |
| Cash remitted to Branch for expenses | 32,000 |
| Closing Balance: | |
| Stock (Invoice Price) | 48,000 |
| Petty cash | 400 |
| Liabilities for expenses | 1,000 |

Solution:

In the Books of Head Office(Mumbai)

| Dr. | | Nagpur Branch A/c | | Cr. | |
|--|-----------------|--|----------|-----|-----------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance b/d: | | By Stock Reserve | 10,000 | | |
| Stock | 60,000 | >Loading: Opening Stock) (2) (c) | | | |
| Debtors | 40,000 | By Goods Sent to Branch A/c (2) (a) | 32,000 | | |
| Petty Cash | 320 | | | | |
| To Goods Sent to Branch (1,60,000 + 32,000) | 1,92,000 | By Goods Sent to Branch A/c (Returns) | 3,000 | | |
| To Goods Sent to Branch (Loading: Returns)(2) (b) | 500 | By Cash (1,04,000 + 1,36,000) | 2,40,000 | | |
| To Cash (Expenses) | 32,000 | By Balance c/d: | | | |
| To Stock Reserve (Loading: Closing Stock)(2)(d) | 8,000 | Stock | 48,000 | | |
| | | Petty Cash | 400 | | |
| | | Debtors (Note 1) | 44,000 | | |
| To Balance c/d to General P & L A/c (Bal. Fig.) | 43,580 | | | | |
| (Liabilities for Expenses) | 1,000 | | | | |
| | 3,77,400 | | | | 3,77,400 |

Notes 1:**Branch Debtors A/c**

| Particulars | ₹ | Particulars | ₹ |
|--------------------------------|-----------------|----------------------------|-----------------|
| To Balance b/d | 40,000 | By Cash | 1,36,000 |
| To Sales (2,48,000 – 1,04,000) | 1,44,000 | By Discount | 4,000 |
| | | By Balance c/d (Bal. Fig.) | 44,000 |
| | 1,84,000 | | 1,84,000 |

Notes 2:

Loading (20% on CP = $\frac{1}{6}$ th of IP)

Cost

| | ₹ | | ₹ |
|--|----------|----------------------|--------|
| (a) Goods Sent to Branch (Invoice Price) | 1,60,000 | 20% | 32,000 |
| (b) Goods Returned by Branch | 3,000 | (1/6 th) | 500 |
| (c) Opening Stock | 60,000 | (1/6 th) | 10,000 |
| (d) Closing Stock | 48,000 | (1/6 th) | 8,000 |

Illustration 8: BPO Company has a Branch at Pune. Goods are invoiced to the Branch at 20% profit on Invoice Price. Branch has been instructed to send cash daily the Head Office. All expenses of the Branch are paid by the Head Office except Petty expenses which are met by the Branch Manager. From the following particulars, prepare Branch Account and Memorandum Branch Debtors Account in the books of the Head Office. The details of transactions for year ended 31st December, 2014 were as under:

| Particulars | ₹ |
|--|----------|
| Stock on 1 st Jan. 2014 (Invoice Price) | 84,000 |
| Sundry Debtors – 1 st Jan. 2014 | 36,000 |
| Cash in hand – 1 st Jan. 2014 | 1,600 |
| Furniture – 1 st Jan. 2014 | 8,000 |
| Goods invoiced to Branch (Invoice price) | 3,20,000 |
| Goods returned to HO (Invoice price) | 4,800 |
| Goods returned by Debtors | 2,000 |
| Goods received from Debtors | 1,24,000 |
| Cash Sales | 2,00,000 |
| Credit Sales | 1,28,000 |
| Discount allowed to Debtors | 2,400 |
| Expenses paid by HO: | |
| Rent | 4,800 |
| Salary | 9,600 |
| Stationery | 16,000 |
| Petty expenses paid by Branch Manager | 1,200 |

Depreciation is to be provided on Furniture at 10% p.a. Stock on 31st December 2014 at Invoice price ₹ 60,000. Prepare Pune Branch A/c. (MU., Oct. 2004)

Solution:

**In the Books of BPO Company
Pune Branch A/c**

| Dr. | | | year ended 31 st Dec. 2014 | | | Cr. | | |
|----------|------------------------------|-----------------|---------------------------------------|-----------------------------------|-----------------|-----|--|--|
| Date | Particulars | ₹ | Date | Particulars | ₹ | | | |
| 01.01.07 | To Balance b/d: | | | By Stock Revenue | 16,800 | | | |
| | Stock | 84,000 | | (Loadings: Opening Stock (c)) | | | | |
| | Debtors | 36,000 | | By Goods sent to Branch | 4,800 | | | |
| | Cash | 1,600 | | (Returns) | | | | |
| | Furniture | 8,000 | | By Goods sent to Branch | 63,040 | | | |
| | <u> </u> | 1,29,600 | | (Net Loadings goods sent (a – b)) | | | | |
| | To Goods Sent to Branch | 3,20,000 | | By Cash: | | | | |
| | To Cash: | | | Debtors | 1,24,000 | | | |
| | Rent | 4,800 | | Cash Sales | 2,00,000 | | | |
| | Salary | 9,600 | | <u> </u> | 3,24,000 | | | |
| | Stationery | 16,000 | | 31.12.14 By Balance c/d: | | | | |
| | To Stock Reserve | 12,000 | | Stock | 60,000 | | | |
| | (Loadings: Closing stock)(d) | 50,240 | | Furniture | 7,200 | | | |
| | To Profit & Loss A/c | | | Cash | 400 | | | |
| | (Bal. Fig.) | | | Debtors | 35,600 | | | |
| | | | | <u> </u> | 1,03,200 | | | |
| | | <u>5,11,840</u> | | | <u>5,11,840</u> | | | |

| Dr. | | | Memorandum Branch Debtors A/c | | | Cr. | | |
|----------|----------------|-----------------|-------------------------------|------------------|-----------------|-----|--|--|
| Date | Particulars | ₹ | Date | Particulars | ₹ | | | |
| 01.01.14 | To Balance b/d | 36,000 | | By Sales Returns | 2,000 | | | |
| | To Sales | 1,28,000 | | By Cash | 1,24,000 | | | |
| | | | | By Discount | 2,400 | | | |
| | | | 31.12.14 | By Balance c/d | 35,600 | | | |
| | | <u>1,64,000</u> | | | <u>1,64,000</u> | | | |

Note:

Loading (20% on IP = 1/4th of CP)

| | Invoice Price ₹ | (1/5 th) ₹ |
|------------------------------|--------------------|---------------------------|
| (a) Goods Sent to Branch | 3,20,000 | 64,000 |
| (b) Goods Returned by Branch | 4,800 | (960) |
| | | <u>63,040</u> |
| (c) Opening Stock | 84,000 | 16,800 |
| (d) Closing Stock | 60,000 | 12,000 |

Illustration 9: A Head Office at Nagpur invoices goods to its Branch at Tuljapur at cost plus 25%. All expenses are paid by Head Office and all cash collections made by the Branch are remitted to Head Office daily.

Prepare Tuljapur Branch A/c for the ended 31.03.2014 from the following information:

| Date | Particulars | ₹ |
|-------------------|--|----------|
| On 1.4.2013 | Debtors | 25,000 |
| (for year ending) | Stock at Invoice Price | 60,000 |
| 31.3.2014 | Goods Sent to Branch at Invoice Price | 2,80,000 |
| | Bad Debts | 4,000 |
| | Discounts Allowed | 3,000 |
| | Returns Inwards | 8,000 |
| | Cash from Customers | 2,70,000 |
| | Branch Expenses | 75,000 |
| | Cash Sales | 80,000 |
| | Total Sales | 3,50,000 |
| | Stock as on 31.3.2014 at Invoice Price | 20,000 |

Solution:

**In the Books of HO at Nagpur
Tuljapur Branch A/c**

| Dr. | | | Cr. | | |
|----------------------------|-----------------------------|-----------------|---------|-----------------------------|-----------------|
| for the year ended 31.3.14 | | | | | |
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 01.04.13 | To Balance b/d | | | By Stock Reserve | 12,000 |
| | Debtors 25,000 | | | (Loading: Opening Stock)(b) | |
| | Stock 60,000 | 85,000 | | By Goods Sent to Branch | 56,000 |
| | To Goods Sent to Branch | 2,80,000 | | (Loading)(a) | |
| | To Cash (Branch expenses) | 75,000 | | By Cash | |
| | To Stock Reserve | 4,000 | | Sales 80,000 | |
| | (Loading: Closing Stock)(c) | | | Cash from Debtors 2,70,000 | 3,50,000 |
| 31.3.14 | To Net Profit | 4,000 | 31.3.14 | By Balance c/d | |
| | | | | Stock 20,000 | |
| | | | | Debtors 10,000 | 30,000 |
| | | 4,48,000 | | | 4,48,000 |

Notes:

1. Loading (25% on CP = 1/5th of IP)

| | Invoice Price | (1/5 th) |
|--------------------------|---------------|----------------------|
| (a) Goods sent to Branch | 2,80,000 | 56,000 |
| (b) Opening Stock | 60,000 | 12,000 |
| (c) Closing Stock | 20,000 | 4,000 |

