

DEPARTMENT OF ACCOUNTANCY

F.Y.B.COM

SEMESTER- II

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Module 1: Accounting from Incomplete Records

(Single Entry)

1. DOUBLE ENTRTY SYSTEM

1.1 Introduction

The system of accounting was invented by 'Lucas Pacioli' of Italy in 1494 in Venice but developed in English. This system is based on the fact that there are two aspects of every transaction.

Each transaction involves at least two persons, parties or accounts. A transaction affects at least two accounts. As per traditional English approach, if there is a receiver of goods or cash, there must be a giver of goods or cash. If something comes into the business, it will definitely go out from other business. If there is a loss to someone, there will be a gain to someone else.

Therefore, recording dual aspects of business transactions in term of 'Debit and Credit' is called Double Entry System.

According to **J.R. Batliboi**, "every business transaction has a two fold effect and that is affects two accounts in opposite directions and if a complete record were to be made for each such transaction, it would be necessary to debit one account and credit another account. It is this recording of the two fold effect of every transaction that has given rise to the term Double Entry System".

1.2 Features

Double Entry System has the following features :

1. Every transaction affects atleast two accounts.
2. Each account is divided into two sides, 'Debit Side' and 'Credit Side'.
3. It is based on accounting concepts and convections.
4. It is complete and scientific method.
5. It maintain all types of accounts, Real Accounts, Personal Accounts and Nominal Accounts.
6. It facilitates preparation of a Trial balance.
7. It helps to verify the accuracy of the books of accounts.
8. It is possible to prepare Trading and Profit & Loss Account and Balance Sheet.

2. INCOMPLETE RECORDS

2.1 Introduction

Under Double Entry System of book keeping both the aspects of each and every transaction are recorded. When the principles of double entry accounting are applied in recording the transactions, a trial balance can be prepared by the end of the year. The trial balance must tally.

If the trial balance does not tally, the accountant is called upon to find out the mistake made in recording transactions. The system of Double entry accounting is suitable to large sized organization. However, in respect of small organizations, the above system of double entry book keeping involving maintenance of various records of prime books, subsidiary books and ledgers etc. may not be required. It may not be even economically feasible for a small businessman to maintain all the books and records.

Every businessman requires following accounting information for smooth operations:

- i. The availability of cash at any point of time.
- ii. The amount of money the business has to pay to the outsiders and
- iii. The amount of money the business has to recover from the outsiders.

The availability of cash surplus and details of cash transactions can be known only if the daily cash transactions are recorded in the cash book.

Thus, if goods are purchased in cash, an entry will be passed in the cash book for payment made but corresponding debit to purchase account shall not be made since purchase register is not kept.

If the proprietor brings cash into business then the receipt of money will be recorded in the cash book, but corresponding credit in the capital account of proprietor will not be passed since no ledger is maintained for proprietor.

If goods are sold on credit to customers then only customers account is debited but sales account is not credited. The above process of simplification of recording of transactions and minimization of maintenance of records for small business resulted into accounting of only part of the transactions. Only one aspect of the transaction i.e. personal or which affected cash is recorded and the other aspects is ignored. The above process resulted into maintenance of only those accounts which are absolutely essential. All person accounts of customers and suppliers have to be maintained. But all other accounts i.e. nominal accounts and real accounts are ignored.

Since all the books of prime entries and all ledger accounts are not maintained; it becomes impossible to draw up a trial balance from the accounting records maintained by the business.

Thus, the above system of incomplete accounting of business transactions and the maintenance of incomplete and inadequate accounting records is called single entry system of accounting.

2.2. Definition

Kohler defines single entry in his Dictionary for Accountants as “A system of book-keeping in which as a rule only records of cash and of personal accounts are maintained. It is always incomplete double entry, varying with circumstances”.

2.3 Features

1. Only sole trader and partnership organizations may keep their books of accounts under this system. Joint stock company cannot keep books of accounts under this system because of legal requirements.
2. Under this system, only cash and personal accounts are kept; impersonal and other real accounts are not maintained.
3. Cash book may be containing proprietor's personal as well as business transactions.
4. For getting factual information, it will be necessary to refer to the original documents and other information.
5. The system of accounting under this varies from business to business. There is no uniformity in the maintenance of accounts under the system.
6. No hard and fast rule is followed for recording transactions.
7. Under this system, only one aspect of transaction is recorded.

2.4 Advantages of Single Entry System

Following are the relative advantages of single entry system:

1. It is the most simple method of recording business transactions.
2. Maintenance of accounting records does not require adequate knowledge of the principles of book-keeping.
3. It is less costlier than double entry book-keeping.
4. Determination of profit or loss is much easier.
5. It is quite suitable to small concerns having limited number of transactions and a few assets and liabilities.
6. There is no need of qualified accountant.