2. **Assumption:** Return Inwards are from Branch Customers to the Branch (No Returns from Branch to HO)

| Dr. | | | Branch Debtors A/c | | | Cr. | | |
|----------|----------------|-----------------|--------------------|----------------------------|-----------------|-----|--|--|
| Date | Particulars | ₹ | Date | Particulars | ₹ | | | |
| 01.04.07 | To Balance b/d | 25,000 | | By Bad Debts | 4,000 | | | |
| | To Sales | 2,70,000 | | By Discount | 3,000 | | | |
| | | | | By Return Inwards | 8,000 | | | |
| | | | | By Cash | 2,70,000 | | | |
| | | | 31.3.08 | By Balance c/d (Bal. Fig.) | 10,000 | | | |
| | | 2,95,000 | | | 2,95,000 | | | |

Illustration 10: The head office of a company invoices goods to its Koyna Branch at cost plus 20%. The Koyna Branch also purchases independently from local parties goods for which payments are made by the HO. All the cash collected by the Branch is banked on the same day to the credit of the Head Office and all expenses are directly paid by the HO except for a Petty Cash Account maintained by the Branch for which periodical transfers are made by the HO reflecting the Branch profit the year-ended December 31, 2014.

| Particulars | | ₹ |
|---|--------|----------|
| Imprest Cash | | |
| 01.07.14 | | 2,000 |
| 31.12.2014 | | 1,850 |
| Sundry Debtors on 1.7.2014 | | 25,000 |
| Stock on 1.7.2014 | | |
| Transferred from HO at invoice price | 24,000 | |
| Directly purchased by branch | 16,000 | 40,000 |
| Cash Sales | | 45,000 |
| Credit Sales | | 1,30,000 |
| Direct Purchases | | 45,000 |
| Returns from customers | | 3,000 |
| Goods Sent to Branch from HO at invoice price | | 60,000 |
| Transfers from HO for petty cash expenses | | 2,500 |
| Bad debts | | 1,000 |
| Discount to customers | | 2,000 |
| Cash received from to customers | | 1,25,000 |
| Branch expenses | | 3,000 |
| Stock on 31.12.2014: | | |
| Transferred from HO at invoice price | 18,000 | |
| Directly purchased by branch | 12,000 | 30,000 |

Solution:**In the Books of Head Office**

| Dr. | | | Koyna Branch A/c | | Cr. | |
|--------|----------------------------------|-----------------|------------------|-------------------------------|----------|-----------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ | |
| 2014 | | | 2014 | | | |
| July 1 | To Balance b/d | | Dec. 31 | By Bank | | |
| | Stock HO | 24,000 | | Cash Sales | 45,000 | |
| | Local Purchase | 16,000 | | Cash Received | 1,25,000 | |
| | | 40,000 | | | 1,70,000 | |
| | Debtors | 25,000 | | Less: Petty Cash | (150) | 1,69,850 |
| | Petty Cash | 2,000 | | | | |
| Dec 31 | To Goods Sent to Branch | 60,000 | | By Goods Sent to Branch | | 10,000 |
| | To Bank A/c (Branch Expenses) | 3,000 | | (Load) 2(a) | | |
| | To Petty Cash | 2,500 | | By Branch Stock Reserve | | 4,000 |
| | To Direct Purchases | 45,000 | | >Loading: Opening Stock) 2(c) | | |
| | To Branch Stock Reserve | 3,000 | | By Balance b/d: | | |
| | To (Loading: Closing Stock) 2(d) | | | Stock HO | 18,000 | |
| | To Profit | | | Local Purchase | 12,000 | 30,000 |
| | | 59,350 | | Debtors | 24,000 | |
| | | | | Petty Cash | 2,000 | 26,000 |
| | | 2,39,850 | | | | 2,39,850 |

Notes:

1.

| Dr. | | Memorandum Debtors A/c | | Cr. | |
|-----------------|-----------------|------------------------|-----------------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance b/d | 25,000 | By Cash Received | 1,25,000 | | |
| To Credit Sales | 1,30,000 | By Sales Returns | 3,000 | | |
| | | By Bad Debts | 1,000 | | |
| | | By Discount Allowed | 2,000 | | |
| | | By Balance c/d | 24,000 | | |
| | 1,55,000 | | 1,55,000 | | |

2. Loading (20% on CP = 1/6th of IP) Invoice Price (1/6th)

| | ₹ | ₹ |
|--------------------------|--------|--------|
| (a) Goods Sent to Branch | 60,000 | 10,000 |
| (b) Opening Stock | 24,000 | 4,000 |
| (c) Closing | 18,000 | 3,000 |

SAQ 4: Champaklal & Co. of Chennai had a branch at Baroda. The Head Office invoices goods to Branch at cost plus 20% basis. Following transactions relate to quarter-ended 31.3.2014.

On 1.1.2014, branch carried stock ₹ 15,000/- and goods costing ₹ 75,000/- were remitted. Branch sold goods on credit for ₹ 96,000/-. On 31.3.2014, Branch held goods of invoice value of ₹ 12,000/-.

On 1.1.2014, amount due from customers was ₹ 9,000/-. One customer returned goods worth ₹ 3,000/- which were returned to Head Office. The amount received from customers ₹ 74,250/- to whom ₹ 750/- was allowed as discount. The customer paid ₹ 5,000/- directly to head office. Out of the amount received from customers, branch paid for salaries ₹ 3,000/-, administrative expenses ₹ 1,750/-, selling expenses ₹ 2000/-, amount remitted ₹ 66,500/- and remaining was held at branch. Head office paid ₹ 1,500/- as rent.

Pass necessary Journal entries and prepare Branch A/c.

(Ans.: Net Loss – ₹ 18,500)

SAQ 5: Goods are invoiced by Bombay Head Office at Pune Branch to a price so as to show profit of 20% on sales. Branch sales are partly cash and partly credit. From the following information prepare Pune Branch A/c in the books of Head Office.

| Particulars | ₹ |
|---|----------|
| Stock of goods 01.01.2014 (Invoice price) | 12,000 |
| Stock of goods 31.12.2014 (Invoice price) | 15,000 |
| Goods sent to Branch (Invoice price) | 1,25,000 |
| Goods returned by Branch | 2,500 |
| Cash sales | 55,000 |
| Credit sales | 67,000 |
| Returns from customers | 1,000 |
| Bad debts | 2,000 |
| Discount allowed to customers | 500 |
| Sundry Debtors 01.01.2014 | 5,000 |
| Sundry Debtors 31.12.2014 | 8,500 |
| Rent, Rates etc. | 4,000 |
| Salaries | 4,000 |
| Sundry Expenses | 2,000 |

(Ans.: Cash from Debtors – ₹ 60,000, Net Profit – ₹ 17,400)

SAQ 6: Goods are invoiced by HO at cost plus 25% and Branch sales are partly cash and partly credit. From the following particulars, prepare Branch Account in the books HO.

| Particulars | ₹ |
|---|----------|
| Stock of goods at Branch (01.01.2014 invoice price) | 3,500 |
| Stock of goods at Branch (31.12.2014 Invoice price) | 3,750 |
| Goods sent to branch (Invoice Price) | 2,75,000 |
| Goods returned to HO | 15,000 |
| Cash sales | 60,000 |
| Credit sales | 3,46,000 |
| Returns from customers | 8,000 |
| Discount allowed | 12,000 |
| Bad debts | 1,000 |
| Cash received from customers | 3,29,000 |
| Debtors (1.1.2014) | 48,000 |
| Debtors (31.12.2014) | ? |
| Branch Expenses | 97,550 |

(Ans.: Net Profit – ₹ 79,650, Debtors – ₹ 44,000)

SAQ 7: Universal Chemicals (P) Ltd. has a Branch at Pune. Goods are invoiced to the Branch at cost plus 30%. From the following details, prepare Branch Account in the books of HO.

| Particulars | ₹ | Particulars | ₹ |
|---------------------------|----------|-----------------------------|----------|
| Stock on 1.1.2014 | 26,000 | Goods returned to HO | 6,500 |
| Debtors on 1.1.2014 | 50,000 | Goods returned by Branch | |
| Cash in hand on 1.1.2014 | 250 | Debtors to Branch | 3,000 |
| Goods sent to Pune Branch | 1,30,000 | Total Sales of the Branch | 2,23,000 |
| Cheques sent to Branch: | | Cash Sales | 1,70,000 |
| Salary | 3,000 | Expenses paid by Branch | 23,000 |
| Rent | 2,000 | Collection from Debtors | 84,000 |
| Furniture purchase by HO | 10,000 | Closing Stock on 31.12.2014 | 1,04,000 |
| | | Cash balance on 31.12.2014 | 130 |

Depreciation on Furniture 10%

(Ans.: Closing Debtors – ₹ 16,000, Net Profit – ₹ 71,880)

SAQ 8: REC Industries has its office at Bangalore and Branch at Chennai. Goods are invoiced to Branch at cost plus 25%. From the following particulars, prepare Branch Account in books of Head Office.

| Particulars | ₹ |
|--|----------|
| Opening stock on 1.4.2013 (invoice price) | 40,000 |
| Closing stock on 31.3.2014 (invoice price) | 60,000 |
| Debtors as on 1.4.2013 | 28,000 |
| Debtors as on 31.3.2014 | 27,500 |
| Cash as on 1.4.2013 | 800 |
| Goods sent to Branch | 1,75,000 |
| Cash sales of Branch | 1,60,000 |
| Credit sales of Branch | 75,000 |
| Discount allowed to customers | 3,000 |
| Goods returned by customers directly to HO Goods transferred during the year | 4,000 |
| From Mumbai Branch to Chennai Branch (Invoice Price) | 15,000 |
| Cash remitted from HO Branch during the year for salaries | 14,500 |
| Furniture purchased by HO for Branch | 10,000 |

It is the policy of the company, that all cash collections have to be immediately remitted to Head Office the same day. Provide depreciation on furniture @ 10%.

(Ans.: Profit – ₹ 34,500)

SAQ 9: Chennai Head office had Branch at Pune to which goods are invoiced at cost plus 20%. From the following particulars, prepare the Branch Account in the Head Office books.

| Particulars | ₹ |
|--------------------------------------|----------|
| Goods sent to Branch (Invoice price) | 2,11,872 |
| Total Sales | 2,06,400 |
| Cash Sales | 10,000 |
| Cash received from Branch Debtors | 88,000 |

| | |
|--|--------|
| Branch Debtor at Commencement | 24,000 |
| Branch stock at Commencement (Invoice Price) | 7,680 |
| Branch stock at close of the period at invoice price | 13,440 |

(Ans.: Net Profit – ₹ 34,640)

STOCK AND DEBTORS METHOD

1. Limitations of “Debtors Method” to maintain Branch Accounts

In case of large volume of transactions at the Branch, it is difficult for HO to keep a control though a single Account under Debtors Method and therefore –

- HO dose not get any idea about the exact movement of Cash and Bank items/balances (A/c – Head wise Expenditure, except remittance to and from HO). Same is the case in respect of movement of goods in stock, particularly losses of Normal and Abnormal nature.
- It operates like the Statement of prepared in case of Single Entry System.

2. Features of “Stock & Debtors Method”

To gather detailed information for decision-making at HO level, following Ledger Accounts are to be maintained in addition to the Branch A/c.

Under this method, goods are recorded at Invoice Price, i.e., higher than the Cost Price.

The Journal Entries required are as under:

1. Movement of Goods

| (A) Inward/Inflow | | From (Given by) | To (Goods Received by) |
|---|------------|--|------------------------|
| Branch Stock A/c | Dr. xxx xx | | |
| To Goods Sent to Branch A/c | xxx xx | HO | This Branch |
| To ---- Other Branch A/c | xxxxxx | Other Branches | |
| To HO Suppliers A/c | xxxxxx | HO Supplier | |
| To Branch Debtors A/c | xxx xx | Returned by Branch Customers | |
| (B) Outward/Outflow | | | |
| Goods Sent to Branch A/c | Dr. xxx xx | | to HO (Returns) |
| ----Other Branch A/c | Dr. xxx xx | | to Other Branches |
| HO Suppliers A/c | Dr. xxx xx | This Branch | to HO Supplier |
| Branch Cash & Bank | Dr. xxx xx | | This Branch Customers |
| Branch Debtors A/c | | | |
| To Branch Stock A/c | xxxxx | (Sales at Higher/Lower/Equal to Invoice Price) | |
| | | > = < | |
| (C) Balance in Goods Sent to Branch A/c | | | |
| Goods Sent to Branch A/c | Dr. xxx xx | | |
| To Trading/Purchase A/c | xxx xx | Transfer (credit) to Trading/Purchase A/c | |

2. Branch Adjustment A/c – to ascertain GROSS Profit/Loss

| A. Unloading of Profit in Stock Movement | | |
|---|--|--|
| (a) Stock Reserve A/c Dr. xxx xx Goods Sent to Branch A/c Dr. xxx xx To Branch Adjustment A/c xxx xx | Unloading from - Opening Stock (Reverse of 2A(b)) NET Goods despatched (deduct Returns (Ignore Abnormal Surplus/Loss of stock) See 3B | |
| (b) Branch Adjustment A/c Dr. xxx xx To Stock Reserve A/c xxx xx | Closing Stock (Reverse of 2A(a)) | |
| (c) Realisation in excess of Invoice Price Branch Stock A/c Dr. xxx xx To Branch Adjustment xxx xx | (Actual Sale Price – Invoice Price) Realisation in excess of Invoice Price | |
| B. Stock – Loss/Surplus | | |
| (a) Normal Loss of Stock Branch Adjustment A/c Dr. xxx xx To Branch Stock A/c xxx xx | Normal Loss at Invoice Price | |
| (b) Abnormal Loss of Stock Branch Adjustment A/c Dr. xxx xx Insurance Co./Bank A/c Dr. xxx xx General P & L A/c (Cost) Dr. xxx xx To Branch Stock A/c (Invoice Price) xxx xx | Recoverable Loss Abnormal Loss of Stock (due to fire etc.) | |
| (c) Abnormal Surplus in Stock Branch Stock A/c (Invoice Price) Dr. xxx xx To General P & L A/c (Cost) <u>xxx xx</u> To Branch Adjustment A/c (Unloading) xxx xx | Abnormal Surplus in Stock | |
| (d) Realisation in Excess of Invoice Price Branch Stock A/c Dr. xxx xx To Branch Adjustment A/c (Unloading) xxx xx | (Actual Sale Price – Invoice Price) Realisation in Excess of Invoice Price | |
| C. Gross PROFIT/LOSS to the Branch – Transfer to Branch P & L A/c | | |
| (a) Gross PROFIT Branch Adjustment A/c Dr. xxx xx To Branch P & L A/c xxx | Reverse of 2c(b) | |
| (b) Gross LOSS Branch P & L A/c Dr. xxx xx To Branch Adjustment A/c xxx xx | Reverse of 2c(a) | |

3. Branch P & L A/c – to Ascertain Net Profit/Loss

| A. Branch Expenses | | |
|---|------------|---|
| (a) Accumulation of expenses | | |
| Branch Expenses A/c | Dr. xxx.xx | Branch Expenses Paid/Payable (a) By Branch (b) By HO Bad Debts/Discount Allowed to Debtors |
| (Salary, Rent etc.) | | |
| To Branch Cash/Bank A/c | xxx.xx | |
| To HO Cash/Bank A/c | xxx.xx | |
| To Branch Expenses A/c | xxx.xx | |
| (b) Transfer to P & L A/c | | |
| Branch P & L A/c | Dr. xxx.xx | Transfer of Branch Expenses to P & L A/c |
| To Branch Expenses A/c | xxx.xx | |
| B. Net Profit/Loss to the Branch – Transfer to General P & L A/c | | |
| (a) Net Profit | | |
| Branch P&L A/c | Dr. xxx.xx | Reverse of 3B(b) |
| To General P & L A/c | xxx.xx | |
| (b) Net Loss | | |
| General P & L A/c | Dr. xxx.xx | Reverse of 3B(a) |
| To General P & L A/c | xxx.xx | |

4. Remittances – Cash/Cheques (Movement of Funds)

| A. Fund Transfer – HO to Branch | | |
|---|------------|--|
| Branch Cash/Bank A/c | Dr. xxx.xx | Reverse of 4B |
| To HO Cash/Bank A/c | xxx.xx | |
| B. Fund Transfer – Branch to HO | | |
| HO Cash/Bank A/c | Dr. xxx.xx | Reverse of 4A |
| To Branch Cash/Bank A/c | xxx.xx | |
| C. Receipts from Branch Customers | | |
| (a) B/R Cash/Cheques received | | |
| Bills Receivable A/c | Dr. xxx.xx | at Branch at HO (directly remitted) |
| Branch Cash/Bank A/c | Dr. xxx.xx | |
| HO Cash/Bank A/c | Dr. xxx.xx | |
| To Branch Debtors A/c | xxx.xx | |
| Dishonour of B/R Cheques (Branch Customers) | | |
| (b) Branch Debtors A/c | | |
| Branch Debtors A/c | Dr. xxx.xx | at Branch |
| To Bills Receivable A/c | Dr. xxx.xx | |
| To Branch Bank A/c | xxx.xx | |

| Journal Entries (Stock & Debtors Method – Goods at INVOICE (= Cost + Price) Price | In the Books of HO | | Entries with Reverse Aspects |
|---|--|--|--|
| | Dr. | Cr. | |
| 1. Opening Balance Loading in Opening Stock | Branch Assets (Dr.) | Branch Liabilities (Cr.) Stock Reserve A/c (Cr.) | 1 vs. 6 |
| 2. Goods from HO/Other Branch/HO suppliers A. Inward/Inflow at this Branch or received by this Branch Customer from (a) HO Other Branches HO Supplier Returned by Branch Debtors (b) But not received by this Branch B. Outward/Outflow – Goods returned to: (a) HO by this Branch (b) This Branch to another Branch (c) HO Supplier (d) Branch Customers to HO directly C. Goods Sent to Branch A/c – Balance Transfer (a) Purchase A/c (in Trading Co.) (b) Trading A/c (in Manufacturing Co.) | Branch Stock A/c Goods Sent to Branch A/c Goods Sent to Branch A/c ... Other Branch A/c HO Suppliers A/c Branch Stock A/c Goods Sent to Branch A/c | Goods sent to Branch A/c ... Other Branch A/c HO Suppliers A/c Branch Debtors A/c Branch Stock A/c Purchase/Trading A/c | 2.A vs. 2.B |
| 3. Branch Adjustment A/c – to know Gross Profit/Loss A. Unloading of Profit in Stock Movement (a) Opening Stock (Reverse of 3(c)) (b) NET Loading in 2.A and 2.B (c) Closing Stock (Reverse of 3(a)) B. Loss of Stock (a) Normal Loss – goods (b) Abnormal Loss <div style="border: 1px solid black; padding: 2px; display: inline-block;">Unloading of Profit Recoverable Irrecoverable</div> (c) Abnormal Surplus – Stock of goods (Realisation – Invoice Price) = Excess | Stock Reserve A/c Goods Sent to Branch A/c Branch Adjustment A/c Branch Adjustment A/c Insurance Co./Bank A/c General P & L A/c Branch Stock A/c | Branch Adjustment A/c Stock Reserve A/c Branch Stock A/c (Invoice Price) Branch Adjustment A/c General P & L A/c (Cost) | 3.A(a) vs. 3.A(c) 3.A(a) vs. 3.A(c) |