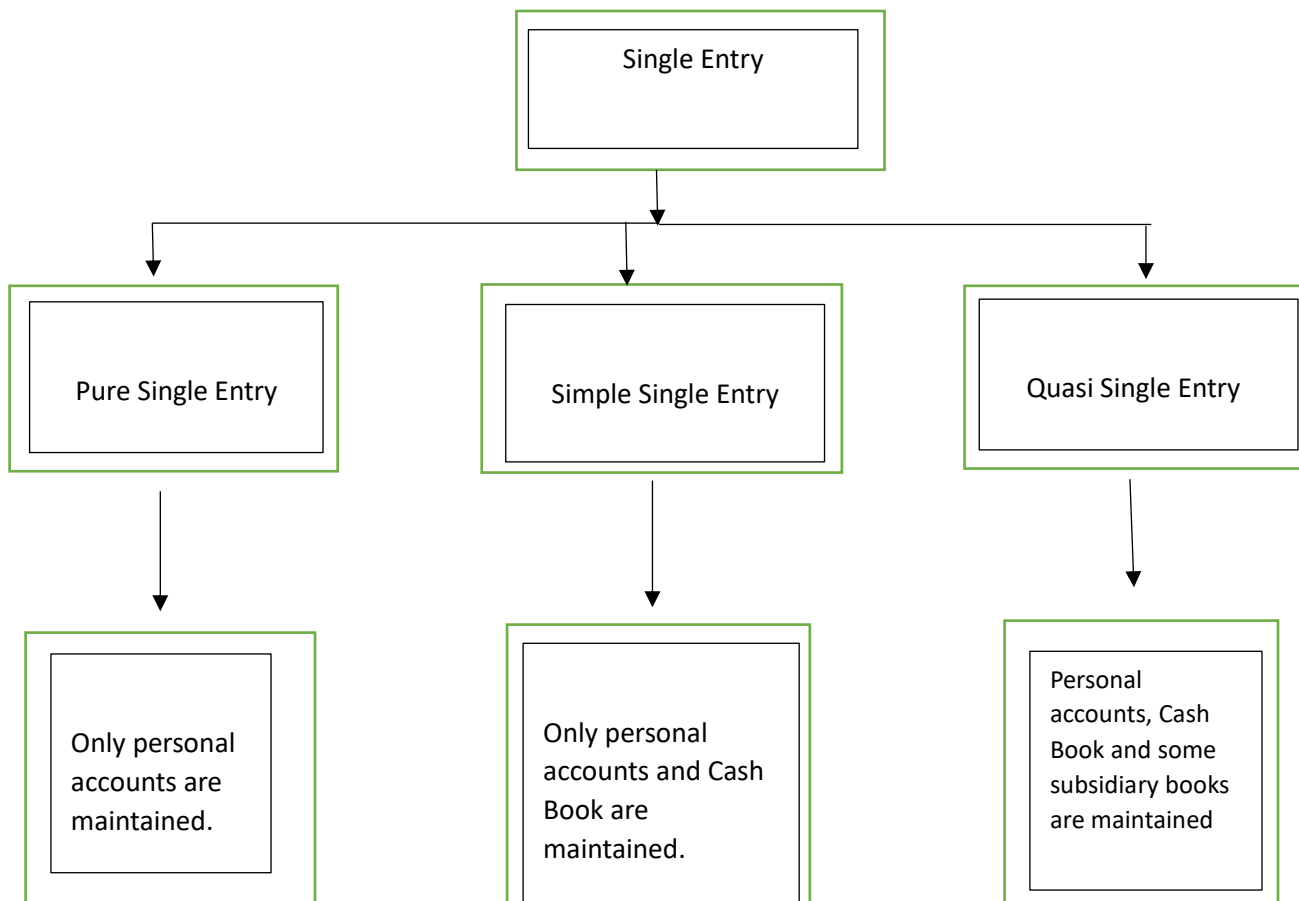
2.5 Limitations

1. Arithmetical accuracy of the accounts cannot be checked, because trial balance cannot be prepared at both the aspects of the transactions being not recorded. It is not scientific.
2. This system gives scope for misappropriations and frauds as there cannot be proper checks and controls.

3. Trading account cannot be prepared as goods account is not maintained, hence the gross profit or gross loss cannot be ascertained.
4. Profit & Loss Account also cannot be prepared as the accounts of expenses and incomes are not opened, hence the profit or loss in the business cannot be directly ascertained.
5. Balance Sheet cannot be prepared as real accounts and other accounts are not maintained.
6. In the absence of final accounts, it becomes difficult to know how exact financial position of the business.
7. At the time of sale of business, it becomes extremely difficult to determine the purchase consideration i.e. the value of assets and liabilities and the Goodwill of the business.
8. Tax returns will not be correct. It will not be possible to prepare accurate claim statements, in the event of loss or damage to goods and property for submission to Insurance Company.
9. Accounts prepared on the basis of single entry do not inspire confidence in the outsiders.
10. The companies Act, 2013. Does not permit companies 'to' keep their accounts as per single entry system.

2.6 Types

There are three types of single entry.



1. Pure Single Entry

Under this only personal accounts are maintained. No information is available about Cash/Bank sales, Purchases, Sales return and Purchase return. Hence, basic information is not made available. It is not followed.

2. Simple Single Entry

Under the system personal accounts and Cash Book are maintained. Posting from cash book is done to only personal accounts. Other accounts are not maintained.

3. Quasi Single Entry

Under the system, personal accounts and Cash Book, Purchase book and Sales Book are maintained. Some information is available about expenses. This method is used in practice.

2.7 Distinguish between Single and Double Entry System.

Double Entry	Single Entry
1. Both the aspects of each transaction are recorded.	1 Both the aspects of each transaction are not recorded.
2. It is complete, scientific and satisfactory system.	2 It is incomplete, unscientific and unsatisfactory system.
3. It is possible to prepare a Trial Balance.	3 It is not possible to prepare a Trial Balance
4. Arithmetical accuracy of the books of accounts can be verified.	4 Arithmetical accuracy of the books of accounts cannot be verified.
5. All types of accounts are kept.	5 Generally personal accounts of debtors, creditors and cash are kept.
6. It is possible to prepare Trading and Profit & Loss Account and Balance Sheet easily.	6 It is difficult to prepare Trading, Profit & Loss Account and Balance Sheet as the accounts are incomplete.
7. In a Balance Sheet, the values of assets and liabilities are taken from the ledger.	7 In a Statement of Affairs, the value of assets and liabilities are obtained by physical inspection and estimates.
8. A Balance Sheet reveals correct financial position.	8 A Statement of Affairs cannot reveal correct financial position.
9. It can be adopted by all concern. For companies it is compulsory.	9 It can be adopted by small concerns only.

2.7 Computation of Profit or Loss under Single Entry System

When the accounts are kept under single entry system, profit or loss can only be estimated by two methods :

1. Statement of Affairs Method.

2. Conversion Method.

3. **CONVERSION METHOD (DOUBLE ENTRY SYSTEM)**

Under conversion method, an attempt is made to prepare complete final accounts from available records by first completing basic double entry to the extent possible. This is done when details of all cash and trading transactions are available. The process requires preparation of control accounts. These control account balances lead to Trial Balance and then final accounts can be drawn in the usual manner.