| | | | |
|--|---|--|--------------------------------------|
| C. (a) Gross PROFIT (b) Gross LOSS | Branch Adjustment A/c Branch P&L A/c | Branch P & L A/c Branch Adjustment A/c | 3.C(a) vs. 3.C(b) |
| 4. A. Accumulation of Branch Expenses (a) Paid by Branch (b) Paid by HO (c) Bad Debts/Discount allowed to Debtors | Branch Expenses A/c | Branch Cash/Bank A/c HO Cash/Bank A/c Branch P & L A/c | 4.B(a) vs. 4.B(b) |
| 5. Cash/Bank Remittance A. From HO (a) Branch Expenses: – HO paid directly – HO remitted Cash – HO paid to Branch Suppliers (b) Cash received from another Branch (c) Branch collected directly from HO Debtors B. To HO (a) Branch Debtors remits to HO (b) Branch paid directly to HO Creditor (c) This Branch sends cash to other Branch (d) Remitted but not received by HO C. Receipt from Branch Debtors in Cash/by Cheque by Bills receivable D. Dishonour B/R Cheques (Branch Customers) Cheque Bills Receivable | Branch Expenses A/c Branch Cash/Bank A/c Branch Creditors/Suppliers A/c Branch Cash/Bank A/c HO Cash/Bank A/c HO Creditors A/c other Branch A/c Cash in Transit A/c Branch Cash/Bank A/c Bill Receivable A/c Branch Debtors A/c | HO Cash/Bank A/c ... Other Branch A/c HO Debtors A/c Branch Debtors A/c Branch Cash/Bank A/c Branch Debtors A/c Branch Bank A/c Bill Receivable A/c | 5.A vs. 5.B 5.C vs. 5.D |
| 6. Closing Balance Loading in Closing Stock | Branch Assets (Dr.) | Branch Liabilities (Cr.) Stock Reserve A/c (Cr.) | 1 vs. 6 |

This entry should be for Net Loading arising out of Goods Sent to Branch, Goods returned from the Branch, Inter-branch Transfers (i.e., excluding the Opening Stock and the Closing Stock).

Note: If we consider the Profit element (Loading) at Zero level, then the above table can be used for Goods sent at Cost Price. Hence, Table in Para 5.2 E can be ignored for frequent reference.

Summary

| Accounting in HO Books | | |
|---------------------------|------|---------|
| Goods recorded at (Price) | Cost | Invoice |
| Debtors | ✓ | ✓ |
| Stock & Debtors | | ✓ |

Illustration 11: Electra Ltd. has a Branch at Borivali. All purchases are by the HO in Pune and goods for the Borivali Branch are delivered direct and charged out at Selling Price being cost plus 50%. All cash is received by the Branch out of an Imprest Account reimbursed by the Pune Office, monthly. The Branch keeps Sales Ledger and the necessary Subsidiary Books, otherwise all Branch Transactions are recorded in the books of HO. On 1.4.2013, Stock at the Branch at Sale Price amounted to ₹ 39,750 and Debtors ₹ 5,820 During the year ended 31st March, 2014, the following transactions took place:

| | |
|---|----------|
| Authorised reduction in the Sale Price | 1,050 |
| Discount allowed to Debtors | 1,160 |
| Cash received from Debtors | 38,260 |
| Cash Sales | 43,400 |
| Credit Sales less Returns | 40,420 |
| Debtors written off is irrecoverable | 430 |
| Goods received by Branch at Selling Price | 1,02,900 |
| Goods returned to HO at Selling price | 1,680 |

Consignment of Goods dispatched to the Branch in March 2014 with Selling Price ₹ 1,540 was not received by the Branch until April 12, 2014, and has not been included in its figure. On 31st March, 2014, stock at Sale Price was ₹ 53,600.

You are required to prepare Branch Stock A/c and Branch Debtors A/c in the HO Books.

Solution:

| Dr. | | | Borivali Branch Stock A/c | | Cr. | |
|---------|-------------------------|----------|---------------------------|---|----------|--|
| Date | Particulars | ₹ | Date | Particulars | ₹ | |
| 2013-14 | | | 2013-14 | | | |
| Apr 1 | To Balance b/d | 39,750 | Mar 31 | By Cash Sales | 43,400 | |
| Mar 31 | To Goods Sent to Branch | 102,900 | | By Branch Debtors A/c | 40,420 | |
| | To Goods in transit | 1,540 | | By Goods Sent to Branch A/c (Returns) | 1,680 | |
| | | 104,440 | | By Branch Expenses A/c (Reduction in selling price) | 1,050 | |
| | | | | By Goods Sent to Branch A/c (Goods in Transit) | 1,540 | |
| | | | | By Branch Adjustment A/c (Shortage) | 2,500 | |
| | | | | By Balance c/d | 53,600 | |
| | | 1,44,190 | | | 1,44,190 | |

| Dr. | | Borivali Branch Debtors A/c | | Cr. | |
|------------------------------------|--------|------------------------------------|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance b/d | 5,820 | By Branch Expenses A/c (Bad Debts) | 430 | | |
| To Branch Stock A/c (Credit Sales) | 40,420 | By Cash | 38,260 | | |
| | | By Branch Expenses A/c (Discount) | 1,160 | | |
| | | By Balance c/d | 6,390 | | |
| | 46,240 | | 46,240 | | |

| Dr. | | Borivali Branch Expenses A/c | | Cr. | |
|--|--------------|------------------------------|---|-----|--------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Branch Debtors A/c: | | By Branch Adjustment A/c | | | 2,640 |
| Bad debts | 430 | | | | |
| Discount | 1,160 | | | | |
| To Branch Stock A/c (Reduction in Sale Price) | | | | | |
| | 1,050 | | | | |
| | 2,640 | | | | 2,640 |

| Dr. | | Goods Sent to Borivali Branch A/c | | Cr. | |
|---|-----------------|-----------------------------------|---|-----|-----------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Branch Stock A/c (Goods in Transit) | 1,540 | By Branch Stock A/c | | | 1,04,440 |
| To Branch Stock A/c (Returns) | 1,680 | | | | |
| To Branch Adjustment A/c | 33,740 | | | | |
| To Purchases A/c | 67,480 | | | | |
| | 1,04,440 | | | | 1,04,440 |

| Dr. | | Borivali Branch Adjustment A/c | | Cr. | |
|---|---------------|---|---|-----|---------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Branch Stock Reserve A/c (Closing stock) 1(e + f) | 18,380 | By Branch Stock Reserve A/c (Opening Stock) 1(d) | | | 13,250 |
| To Branch Stock A/c (Shortage Loading) 2(c) | 833 | By Goods Sent to Branch A/c | | | 33,740 |
| To Gross Profit | 27,777 | | | | |
| | 46,990 | | | | 46,990 |
| To Branch Expenses A/c | 2,640 | By Gross Profit | | | 27,777 |
| To Branch Stock A/c (Shortage cost) 2(e) | 1,667 | | | | |
| To Net Profit | 23,470 | | | | |
| | 27,777 | | | | 27,777 |

Notes:

1. Loading (50% on CP = 1/3rd of IP)

| | Invoice Price ₹ | (1/3 rd) ₹ |
|------------------------------|--------------------|---------------------------|
| (a) Goods sent to Branch | 1,02,900 | 34,300 |
| Goods returned | (1,680) | (560) |
| | 101,220 | 33,740 |
| (b) Goods Returned by Branch | 8,346 | 1,391 |
| (c) Shortage | 2,500 | 833 |

| | | |
|----------------------|---------------|---------------|
| (d) Opening Stock | 39,750 | 13,250 |
| (e) Closing Stock | 53,600 | 17,867 |
| (f) Goods in Transit | 1,540 | 513 |
| | 55,140 | 18,380 |

2. **Assumption:** Shortage is of Normal nature (nothing abnormal).

Illustration 12: The Bombay HO sent goods to Madras Branch at 25% profit over costs. From the following details, prepare the Branch A/c in the HO books and ascertain the net profit at the Branch.

| | ₹ |
|---|---------|
| Opening stock of goods at Branch at invoice price | 20,000 |
| Goods sent to Branch at invoice price | 90,000 |
| Loss of goods in transit at Invoice price | 6,000 |
| Pilferage at Branch at cost to Branch | 1,200 |
| Closing stock at Branch at its cost | 16,000 |
| Sales at Branch | 105,000 |
| Salaries and Wages at Branch | 6,000 |
| Other expenses at Branch | 3,000 |

Madras Branch received from the Insurance Company in settlement of the claim for the loss of Goods in Transit ₹ 4,000.