For preparing final accounts, the following will be necessary:

3.1 Trading and Profit & Loss Account

For preparing Trading and Profit & Loss Account information about the following is necessary :

1. Opening Stock of goods.
2. Purchases and purchase return
3. Expenses and Losses.
4. Sales and Sales Returns
5. Closing Stock of goods.
6. Other Income.

3.2 Balance Sheet

For preparing Balance Sheet information about the following is required :

1. All Assets – Fixed, Current and others
2. All outside liabilities.
3. Capital.
4. Profit earned during the year.

4, ANALYSIS OF LEDGER ACCOUNTS

Where only cash book and other ledger accounts are maintained the profit or loss could be ascertained as follows :

4.1 Debtors Accounts

Debtors Accounts in the ledger will have to be scrutinized to ascertain the nature of the transactions, and an analysis should be made as follows :

The debt side analysis will provide the following information :

1. Opening balance.
2. Total credit sale
3. Expenses paid on behalf of debtors.
4. Bills Receivable dishonored.
5. Cheque dishonored.
6. Interest charged to debtors on overdue account.

The credit side analysis will provide the following information :

1. Total cash collected.
2. Sales Return.
3. Discount allowed.
4. Bad debts written off.
5. Bills Receivable accepted.
6. Allowance to debtors

4.2 Creditors Accounts

Similarly, an analysis of the personal accounts of all the creditors will have to be made as follows :

The debit side analysis will provide the following information.

1. Total cash payment.
2. Total Bills payment accepted.
3. Discount received.
4. Rebate received
5. Purchase return
6. Transfers
7. Closing balance

The credit side analysis will provide the following information :

1. Opening balance
2. Total credit purchases.
3. Bills payable dishonored.
4. Cash received from creditors
5. Transfers
6. Any other transactions.

4.3 Cash Book

Receipts and Payments sides of Cash Book will have to be scrutinized and analysed to ascertain the following:

1. Incomes such as interest, dividend, rent etc.
2. Cash sales.
3. Other incomes.
4. Other items.
5. Recovery of bad debts.
6. Sale of Asset e.g. Plant & Machinery, Investment, Buildings, etc.
7. Additional Capital by the proprietors, Loans etc.

The payment side has to be analysed to ascertain the following:

1. Expenditure such as Salaries, Wages, Rent, Telephone charges, Postages, telegrams etc.
2. Cash purchases.
3. Investments.
4. Purchase of assets e.g. Plant & Machinery, Land & Building etc.
5. Amount drawn by the owners.

While scrutinizing the entries in the cash book for incomes and expenses, the period for which the incomes and expenses relate should be noted carefully for necessary adjustments in respect of :

1. Prepaid expenses.
2. Outstanding expenses.
3. Incomes received in advance.
4. Outstanding incomes.

In addition to these, it will have to be ascertained from owners or responsible person in the organization whether there are any other assets purchased but not recorded and also liabilities due and not paid.

The inventory of the assets and also the inventory of the closing stock will have to be made and valued. Now all the information viz. opening stock, purchases, purchase returns, closing stock, sales, sales returns, expenses and incomes, assets and liabilities etc. necessary for the preparation of final accounts are available and therefore the Trading and Profit & Loss Account and Balance Sheet should be prepared, charging depreciation on the assets at the appropriate rates.

With this, the books of accounts also could be converted into Double Entry System by opening all the accounts including the real accounts, nominal accounts and other assets and liabilities accounts.

There may be a case where opening or closing stock may not be available, in which case the normal gross profit percentage may be ascertained, Trading Account be prepared computing the gross profit

applying that percentage, and taking the difference between the credit and the debit sides as opening and closing stock as the case maybe. (One of the stock figures will be known as the other is to be ascertained by the said method)

5. PRACTICAL STEPS IN PREPARATION OF FINAL ACCOUNTS

Step 1 : Prepare a Cash Book if both the sides of are not tailed. It appears as follows.					
Cash Book					
Receipts	Cash ₹	Bank ₹	Payments		
To balance b/d	xx	xx	By Balance b/d (Bank	xx	xx
To Cash Sales	xx	xx	Overdraft)		
To Collection from debtors	xx	xx	By Purchases	xx	xx
To Bills Receivable Collected	xx	xx	By creditors (Payment t		
To Capital introduced	xx	xx	Creditors)	xx	xx
To Sale of Fixed Asset	xx	xx	By bills payable paid	xx	xx
To Miscellaneous Income	xx	xx	By Drawings	xx	xx
To Balance c/d	xx	xx	By Fixed Assets Purchased	xx	xx
	xx	xx	By Miscellaneous Expenses	xx	xx
			By Balance c/d	xx	xx
				xx	xx

If the difference appears on receipt side of the Cash Book, the missing information may be any of the items appearing on Receipt side of the Cash Book. If the difference appears on Payment side of the Cash Book the missing information maybe any of the items appearing on payment side of the Cash Book.

Step 2 Prepare Total Debtors Account on the basis of the information given.			
Total Debtors A/c			
Particulars	₹	Particulars	₹
To Balance b/d	xx	By Cash/ Bank	xx
To Bills Receivable (Dishonored)	xx	By Bills Receivable A/c	xx
To Bank A/c (Cheque dishonored)	xx	By Discount A/c	xx
To Credit Sales	xx	By Bad Debts A/c	xx
To Creditor A/c	xx	By Sales Return A/c	xx

(Endorsed Bill dishonored)	--	By Balance c/d	xx
	XX		XX

The difference on debit side of Total Debtors Account may be any of the items appearing on debit side of Total Debtors Account. The difference on credit side of Total Debtors Account may be any of the items appearing on credit side of Total Debtors Account.

Step 3 Prepare Bills Receivable Account

Bills receivable A/c

Particulars	₹	Particulars	₹
To Balance b/d	xx	By Cash/ Bank A/c	xx
To Total Debtors A/c (bills receivable drawn)	xx	By Discount A/c	xx
		By Total Debtors A/c (Bills Receivable Dishonored)	xx
		By Total Creditors A/c (Bills Receivable endorsed)	xx
		By Balance c/d	xx
	XX		XX

If the difference appears on debit side of Bills Receivable Account it may be either opening balance or Bills Receivable received. If the difference appears as credit side of Bills Receivable Account it may be any of the items appearing on credit side of Bills Receivable Account.