Solution:

In the Books of Head Office

| Dr. | | Branch A/c | | Cr. | |
|--|-----------------|---|--------------|----------|-----------------|
| Particulars | ₹ | Particulars | ₹ | | ₹ |
| To Balance b/d: | | By Bank A/c: | | | |
| Branch Stock | 20,000 | Cash Sales | 1,05,000 | | |
| Goods Sent to Branch | 90,000 | Cash Received (Insurance Co.) | <u>4,000</u> | 1,09,000 | |
| To Bank A/c: | | | | | |
| Salaries & Wages | 6,000 | | | | |
| Other Expenses | 3,000 | By Goods sent to Branch (Loading) 1(a) | | 18,000 | |
| | 9,000 | By Branch Stock Reserve (Loading: Opening Stock) 1(b) | | 4,000 | |
| To Branch Stock Reserve (Loading: Closing Stock) 1(c) | 3,200 | By General P & L A/c (Loss in Transit & Pilferage being irrecoverable) 1(e) | | 1,760 | |
| | | By Balance c/d | | 16,000 | |
| To Net Profit | 26,560 | | | | |
| | 1,48,760 | | | | 1,48,760 |

Notes:1. Loading (25% on CP = 1/5th of IP)

| | Invoice Price ₹ | (1/5 th) ₹ | |
|---------------------------|--------------------|---------------------------|---------|
| (a) Goods sent to Branch | 90,000 | 18,000 | |
| (b) Opening Stock | 20,000 | 4,000 | |
| (c) Closing Stock | 16,000 | 3,200 | |
| (d) Goods lost in Transit | 6,000 | 1,200 | |
| Pilferage | 1,200 | 240 | |
| | 7,200 | 1,440 | 5,760 |
| Less: Recovery | | | (4,000) |
| (e) Irrecoverable Loss | | | 1,760 |

2. Debtors System is considered to ascertain the Profit.

Illustration 13: Sanjog Ltd. Badlapur, a Trading company has a Branch at Virar. All purchases are made by HO and goods sent to the Branch are invoiced at selling price which is 20% above cost sales at Branch are on credit items. Branch expenses are paid by HO and all cash received by the Branch is remitted to HO All Branch transactions are recorded in the head office books. Following information is given to you.

| | ₹ |
|--|----------|
| Branch stock (at cost to Branch) on 1.1.2014 | 46,800 |
| Branch Debtors on 1.1.2014 | 33,475 |
| Transactions during the year 2014 were: | |
| Goods sent to Branch at invoice price | 4,21,980 |
| Returns from Branch to HO at invoice price | 8,346 |
| Branch Sales | 4,39,140 |
| Return from customers to Branch | 4,602 |
| Cash received from Branch Debtors | 4,27,024 |
| Discount allowed to Branch Debtors | 18,395 |
| Branch expenses paid | 52,351 |

Branch stock at 31st December, 2014 (at invoice price) was ₹ 25,506 and expenses outstanding on that date were ₹ 650.

You are required to show Branch Account, Branch Debtors Account, Branch Expenses Account and Branch Profit and Loss Account in the ledger of Head Office for the year to 31st December, 2014.

Solution:**In the Books of Sanjog Ltd.**

| Dr. | | Branch A/c | | Cr. | |
|-----------------|--------|--------------------------------|--------|--------|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance b/d: | | By Stock Reserve | | | |
| Stock | 46,800 | >Loading: Opening Stock)(2)(c) | | 7,800 | |
| Debtors | 33,475 | By Goods Sent to Branch A/c | | | |
| | | >Loading)(2)(a) | | 70,330 | |
| | | | 80,275 | | |

| | | | |
|--|-----------------|--|-----------------|
| To Goods Sent to Branch A/c | 4,21,980 | | |
| To Goods Sent to Br. A/c (Loading: Return) (2)(b) | 1,391 | By Goods Sent to Branch A/c (Returns) | 8,346 |
| To Cash/Bank A/c (Exp) | 52,351 | By Cash/Bank A/c (Remittance) | 4,27,024 |
| To General P & L A/c (Bal. Fig.) | 702 | By Balance c/d: | |
| To Balance c/d: | | Stock | 25,506 |
| Stock Reserve (2)(d) | 4,251 | Debtors | 22,594 |
| O/s Expenses | 650 | | 48,100 |
| | <u>4,901</u> | | |
| | 5,61,600 | | 5,61,600 |

Dr. Branch Debtors A/c Cr.

| Particulars | ₹ | Particulars | ₹ |
|----------------|-----------------|------------------|-----------------|
| To Balance b/d | 33,475 | By Sales Returns | 4,602 |
| To Sales | 4,39,140 | By Cash A/c | 4,27,024 |
| | | By Discount | 18,395 |
| | | By Balance c/d | 22,594 |
| | <u>4,72,615</u> | | <u>4,72,615</u> |

Dr. Branch Expenses A/c Cr.

| Particulars | ₹ | Particulars | ₹ |
|-----------------------|---------------|--------------|---------------|
| To Discount | 18,395 | By P & L A/c | 70,746 |
| To Expenses (HO Cash) | 52,351 | | |
| | <u>70,746</u> | | <u>70,746</u> |

Branch P & L A/c Adj. A/c

Dr. for year ended 31st Dec. 2014 Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|---------------|---------------------------------------|---------------|
| To Branch Expenses | 70,746 | By Stock Reserve | |
| To O/s Expenses | 650 | (Opening Stock) | 7800 |
| To Goods Sent to Br. A/c (Loading on return) | 1391 | By Goods Sent to Br. A/c (Loading) | 70,330 |
| To Stock Reserve | 4,251 | | |
| To Shortage (W. Note) | 390 | | |
| To General P & L A/c | 702 | | |
| | <u>78,130</u> | | <u>78,130</u> |

Note 1:

| Dr. | Branch Stock A/c | | Cr. |
|-----------------------------------|------------------|--------------------------------------|-----------------|
| Particulars | ₹ | Particulars | ₹ |
| To Opening Stock | 46,800 | By Br. Debtors A/c (Sales) | 4,39,140 |
| To Goods Sent to Br. A/c | 4,21,980 | By Goods Sent to Br. A/c (Return) | 8,346 |
| To Branch Debtors A/c (Return) | 4,602 | By Shortage (Bal. Fig.) | 390 |
| | | By Closing Stock | 25,506 |
| | 4,73,382 | | 4,73,382 |

Note 2:

1. Loading (20% of CP = 1/6th of IP)

| | Invoice Price ₹ | | (1/5 th) ₹ |
|------------------------------|--------------------|----------------------|---------------------------|
| (a) Goods sent to Branch | 4,21,980 | (1/6 th) | 70,330 |
| (b) Goods Returned by Branch | 8,346 | (1/6 th) | 1,391 |
| (c) Opening Stock | 46,800 | (1/6 th) | 7,800 |
| (d) Closing Stock | 25,506 | (1/6 th) | 4,251 |

Illustration 14: Delhi Soap Mills Ltd. has Branch at Agra. Goods are invoiced to Branch at cost plus 50%. Branch remit all cash received to the head office and all expenses are met by head office. Form the following particulars, prepare the necessary accounts, under the Stock and Debtors system to show the profit earned at the Branch:

| | ₹ |
|--|----------|
| Stock on the 1 st April, 2013 (invoice price) | 93,000 |
| Debtors on 1 st April, 2013 | 68,000 |
| Goods invoiced to Branch (cost) | 3,40,000 |
| Sales at Branches: | |
| Cash Sales | 2,50,000 |
| Credit Sales | 3,10,000 |
| Cash collected from debtors | 3,04,000 |
| Goods returned by debtors | 12,000 |
| Goods returned by Branch to head office | 1,500 |
| Shortage of Stock | 4,500 |
| Discount allowed to customers | 2,000 |
| Expenses at Branch | 54,000 |

Solution: In the Books of Delhi Soap Mills Ltd.

| Dr. | | Branch Stock A/c | | Cr. | |
|---|-----------------|--------------------------|----------|-------------|-----------------|
| Particulars | ₹ | Particulars | ₹ | Particulars | ₹ |
| To Balance b/d | 93,000 | By Sales A/c | | | |
| To Goods Sent to Br. A/c (3,40,000 × 150%) | 5,10,000 | Cash | 2,50,100 | | |
| To Branch Debtors A/c | 12,000 | Credit (Debtors) | 3,10,000 | 5,60,100 | |
| | | By Goods Sent to Br. A/c | | | 1,500 |
| | | By Br. Adj. A/c | | | |
| | | Shortages (Loading) | 1,500 | | |
| | | Branch P & L A/c (Cost) | 3,000 | | 4,500 |
| | | By Balance c/d | | | 48,900 |
| | 6,15,000 | | | | 6,15,000 |

| Dr. | | Branch Adjustment A/c | | Cr. | |
|--|-----------------|--|---|-------------|-----------------|
| Particulars | ₹ | Particulars | ₹ | Particulars | ₹ |
| To Goods Sent to Br. A/c (b) | 500 | By Stock Reserve (Loading: Opening stock) | | | 31,000 |
| To Br. Stock A/c (Loading: Shortage) (e) | 1,500 | By Goods sent to Branch A/c (a) | | | 1,70,000 |
| To Gross Profit c/d (Transfer to P & L A/c) | 1,82,700 | | | | |
| To Stock Reserve (Loading: Closing stock) (d) | 16,300 | | | | |
| | 2,01,000 | | | | 2,01,000 |

Branch P & L A/c

| Dr. | | for year ended 31 st March, 2008 | | Cr. | |
|--|-----------------|---|---|-------------|-----------------|
| Particulars | ₹ | Particulars | ₹ | Particulars | ₹ |
| To Br. Stock A/c (Cost of shortage) | 3,000 | By Gross Profit c/d | | | 1,82,700 |
| To Discount | 2,000 | | | | |
| To Expenses | 54,000 | | | | |
| To General P & L A/c (Net profit) | 1,23,700 | | | | |
| | 1,82,700 | | | | 1,82,700 |

| Dr. | | Goods Sent to Branch A/c | | Cr. | |
|--------------------------|-----------------|--------------------------|---|-------------|-----------------|
| Particulars | ₹ | Particulars | ₹ | Particulars | ₹ |
| To Branch Stock A/c | 1,500 | By Branch Stock A/c | | | 5,10,000 |
| To Branch Adjustment A/c | 1,70,000 | By Branch Adjustment A/c | | | 500 |
| To Trading A/c (b/f) | 3,39,000 | | | | |
| | 5,10,500 | | | | 5,10,500 |

| Dr. | | Branch Debtors A/c | | Cr. | |
|--------------------------|-----------------|------------------------------|----------|-----|-----------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance b/d | 68,000 | By Branch Cash A/c | 3,04,000 | | |
| To Sales (Br. Stock A/c) | 3,10,000 | By Sales Returns (Br. Stock) | 12,000 | | |
| | | By Discount | 2,000 | | |
| | | By Balance c/d | 60,000 | | |
| | 3,78,000 | | | | 3,78,000 |

| Dr. | | Branch Cash A/c | | Cr. | |
|-------------|-----------------|-----------------|----------|-----|-----------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Sales | 2,50,100 | By HO Cash A/c | 5,54,100 | | |
| To Debtors | 3,04,000 | | | | |
| | 5,54,100 | | | | 5,54,100 |

Notes:

Loading (50% of CP = 1/3rd of IP)

| | Invoice Price ₹ | (1/3 rd) ₹ |
|------------------------------|--------------------|---------------------------|
| (a) Goods Sent to Branch | 5,10,000 | 1,70,000 |
| (b) Goods Returned by Branch | 1,500 | 500 |
| (c) Opening Stock | 93,000 | 31,000 |
| (d) Closing Stock | 48,900 | 16,300 |
| (e) Shortage | 4,500 | 1,500 |

Illustration 15: A Head Office in Solapur has a Branch to which goods are sent at invoice price which is fixed at a profit of 20% on sale under the strict instructions of selling goods only at invoice price. Following are the particulars about the transactions:

| | ₹ |
|---|--------|
| Stock (at invoice price) on 1 st July, 2014 | 5,000 |
| Branch Debtors on 1 st July, 2014 | 2,000 |
| Goods sent to Branch | 40,000 |
| Total Sales | 43,600 |
| Cash Sales | 32,600 |
| Cash Received from Debtors | 8,400 |
| Goods Returned by Debtors | 600 |
| Cheque sent to Branch for | |
| Rent | 1,200 |
| Salaries | 3,600 |
| Sundry Expenses | 300 |
| Discount allowed to Debtors | 150 |
| Bad Debts | 250 |
| Stock on 31 st December, 2014 (at Invoice Price) | 2,100 |

Calculate Profit earned by the Branch Account are to be opened on Stock and Debtors system.

(MU, Oct. 2003)

Solution: In the Books of Head Office (Solapur)

| Dr. | | Branch Stock A/c | | Cr. | |
|--------|--|------------------|----------|---|---------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 1.1.14 | To Balance b/d | 5,000 | 1.1.14 | By Stock Reserve (Loading Opening Stock)(b) | 1,000 |
| | To Goods Sent to Branch | 40,000 | | By Goods Sent to Branch (Loading)(a) | 8,000 |
| | To Branch Debtors (Returns) | 600 | | By Branch Debtors (Sales) | 11,000 |
| | To Stock Reserve (Loading Closing Stock)(c) | 420 | | By Branch Cash (Sales) | 32,600 |
| | To Branch P & L A/c (Gross Profit) (Bal. Fig.) | 8,680 | 31.11.14 | By Balance c/d | 2,100 |
| | | 54,700 | | | 54,700 |

| Dr. | | Branch Expenses A/c | | Cr. | |
|------|--|---------------------|----------|---------------------------------|--------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| | To Rent | 1,200 | 31.12.14 | By Branch P & L A/c (Bal. Fig.) | 5,500 |
| | To Salaries | 3,600 | | | |
| | To Sundry Expenses | 300 | | | |
| | To Branch Debtors (Discount + Bad Debts) | 400 | | | |
| | | 5,500 | | | 5,500 |

| Dr. | | Branch Debtors A/c | | Cr. | |
|--------|-------------------------|--------------------|----------|---------------------------|---------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 1.1.14 | To Balance b/d | 2,000 | | By Branch Cash | 8,400 |
| | To Branch Stock (Sales) | 11,000 | | By Branch Expenses: | |
| | | | | Discount | 150 |
| | | | | Bad Debts | 250 |
| | | | | | 400 |
| | | | 31.12.07 | By Branch Stock (Returns) | 600 |
| | | | | By Balance c/d | 3,600 |
| | | 13,000 | | | 13,000 |

Branch Profit & Loss Account

| Dr. | | for the 6 months ended 31.12.2014 | | Cr. | |
|----------|----------------------------------|-----------------------------------|------|--------------------------------|--------------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 31.12.14 | To Branch Expenses | 5,500 | | By Branch Stock (Gross Profit) | 8,680 |
| | To General P & L A/c (Bal. Fig.) | 3,180 | | | |
| | | 8,680 | | | 8,680 |

Note:Loading (20% of IP = 1/5th of CP)

| | Invoice Price ₹ | (1/5 th) ₹ |
|--------------------------|--------------------|---------------------------|
| (a) Goods sent to Branch | 40,000 | 8,000 |
| (b) Opening Stock | 5,000 | 1,000 |
| (c) Closing Stock | 2,100 | 420 |

Illustration 16: J.S. Trading Company, Nagpur, invoices goods to its Kanpur Branch at cost which sells on credit as well as for cash. From the following particulars, prepare Branch Stock Account, Branch Debtors Account, and Branch Expenses Account. Cash is immediately remitted by Branch to Head Office. Expenses are paid by Head Office.

| Particulars | ₹ | Particulars | ₹ |
|---------------------------------|--------|---------------------------------------|--------|
| Stock at Branch on 1.1.2014 | 7,560 | Debtors on 1 st Jan, 2014 | 13,000 |
| Goods from Head Office | 35,500 | Cash paid by customers | 24,600 |
| Goods returned by customers | 300 | Discount & Commission to customers | 1,360 |
| Total Sales | 46,760 | Bad Debts | 300 |
| Cash Sales | 16,750 | Rent, Rates and Taxes | 900 |
| Goods returned to Head Office | 350 | Salaries and Wages etc. | 3,650 |
| Stock at Branch on 31 Dec. 2014 | 6,950 | | |

(MU, April, 2007)

Solution:

**In the Books of J.S. Trading & Co.
Kanpur Branch**

| Dr. | | Branch Stock A/c | | Cr. | |
|-----------------------------|---------------|---|--------|-----|---------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance b/d | 7,560 | By Goods Sent to Branch A/c (Return) | 350 | | |
| To Goods Sent to Br. A/c | 35,500 | By Branch Debtors (Credit sales) | 30,010 | | |
| To Branch Debtors | 300 | By Cash (Sales) | 16,750 | | |
| To Branch Expenses (Profit) | 10,700 | By Balance c/d | 6,950 | | |
| | 54,060 | | | | 54,060 |

| Dr. | | Branch Debtors A/c | | Cr. | |
|-----------------|---------------|-------------------------|--------|-----|---------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance b/d | 13,000 | By Branch Stock A/c | 300 | | |
| To Branch Stock | 30,010 | By Cash | 24,600 | | |
| | | By Branch Expenses A/c: | | | |
| | | Discount | 1,360 | | |
| | | Bad Debts | 300 | | |
| | | By Balance c/d | 16,450 | | |
| | 43,010 | | | | 43,010 |

| Dr. | | Branch Expenses A/c | | Cr. | |
|-----------------------|---------------|----------------------------|----------|---------------|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Branch Debtors A/c | 1,360 | By Branch Stock | 10,700 | | |
| To Branch Debtors A/c | 300 | (Gross Profit) | | | |
| To Cash: | | | | | |
| Rent | 900 | | | | |
| Salaries | 3,650 | | | | |
| To P & L A/c | 4,490 | | | | |
| | 10,700 | | | 10,700 | |

SAQ 10: Bombay Ltd. sending to its Madras Branch at the plus 25%. The following particulars are available in respect of the Branch for the year ended 31st March, 2014.

| Particulars | ₹ |
|--|-----------|
| Opening Stock at Branch at cost to Branch | 80,000 |
| Goods sent to Branch at invoice price | 12,00,000 |
| Loss in transit at invoice price | 15,000 |
| Pilferage at invoice price | 6,000 |
| Sales | 12,19,000 |
| Expenses | 60,000 |
| Closing stock at Branch at cost to Branch | 40,000 |
| Recovered from Insurance Co. against loss in transit | 10,000 |

Show Ledger Accounts in Head Office books:

- (a) Branch Stock Account
- (b) Goods sent to Branch Account
- (c) Branch Adjustment Account
- (d) Branch Profit and Loss Account.