Step 4 Prepare Total Creditors Account.

Total Creditors A/c

Particulars	₹	Particulars	₹
To Cash / Bank A/c	xx	By Balance b/d	xx
To Bills Payable A/c (Bills accepted)	xx	By Bills Payable A/c (Dishonored)	xx
To Bills Receivable A/c (bills endorsed)	xx	By Total Debtors A/c (Endorsed Bill Dishonored)	xx
To Discount A/c	xx	By Bank A/c (Cheque Dishonored)	xx
To Purchase Returns	xx	By Purchases (Credit)	xx
To Balance c/d	xx		
	XX		XX

If the difference appears on debit side of Total Creditors Account, it may be any of the items on debit side of the account. If the difference appears on credit side of Total Creditors Account, the difference may be any of the tow items appearing on credit side of Bills Payable Account.

Step 5 Prepare Bills Payable Account

Bills Payable A/c

Particulars	₹	Particulars	₹
To Cash/ Bank A/c (Payment made)	xx	By Balance b/d	xx
To Total Creditors A/c (Bills payable dishonored)	xx	By Total Creditors A/c (Bills payable accepted)	xx
To Balance c/d	<u>xx</u>		<u> </u>
	XX		XX

If the difference appears on debit side of Bills Payable Account, it may be any of the three items appearing on debit side of bills payable account. If the difference appears on credit side of Bills Payable Account, it maybe any of the tow items appearing on credit sides of Bills Payable account.

Step 6 Prepare Revenue Expenses A/c

Revenue Expenses A/c

Particulars	₹	Particulars	₹
To Balance b/d (Paid advance in the beginning)	xx	By balance c/d (Unpaid in the beginning)	xx
To Cash/ Bank A/c (Expenses paid)	xx	By Trading and Profit & Loss A/c (expenses for the year)	xx
To Balance c/d (Unpaid at the end)	<u>xx</u>	To balance c/d (Paid in advance in the end)	<u>XX</u>
	XX		XX

If the difference appears on the debit side of the account, it may be consider any of the items on debit side of Expenses Account. If the difference appears on credit side of account, it may be any of the items appearing on the credit side of account.

Step 7 Prepare Revenue Income A/c

Revenue Income A/c

Particulars	₹	Particulars	₹
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To Balance b/d (Accrued in the beginning)	xx	By balance c/d (Income not accrued at the end of the year)	xx
To Profit & Loss A/c	xx	By Cash/ Bank A/c (Received during the year)	xx
To Balance c/d (Income not accrued at the end of the year)	xx	To balance c/d (Accrued at the end of the year)	xx
	XX		XX

If the difference appears on debit side of the Income Account, the missing information may be any one of the items appearing on debit side. If the difference appears on credit side of the Income Account, the missing information may be any one of the items appearing on credit side of the account.

Step 8 Prepare Stock Account.

Fixed Asset A/c

Particulars	₹	Particulars	₹
To Balance b/d	xx	By Bank A/c	xx
To Bank A/c	xx	By Loss on Sale	xx
To Bank A/c (Expenses of Capital nature)	xx	By Depreciation A/c	xx
To Profit on Sale	XX	By Balance c/d	xx
			XX

If the difference appears on debit side of the Fixed Asset Account, it may be any one of the items appearing on debit side of the account. If the difference appears on credit side of Fixed Asset Account it may be any one of the items appearing on credit side of Fixed Asset Account.

Step 9 Prepare Stock Account / Goods Account

Stock / Goods A/c

Particulars	₹	Particulars	₹
To Opening Stock	xx	By Cost of Goods sold	xx

To Purchases (Net)	xx	By Closing Stock	xx
	XX		XX

If the difference appears on debit side of the Stock Account, it may be either opening stock or purchases. If the difference appears on credit side of Stock Account, it may be either cost of goods sold or closing stock.

Step 10 Prepare Loan Account to find out loan taken, or Loan Repaid.

Loan A/c

Particulars	₹	Particulars	₹
To Bank A/c (Loan repaid)	xx	By Balance b/d	xx
To Balance c/d	xx	By Bank A/c (Loan received)	xx
	XX		XX

Step 11 Prepare a Trial Balance of verify arithmetical accuracy

Step 12 Draw opening Statement of Affairs to find out opening capital.

Step 13 Prepare Trading and Profit & Loss Account & Balance Sheet as per usual principles.

6. CLUES FOR TRACING MISSING INFORMATION

Missing Information	Clues for Tracing
1. Cash Sales	a) Prepare Cash/ Bank Summary
	b) $\text{Cash Sales} = \text{Total Sales} - \text{Net Credit Sales}$
2. Net Credit Sales	a) Prepare Total Debtors Account
	b) $\text{Net Credit Sales} = \text{Total Sales} - \text{Cash Sales} - \text{Sales Return}$
	c) $\text{Closing Debtors} \times \frac{12}{\text{Credit Period}}$
3. Net Sales	a) $\text{Cash Sales} + \text{Credit Sales} - \text{Sale Returns}$
	b) $\text{Cost of goods sold} + \text{Gross Profit}$

4. Cost of goods sold	a) Prepare Stock Account
	b) Opening Stock + Purchases +Direct Expenses – Closing Stock
	c) Net Sales – Gross Profit
5. Gross Profit	a) Net Sales – Cost of goods sold.
	b) $\text{Net Sales} \times \frac{\text{Rate of Gross Profit}}{100}$
6. Cash Purchases	a) Purchase Cash / Bank Summary
	b) Total Purchases – Net Credit Purchases
7. Net Credit Purchases	a) Prepare Total creditors Account
	b) Total Purchases – Cash Purchases- Purchase Returns
	c) $\text{Closing Creditors} \times \frac{12}{\text{Credit Period}}$
8. Net Purchases	a) Prepare Stock Account
	b) Cost of Goods sold + Closing Stock- Opening Stock
	c) Cash Purchases + Credit Purchases – Purchase Returns
9. Drawings/ Expenses / repayment of loans / Loan taken/ Capital Introduction	Prepare a Cash Book with Cash/Bank column
10. Amount collected from Debtors	a) Prepare Total Debtors Account
	b) Prepare Cash/Bank Account