(Ans.: Gross Profit @ 20% of Sales, Net Loss due to transit loss – ₹ 2,500, Sales to be credited to Branch stock, Net Profit – ₹ 1,77,000)

SAQ 11: A Head Office in Satara has a Branch at Solapur to which goods are sent at invoice price which is fixed at a profit of 20% on sale. Following is the information about the Branch transactions:

| Particulars | ₹ |
|--------------------------------------|----------|
| Stock on 1.7.2014 (at Invoice Price) | 5,000 |
| Debtors on 1.7.2014 | 2,000 |
| Goods sent to Branch | 40,000 |
| Total Sales | 43,000 |
| Cash Sales | 32,000 |
| Collection from Debtors | 8,400 |
| Goods returned by Debtors | 600 |

| | | |
|--|-------|-------|
| Cheque sent to Branch for: | | |
| Salaries | 3,600 | |
| Sundry Expenses | 300 | 3,900 |
| Discount allowed to debtors | | 150 |
| Bad debts | | 250 |
| Stock on 31.12.2014 (at Invoice Price) | | 2,100 |

Prepare: (a) Branch Stock Account, (b) Branch Debtors Account, (c) Branch Expenses Account, and (d) Branch Profit and Loss Account.

(Ans.: Closing Debtors – ₹ 3,200, Net Profit – ₹ 4,020)

SAQ 12: Apna Bazar has a Branch at Mulund. All goods are sent to the Branch at invoice price of 20% on sales. Petty expenses are incurred by the Branch manager from Branch cash. All collections are remitted to the HO.

| Particulars | ₹ |
|---|----------|
| Stock (1.1.2014) at invoice price | 90,000 |
| Debtors (1.1.2014) | 54,000 |
| Petty cash on hand on (1.1.2014) | 4,600 |
| Office equipment (1.1.2014) | 12,000 |
| Goods sent to branch (at invoice price) | 4,80,000 |
| Goods returned to branch (at invoice price) | 6,000 |
| Goods returned by Debtors | 3,000 |
| Cash collection from Debtors | 1,90,000 |
| Cash sales | 3,00,000 |
| Credit sales | 1,80,000 |
| Discount allowed to customer | 300 |
| Expenses remitted by HO: | |

Rent @ ₹ 400 per month, Salaries @ ₹ 2,400 per month, Petty cash expenses, @ ₹ 250 per month.

Petty expenses incurred by the branch manager amounted to ₹ 2,400 for the year, Depreciate branch office equipments @ 10% p.a.

Apna Bazar treats branch as a debtor. Prepare necessary journal entries in the books of HO and prepare Debtors A/c under Stock and Debtors system.

(Ans.: Assume Closing Stock to be NIL, Net Loss – ₹ 12,400)

SAQ 13: Head office in Kanpur has a branch at Mumbai. All purchases are made at head office and goods sent to branch are invoiced at cost plus 25%. All cash received by branch is deposited to the Head Office account in the Mumbai branch of the Head Office Bank.

| Particulars (Year 2013-2014) | ₹ |
|--|--------|
| Stock at Branch 1 st April 2013 (Invoice Price) | 30,000 |
| Stock at Branch 31 st March, 2014 (Invoice Price) | 25,000 |
| Goods received from the Head Office less returns (Invoice Price) | 96,000 |

| | |
|-------------------------------------|--------|
| Cash Sales | 54,000 |
| Credit Sales less returns | 43,000 |
| Cash received from Debtors | 41,000 |
| Discount allowed to Debtors | 1,000 |
| Bad debts written off | 500 |
| Branch expenses paid by Head Office | 5,700 |

From the above information, prepare following accounts in Head Office Books to calculate Branch profit as per Stock and Debtors system. (a) Branch Stock Account, (b) Branch Stock Adjustment Account, (c) Branch Debtors Account, (d) Branch Cash Account, (e) Branch Expenses Account, (f) Branch Profit & Loss Account, (g) Goods Sent to Branch Account.

(Ans.: Gross Profit 1/5 of Sale, Closing Debtors – ₹ 500, Net Profit – ₹ 7500)

SAQ 14: M/s Hindustan Publication Ltd. has a Branch at Nagpur. Goods are dispatched by HO to branch to HO to branch at cost Branch sell goods on cash and credit. Amount is regularly remitted by branch to HO. From the following details, prepare Nagpur Branch Account in the books of HO for the year ended 31.3.2014 under Stock and Debtors system.

| Particulars | ₹ |
|---|----------|
| Branch Stock on 1.4.2013 | 20,000 |
| Branch Cash on 31.3.2014 | 15,000 |
| Branch Furniture on 1.4.2013 | 50,000 |
| Branch Stock on 31.3.2014 | 5,000 |
| Branch Customers on 1.4.2013 | 40,000 |
| Branch Cash on 1.4.2014 | 10,000 |
| Goods sent to Branch at cost | 1,00,000 |
| Discount allowed by Branch | 1,000 |
| Cash Sales of Branch | 25,000 |
| Credit Sales of Branch three times of cash sale | |
| Bad debts of Branch | 4,000 |
| Cash received from Debtors | 65,000 |

Branch salary ₹ 5,000, Rent ₹ 500, and Printing charges ₹ 2000 and Telephone expenses ₹ 1,500 paid by HO.

Goods returned by Branch ₹ 2,000.

HO provides 10% depreciation of furniture.

(Ans.: Cash sent to HO – ₹ 65,000 from Debtors + Cash Sales – ₹ 25,000, Net Loss – ₹ 37,000)

SAQ 15: A Head Office in Solapur has a Branch to which goods are sent at invoice price which is fixed at a profit of 20% on sale under the strict instruction of selling goods only at invoice price. Following are the particulars about the Branch transactions:

| Particulars | ₹ |
|--|--------|
| Stock (at invoice price) on 1 st July, 2014 | 5,000 |
| Branch Debtors on 1 st July, 2014 | 2,000 |
| Goods sent to Branch | 40,000 |

| | |
|---|--------|
| Total Sales | 43,600 |
| Cash Sales | 32,600 |
| Cash Received from Debtors | 8,400 |
| Goods returned by Debtors | 600 |
| Cheque sent to Branch for: | |
| Rent | 1,200 |
| Salaries | 3,600 |
| Sundry Expenses | 300 |
| Discount Allowed to Debtors | 150 |
| Bad Debts | 250 |
| Stock on 31 st December, 2014 (at Invoice Price) | 2,100 |

Calculate profit made by the Branch Accounts are to be opened on Stock and Debtors System.

(Ans.: Loss – ₹ 4,800)

EXERCISE

Theory Questions

- Distinguish between:
 - Dependent Branch and Independent Branch
 - Invoice Price and Cost Price
 - 'Debtors System' and 'Stock and Debtors System'
- What do you mean by a Branch? How it is linked up with Head Office?
- What is the significance of Stock Reserve Account?
- Explain the Accounting Treatment under Debtors System in the books of HO when Goods are Sent to Branch:
 - At Invoice Price
 - At Cost Price
- Explain the meaning and advantages of Stock and Debtors System.
- How will you deal with the following under Debtors Method and Stock and Debtors Method?
 - Normal Loss of Stock
 - Abnormal Loss of Stock
 - Insurance Claims
 - Goods returned by the Branch Customers directly to HO
 - Cash remitted by Branch Customers directly to HO
 - Abnormal Losses due to fire etc.

Answer in One Sentence

1. What is branch?
2. What is foreign branch?
3. What is dependent branch?
4. What is independent branch?
5. What is stock reserve?
6. What is debtors method?
7. What is branch stock adjustment account?
8. What is normal loss of stock?
9. What is abnormal loss of stock?
10. What is loading?

Objective Type Questions

1. Fill in the Blanks:

- (i) A _____ conducts business activity on behalf of its parent body, i.e., Head Office.
- (ii) _____ method is used for small-scale business operations.
- (iii) An _____ Branch keeps complete record for all accounting transactions at the location of the Branch itself.
- (iv) A _____ Branch does not maintain complete record for all accounting transactions at the location of the Branch.
- (v) The _____ A/c shows the profit earned or loss incurred in respect of a particular Branch (usually indicated by location or the area).
- (vi) Under Debtors system, Branch _____ are debited to Branch A/c at the beginning of the accounting year.
- (vii) Branch Assets are _____ to Branch A/c at the accounting year end under Debtors system.
- (viii) Stock _____ eliminates the profit hidden in the Closing Branch Stock valued at Invoice Price.
- (ix) _____ of profit hidden in the Goods sent to Branch A/c at Invoice Price, is to be credited to Branch A/c
- (x) Stock Reserve credited to Branch A/c eliminates the profit hidden in the _____ Branch Stock at Invoice Price.