11. Amount paid to Creditors	a) Prepare Total Creditors Account
	b) Prepare Cash/Bank Account
12. Bills Receivable accepted by Debtors	a) Prepare Total Debtors Account
	b) Prepare Bills Receivable Account
13. Bills Payable drawn by Creditors	a) Prepare Total Creditors Account
	b) Prepare Bills Payable Account
14. Collection on account of Bills Receivable	a) Prepare Cash/Bank Account
	b) Prepare Bills Receivable Account
15. Payment on account of Bills Payable	a) Prepare Cash/Bank Account
	b) Prepare Bills Payable Account
16. Cash Stolen	Prepare Cash/Bank Account
17. Cash/ Bank Balance	Prepare Cash/Bank Account
18. Capital at the beginning of the year	Prepare opening Balance Sheet/ Statement of Affairs

Total Sales

It is the grand total of all sale transactions reported during a certain period without any deductions included within the figure. It is the gross sales. Net sales is gross sales less sales allowances, sales discounts and sales returns. A company may elect to present its gross sales, deductions and net sales information on separate line with the income statement.

Gross sales can be a misleading figure when reported as a single line item.

Total sales also includes credit sales and cash sales. Credit sales implies sales of goods without cash receipt on the spot. Cash sales implies sale of goods against cash on the spot. Credit sales can be ascertained from Total debtors A/c and Cash Sales can be ascertained from Cash Book under Single Entry System.

Total Purchases

It is the total of all purchases reported during a certain period. It is also called as gross purchases. It is calculated as under :

Net Purchases	Purchases	xx
	Less Returns	xx
	Less Allowance	<u>xx</u>
	Less Purchase discount	XX

Total purchases include credit include credit purchases. Credit purchases are ascertained by preparing total creditors A/c. Cash purchases are ascertained by preparing Cash Book.

Questions:

1. X Ltd. sold 20% of the goods for cash and the balance on credit. Debtors are allowed 2 months credit and the balance as on 31-3-2018 is ₹ 3,00,000 sales are uniform throughout the year. Calculate total sales for the year ended 31st March 2018.
2. Jigna, a trader purchases goods for ₹ 5,10,000 opening stock was ₹ 90,000. Her sales were ₹6,30,000. Gross profit is 25% on cost. Calculate the amount of closing stock.

3. Calculate sundry debtors as on 31-3-2018. Balance

1-4-2017	₹ 1,00,000
Bad Debts	2% on opening balance
Discount 1% on opening balance	
Sales Returns	6,000
Collection from Debtors	4,60,000
Cash Sales	10,00,000
Credit Sales	5,00,000

4. Find out total sales from the following information :

Balance on Debtors A/c as on 1-4-2017	₹
B.R Received	1,40,000
Collection from Debtors	94,000
Bad Debts recovered	3,12,000
B.R. dishonoured by debtors	32,000
Discount allowed	10,000
Endorsed Bills dishonoured	18,000
Sales Return	6,000
B.R. discounted	22,000
Discounted BR. Dishonoured	16,000
Cash Sales	4,000
Debtors 31.3.2018	3,20,000
	1,64,000

5. Mr. Rao Supplies you the following information. Find out total purchases.

	₹
Creditors 1-4-2017	1,62,000
B.P. issued	1,06,000
Paid to creditors	3,44,000
B.R. endorsed to creditors	54,000
Discount allowed by suppliers	14,000
Endorsed BR dishonoured	6,000
Cash purchases	1,90,000
Credit 31-3-2018	1,90,000

6. Ascertain missing information

Particulars	
Opening Debtors	5,000
Closing Debtors	8,000
Cash from Debtors (including Cash from Bills Receivable ₹ 2000)	10,000
Opening Bills Receivable	2,000
Closing Bills Receivable	1,000

7. Calculate Bills Receivable received from customers.

Particulars	₹
Bills Receivable collected	16,000
Opening Balance of Bills Receivable	30,000
Bills Receivable endorsed	4,000
Bills Receivable dishonoured	2,000
Closing Balance of Bills Receivable	40,000

8. Calculate credit purchases from the following

Particulars	₹
Opening Creditors	30,000
Payment by cheque	2,35,000
Bills payable accepted	25,000
Payment in cash	5,000
Discount received	5,000
Purchase return	10,000
Closing Creditors	40,000

9. Find out missing information

Particulars	₹
Opening Bills Payable	24,000
Closing Bills Payable	31,500
Bills discharged	25,50

10. From the following information, prepare the Bills Receivable Account and Total Debtors Account for the year ended 31st December, 2017

Particulars	₹
Opening balance of Debtors	1,80,000
Opening Balance of Bills Receivable	55,000
Cash Sales made during the year	95,000
Credit Sales made during the year	14,50,000
Return Inwards	78,000
Cash received from debtors	10,25,000
Discount allowed to Debtors	55,000
Bills Receivable endorsed to Creditors	60,000
Cash received (Bills matured)	80,500
Irrecoverable amount	10,000
Closing Balance of Bills Receivable of 31.12.2017	75,500

11. Calculate credit purchases on the basis following information

Particulars	₹
Opening Balance of Creditors	1,60,000
Closing Balance of Creditors	1,90,000
Payment made by cheque	9,40,000
Payment made by Bills Payable	1,00,000
Payment in cash	20,000
Discount received	10,000
Purchases Return	20,000
Cash Purchases	18,80,000

12. A retail trader asks you to prepare accounts of his business for the year ended 31st December, 2017. On investigation, you find that from time to time cash been paid into Banking Account and cheques thereon have been drawn for business and private purpose.

From the following information obtained from the records, prepare Profit & Loss Account for the year ending on 31st December, 2017 and Balance Sheet as on 31st December, 2017. Any difference in the cash book may be treated as drawings for personal use.

Particulars	₹
Cash received from the Debtors and paid into Bank	32,500
Dividend received on Personal Account paid into Bank	300
Payments to Creditors out of the Bank	28,300
Private Payments out of Bank	4,200
Cash Sales	45,000
Cash Purchases	29,500

Direct Expenses of business	6,000
Other Expenses	4,190

The Assets and Liabilities of business at the beginning and the end were as under

Particulars	Opening Balance ₹	Closing Balance ₹
Stock	6,000	4,300
Motor	7,500	?
Trade Debtors	4,200	6,000
Cash on hand	90	100
Cash at Bank	1,500	1,800
Trade Creditors	5,900	6,500

Depreciation at twenty per cent per annum is to be provided on Motor Van

Expenses outstanding in respect of Motor van amount to ₹ 300. Expenses included in other expenses consists of expenses : in respect of Motor Van amounting to ₹ 900 and personal payments of Proprietor amounting to ₹ 150 paid to Tailor and ₹ 200 paid to Grocer.

13. Shri. HJ maintains his books on the Single Entry System and furnishes the following details to you for the year 2018:

Particulars	1.1.2018 ₹	31.12.2018 ₹
Fixed Assets	20,000	25,000
Debtors	25,000	40,000
Creditors	15,000	20,000
Stock	10,000	15,000
Cash at Bank	5,000	8,000

The other information relating to the year 2018 is as follows

Particulars	₹
Receipts from Debtors	2,50,000
Payment to Creditors	2,00,000
Discounts earned	5,000
Bad Debts	7,000
Expenses paid	30,000
Drawings of Shri. HJ	6,000

Cash Sales	5,000
Cash Purchases	11,000
Purchase Returns	26,000

You are required to prepare the Profit & Loss Account for the year 2018 and a Balance Sheet as at 31st December, 2018 after making the following adjustments

- Depreciation Fixed Assets at 10 per cent of the Balance as at 31st December, 2018
- Provide for outstanding liabilities for expenses of ₹ 5,000
- Provide a Reserve for Bad Debts of ₹ 2,500

14. Shri Engineer who keeps his books by single entry gives you the following information for the year 2018.

Receipts	₹	Payment	₹
To Balance at Bank	4,350	By Engineer's Drawings	7,520
To Sundry Debtors	38,400	By Trade Creditors	27,100
To Bills and Receivable realised	12,000	By Bills payable	9,300
To commission Received	1,500	By wages	12,000
To cash sales	8,600	By Salaries	6,500
To Balance c/d	3,350	By Rent and taxes	4,400
		By Insurance	800
		By Carriage	250
		By Advertising	330
	68,200		68,200

Particulars of outer asset and liabilities

Particulars	1.1.2018	31.12.2018
	₹	₹
Stocks on Hand	18,700	23,400
Debtors	12,000	14,000
Creditors	9,000	1,500
Bills receivables	4,000	5,000
Bills Payable	1,000	200
Furniture	600	600
Building	12,000	12,000

A reserve of Rs. 1,450 is required for doubtful debts and depreciation at 5% is to be written off Building and Furniture. Rs. 3,000 are outstanding for the wages and Rs. 1,200 for salaries. Insurance has been prepaid to the extent of Rs. 250. Legal Expenses are outstanding to the extent of Rs. 700.

Prepare final accounts

15. Mr. Ramji supplies you the following information:

Particulars	1.4.2017	31.12.2018
	Rs	Rs
Sundry Debtors	90,000	1,05,000
Stock	75,000	85,000
Sundry Creditors	55,000	60,000
Furniture	20,000	?
Machinery	1,75,000	?

Summary of cash transaction for the year 2017-18:

Receipts	Rs	Payments	Rs
Opening Balance	5,000	Creditors	1,75,000
Cash Sales	55,000	Wages	80,000
Received from Debtors	3,90,000	Salaries	75,000
Loan from Raj@ 10% p.a. On 1.10.2017	50,000	Expenses	30,000
		Drawings	45,000
		Income Tax	15,000
		Machinery Purchased on 1.10.2017	50,000 30,000
		Closing Balance	
	<u>5,00,000</u>		<u>5,00,000</u>

Discount allowed were Rs. 6,000 and discounts received Rs 5,000. Bad debts. Written off were Rs. 4,000. Depreciation is to be provided on furniture @ 5% p.a. and on machinery @ 10% p.a. Expenses include payment of Rs. 1,000 which relates to 2017-18. Wages outstanding Rs. 7,500.

Prepare Trading and Profit and Loss Account of Mr. Ramji for the year ended 31st March, 2018 and Balance Sheet as on that date.

16. Rajendra carries on business of retail consumer goods. He is not able to keep proper books of accounts. He provides the following information from which you are required to prepare his final accounts for the year 2017 and Balance Sheet as on that date.

The following were the balances of assets and liabilities:

Particulars	1.1.2017	31.12.2017
	Rs	Rs
Capital	2,10,000	?
Stock	54,000	61,300
Debtors	?	1,80,000
Furniture	6,000	6,000
Building	90,000	90,000
Creditors	48,000	33,000
Loan from Deepali	5,000	NIL
Bills receivables	3,000	2,000
Bills Payable	4,000	2,000
Cash Balance	500	?