(Ans.: (i) Branch, (ii) Debtors, (iii) Independent, (iv) Dependent, (v) Branch, (vi) Assets, (vii) Credited, (viii) Reserve, (ix) Unloading, (x) Opening.)

2. State Whether True or False:

- (i) The income, expenses, assets and liabilities of an independent branch can be ascertained only by the HO.
- (ii) Receipts from branch debtors are not recorded in the branch account kept under the 'Debtor' method.

- (iii) Purchase of fixed assets by branch on credit will be recorded in the branch account kept under the 'Debtor' method.
- (iv) Stock Reserve Account is used to adjust loading on closing stock lying at branch when HO sends goods to branch at invoice price.
- (v) HO at Mumbai keeps a single 'Mysore Branch Account' which is used to record all items relating to the branch. Mysore branch is a dependent branch whose accounts are kept under the 'Stock and Debtors' method.
- (vi) HO at Mumbai opens the following accounts for its Mysore branch – (i) Mysore Branch A/c, (ii) Goods sent to Mysore Branch A/c and (iii) Stock Reserve A/c. HO sends the goods to the branch at a price below the cost price.
- (vii) Goods are sent by HO to branch at invoice price in order to have control over cash and stock at branch.
- (viii) Under Stock and Debtors Method, Branch Stock A/c is opened in order to ascertain net profit/loss of branch.
- (ix) Under the stock and Debtors Method, closing balances of branch assets and liabilities are ascertained from the memorandum accounts kept at the branch.
- (x) When goods are sent at invoice price, Branch A/c is debited under the Stock and Debtors method, in order to ascertain gross profit/loss of branch.
- (xi) When goods are sent at invoice price, Branch A/c is debited under the Stock and Debtor method to adjust load on closing stock.
- (xii) When goods are sent at invoice price, Branch Stock A/c is credited under the Stock and Debtor method for any shortage or gain in stock.
- (xiii) When goods are sent at invoice price, balancing figure in Branch Stock A/c under the Stock and Debtor method indicates shortage or gain in stock.
- (xiv) When goods are sent at invoice price, balancing figure in Branch Adjustment A/c under the Stock and Debtor method indicates gross profit/loss.
- (xv) When goods are sent at cost, balancing figure in Branch A/c under the Debtor method indicates net profit/loss.
- (xvi) Closing balance in Goods sent to branch a/c is transferred to Purchase/Trading A/c, under both Debtors and Stock and Debtors methods.
- (xvii) Branch account under debtors system is a real account.
- (xviii) Under debtors system branch account is debited with losses like bad debts, discounts allowed and depreciation.
- (xix) When the branch manager is allowed petty cash on imprest system, the amount remitted by H.O. to reimburse the actual expenses will be debited to the branch account.
- (xx) Under the stock and debtors system branch stock account is a real account.
- (xxi) Branch stock account is always prepared at cost price
- (xxii) Under stock and debtors system branch adjustment account discloses the gross profit made by the branch.
- (xxiii) Transactions between branch and third party are not recorded in the branch account under debtors system.

- (xxiv) Branch Stock Adjustment Account is opened when goods are invoiced at invoice price under Debtors Method.
 - (xxv) Depreciation on branch fixed assets is debited to branch account under debtors system.
 - (xxvi) Depreciation on branch fixed assets is credited to branch account under debtors system.
 - (xxvii) A branch not maintaining complete record of all accounting transactions is called a dependent branch.
 - (xxviii) Element of loading included in invoice price of the closing stock is adjusted by crediting Stock Reserve A/c.
 - (xxix) Element of loading included in invoice price of the opening stock is adjusted by crediting Stock Reserve A/c.
 - (xxx) Element of loading included in invoice price of the opening stock is adjusted by debiting Stock Reserve A/c.
 - (xxxi) Balance in Goods sent to Branch A/c is transferred to debit of Trading A/c.
 - (xxxii) Balance in Goods sent to Branch A/c is transferred to credit of Profit and Loss A/c.
- (Ans.:** (i) False, (ii) True, (iii) False, (iv) True, (v) False, (vi) False, (vii) True, (viii) False, (ix) False, (x) False, (xi) False, (xii) True, (xiii) True, (xiv) True, (xv) True, (xvi) True, (xvii) False, (xviii) False, (xix) True, (xx) True, (xxi) False, (xxii) True, (xxiii) True, (xxiv) False, (xxv) False, (xxvi) False, (xxvii) True, (xxviii) True, (xxix) False, (xxx) True, (xxxi) False, (xxxii) False.)

3. Match the Columns:

- (A)**
- | Group A | Group B |
|-----------------------|---|
| (i) Credit Branch A/c | (a) Stock Reserve in Closing Stock |
| (ii) Opening Stock | (b) Non-maintenance of full records at Branch |
| (iii) Debtors System | (c) Debit Branch A/c |
| (iv) Dependent Branch | (d) Stock Reserve in Opening Stock |
| (v) Debit Branch A/c | (e) Dependent Branch |
- (Ans.:** (i) – (d), (ii) – (c), (iii) – (e), (iv) – (b), (v) – (a).)
- (B)**
- | Group A | Group B |
|--------------------------------|--|
| (i) Stock Reserve | (a) Dependent Branch |
| (ii) Closing Stock | (b) Profit in Closing Branch Stock (Invoice Price) |
| (iii) Debtors System | (c) Stock Reserve in Closing Stock |
| (iv) General P & L A/c – Debit | (d) Credit Branch A/c |
| (v) Debit Branch A/c | (e) Abnormal Loss |
- (Ans.:** (i) – (b), (ii) – (d), (iii) – (a), (iv) – (e), (v) – (c).)
- (C)**
- | Group A | Group B |
|--------------------------|---|
| (i) Branch A/c | (a) Maintenance of full records at Branch |
| (ii) Unloading of profit | (b) Single Entry system approach |
| (iii) Debtors System | (c) Abnormal Gain |

- (iv) Independent Branch (d) Goods Sent to Branch A/c at Invoice Price
 (v) General P& L A/c- Credit (e) Nominal Account

(Ans.: (i) – (e), (ii) – (d), (iii) – (b), (iv) – (a), (v) – (c).)

4. Multiple Choice Questions:

- (i) An _____ Branch keeps complete record for all accounting transactions at the location of the Branch itself.
 (a) Independent (b) Dependent
 (c) Foreign (d) Local
- (ii) A _____ Branch does not maintain complete record for all accounting transactions at the location of the Branch.
 (a) Domestic (b) Inland
 (c) Dependent (d) Foreign
- (iii) Branch A/c is a _____ Account (i.e., similar to P & L A/c).
 (a) Real (b) Doubtful
 (c) Nominal (d) Current
- (iv) Under Debtors system, Branch _____ are debited to Branch A/c at the accounting year-end.
 (a) Assets (b) Debtors
 (c) Liabilities (d) Creditors
- (v) Under Debtors system, Branch Liabilities are _____ to Branch A/c at the beginning of the accounting year.
 (a) Debited (b) Added
 (c) Transferred (d) Credited
- (vi) Stock Reserve eliminates the _____ hidden in the Closing Branch Stock valued at Invoice Price.
 (a) Loss (b) Profit
 (c) Excise (d) Labour
- (vii) Unloading of profit hidden in the “Goods Sent to Branch A/c” at Invoice Price, is to be _____ to Branch A/c.
 (a) Debited (b) Credited
 (c) Added (d) Transferred
- (viii) Stock Reserve credited to Branch A/c eliminates the profit hidden in the _____ Branch Stock valued at Invoice Price.
 (a) Opening (b) Agent’s
 (c) Closing (d) Consignor’s

(ix) Abnormal _____ is to be credited to Branch A/c with a debit to General P & L A/c.

- (a) Growth (b) Gain
(c) Loss (d) Goods

(x) _____ Gain is to be debited to Branch A/c with a credit to General P & L A/c.

- (a) Normal (b) Fair
(c) Abnormal (d) Usual

(Ans.: (i) – (a), (ii) – (c), (iii) – (c), (iv) – (c), (v) – (d), (vi) – (b), (vii) – (b), (viii) – (a), (ix) – (c), (x) – (c).)

5. Substitute the Following in a Single Word/Term/Phrase:

- (i) A Unit Conducting business activity on behalf of its parent body, i.e., Head Office.
(ii) A system to debit “Branch Liabilities” to “Branch A/c” at the close of the Accounting Year.
(iii) A Branch not maintaining complete record for all accounting transactions at its location.
(iv) A system to debit “Branch Assets” to “Branch A/c” at the beginning of the accounting Year.
(v) Element of the profit hidden in the Closing Branch Stock valued at Invoice Price.
(vi) Process of elimination/removed of profit hidden in the “Goods Sent to Branch A/c” at Invoice Price.
(vii) A system to credit “Branch Assets” to “Branch A/c” at the close of the accounting year.
(viii) A system to credit Opening “Branch Liabilities” to “Branch A/c”.
(ix) A Branch keeping complete record for all accounting transactions at the location of the Branch itself.
(x) Transfer to General P & L A/c.

(Ans.: (i) Branch, (ii) Debtors System, (iii) Dependent Branch, (iv) Debtors System, (v) Stock Reserve, (vi) Assets, (vii) Debtors System Unloading, (viii) Debtors System, (ix) Independent Branch, (x) Abnormal Loss/Profit.)