Analysis of Cash and Bank Book:

Particulars	Rs.
Manager Salary	6,000
Salaries of Staff	25,000
General Expenses	22,500
Paid to Creditors	90,000
Bills Receivable from Debtors	5,000
Bills Payable Honoured	4,500
Bills Payable Paid	90,000
Cash : Sales	1,50,000
Receipts and overdraft 1.1.2017	23,500
Interest and Bank Charges	450
Personal Drawings	12,000
Deepali's loan repaid with Interest	5,500

Additional Information:

- i) Rajendra purchases and sales in cash as well as on credit basis.
- ii) During the year, Bills Receivable of Rs. 1,000 was dishonoured.
- iii) Further, Bills Receivable worth Rs. 2,500 were endorsed, but out of that also Bills Receivable of Rs 1,500 were dishonoured.
- iv) Depreciate furniture and building at 5% p.a.
- v) Create a provision for doubtful debts. At 6,000.
- vi) Discount was allowed by suppliers Rs 500.
- vii) Salaries to staff was outstanding rs 3,000. General expenses were paid Rs 1,000

Module 1: Branch Accounting

1. WHAT IS BRANCH?

A branch is a part of central system or organisation. It is a subordinate unit of the organisation and carries on same activities of the organisation. An organisation expands activities through operating branches at different places. When it finds it convenient or uneconomical to manage its transactions from a single place. The branches can be classified on different basis as follows:

1. Location: Branches may be called:

- (i) Local or Inland (Located in same country);
- (ii) Foreign branches (i.e. located in another country)

2. Dependence – On head office: The head office delegates authority to branches in relation to:

- (i) Goods to be traded in,
- (ii) Mode of transactions, i.e. cash or credit,
- (iii) Pricing of goods,
- (iv) Acquisition of fixed assets, etc.

From these considerations, one may classify branches as:

- a) Dependent Branch,
- b) Independent Branch.

The Dependent Branch has to obtain permission or approval or authorisation from head office for its significant transactions. There are several variations in this category of branches.

Independent Branches are generally followed in case of foreign branches. They have wide powers. Such branches are to operate in accordance with overall objectives of the organisation.

Features of Dependent Branch

Following are the important features of Dependent Branch:

1. Concept

In the case of dependent branch it is fully dependent on the H.O for purchases, sales, expenses, income etc.

2. Accounting

Accounting of branch transactions is done at the H.O.

3. Goods to branch

HO supplies goods to dependent branch either at cost or at Invoice price which is higher than the cost.

4. Petty cash

H.O. sends cash to the branch for petty expenses. Petty cash may be kept on imprest system cash collected by the branch is sent to the H.O from time to time.

5. Branch Accounts

Branch keeps only memorandum Account of petty cash, debtors, creditors, stock etc. Branch Accounts are sent to H.O. periodically.

1.1 Branch and Department

The extension of organisational activity can be by way of departments or by way of branches. Both are sub-ordinate units of the central organisation and carry on same activities of the organisation.

In many respects, branches and departments have common features, as both are parts of the organisation.

The salient points of compare and contrasts are as under:

	Branch	Department
1. Location	Generally branches are located at different places.	Generally departments are located at the same place under one roof.

2. Independence	Branches can have independence to varying extent in operations.	Departments do not have independence in operations.
3. Control	Branches are controlled through head office, as these are located at different.	Departments are directly controlled, as these are located under same roof.
4. Accounts	a) Branch may have independent books of accounts.	Departments do not have independent books of accounts are maintained and certain expenses are allocated to departments on scientific basis.
	b) Where branches maintain independent accounts, only Final Accounts are incorporated by head office cases, periodical statements are recorded by head office.	Such Account is not required.
	c) H.O, maintains an account for each branches for recording transactions at head office.	Such account is not required.

1.2 Objectives of Branch Accounting

1. To ascertain the profit or loss of each branch separately.
2. To ascertain the financial position of each branch on a particular.
3. To understand the cash and goods requirements of various branches.
4. To evaluate the performance of each branch separately.
5. To work out commission of branch managers if it is based on profits of branch.
6. To understand the profitability of each branch.
7. To improve working branches.
8. To meet the requirements of law as all the branches are required to keep proper books of accounts for audit purposes.

2. MAINTENANCE OF ACCOUNTING RECORDS

There are different systems for recording branch transactions in the books of accounts which are as follows:

1. Maintained only at head office

Branches are not expected to maintain independent books of accounts. Branches maintain records/ registers for cash transactions and also quantity of goods dealt in. A summary of said records is sent to head office at regular intervals. Branches are required to send to head office periodical statements regularly covering their:

- i) Transactions in goods-covering receipt from head office, purchase, sale, return and stock showing value and quantity.
- ii) Transactions in cash covering receipts, payments and balances.

The head office, on receipt of statements, makes appropriate entries in the books of accounts maintained by it.

There are two methods of maintaining Branch Accounts viz.

- (i) Debtor System and
- (ii) Stock and Debtor System.

2. Branch maintains complete and independent books of accounts:

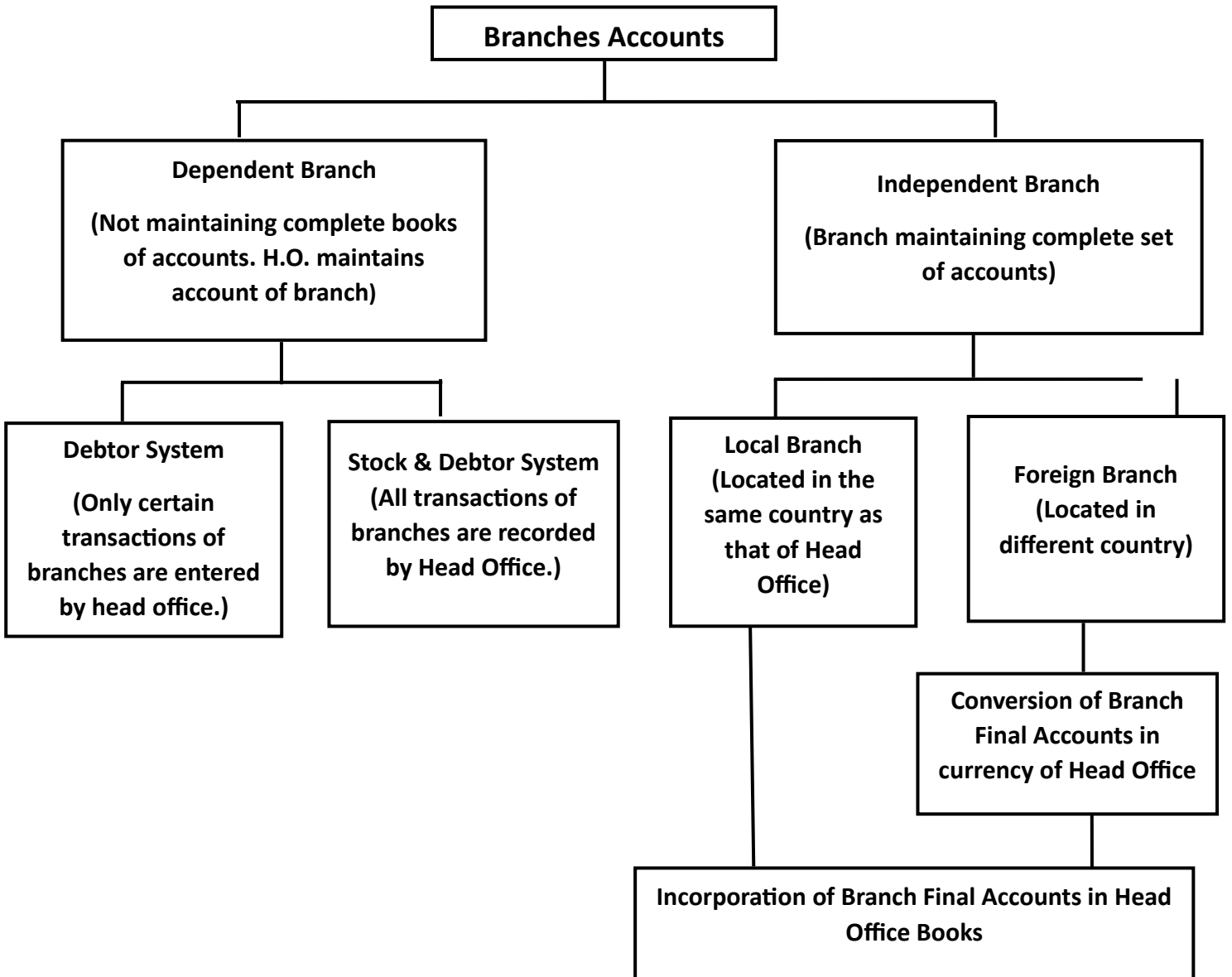
Such a branch operates as if it is a separate entity. It prepares its final accounts. The final accounts prepared by the branch are incorporated in the books maintained by the head office.

In the case of foreign branches, the accounts at branches and head office are in different currencies. Hence, before incorporation the balances are first converted into currency of head office and thereafter, incorporated in the books of head office.

3. Pricing transfers of goods to branch:

The goods sent to branches are accompanied by performia invoice gives the particulars of goods sent and the price. Normally these goods are period at cost. However, sometimes these can be valued at a price to include profit element also. In such a case, more elaborate accounting is required.

Thus, accounting system in case of branches can be summed up as:



3. TRANSACTIONS RELATING TO BRANCH

In case the branches do not maintain independent books of accounts, the head office maintains accounting records for such branches.

The branches are required to maintain records of transactions and submit periodical statements or returns to head office covering transactions in (a) cash, (b) goods regularly.

The head office verifies such statements and makes accounting entries in its books.

The transactions in respect of branches can be divided into two groups:

1. Transactions originating at head office:

The illustrative list of such transactions is as follows:

- i) Goods sent to branch.
- ii) Cash remind to branch for payment of expenses.
- iii) Payment to other parties in respect of branch assets or expenses.

IV) Depreciation on assets used at branch, where accounts of assets are maintained by head office.

These transactions can be segregated as between:

- a) Head office and branch and
- b) Head office and other parties.

2. Transactions originating at branch:

The illustrative list of such transactions is as follows:

- 1) Goods sold to customers or returned by them.
- 2) Payments for expenses.
- 3) Receipts from customers.
- 4) Discounts allowed to customers or bad debts.
- 5) Purchase of goods on cash or credit and purchase return.
- 6) Payment to creditors.
- 7) Remittance to head office.
- 8) Returns of goods to head office.

9) Transfer of goods from one branch to other branch.

These transactions can be segregated as between:

- a) Branch and head office,
- b) Branch and other parties.

3. In addition, head office may also receive amount or goods returned directly from customers at

4. Accounting for fixed assets used at branch can be shown in two alternatives:

i) Show Assets Account- as separate account, whether asset is purchased by head office by branch.

At the end of the year, depreciation of the assets is charged by debiting to branch Account.

OR

ii) Value of Asset is shown as balance in Branch Account. In this alternative-

- a) Opening balance is shown as balance along with stock, debtor, cash or credit.
- b) Purchase of assets by head office is debited to Branch account.
- c) Purchase of assets by branch is not recorded.
- d) Written down value of asset is shown as closing balance in Branch Account.
- e) Depreciation is not shown separately.

4. ACCOUNTING SYSTEMS

4.1 Debtor Systems

This system is adopted in the case of those branches which are small in size. Under this system, head office opens a separate account for each branch called, 'Branch Account' for the purpose of finding out profit or loss. Branch Account is prepared in head office books only. Under this system, head office considers branch as a debtor and accounting entries are made treating branch as personal account.

Of the different groups of transactions described above, the three groups of transactions are recorded, viz., Transactions between

- i) Head office **and** branch

- ii) Head office **and** others in relation to branch
- iii) Branch **and** head office.

Apart from the accounting for transactions, the following details are also ascertained:

- i) Value of stock at branch
- ii) Debtors in respect of branch sales.
- iii) Cash on hand at branch
- iv) Creditors in respect of goods purchased and expenses in relation to branch
- v) Prepayment of expenses

4.1.1 Accounting Entries

The accounting entries for several branch transactions which are passed in the books of head office are as under:

Transactions	Journal Entries
1. Goods sent to branch by head office or any other branch.	Branch A/c Dr To Goods sent to Branch A/c (Being value of goods sent to the branch)
2. Goods returned by branch to head office or to any other branch.	Goods sent to Branch A/c Dr To Branch A/c (Being goods returned by branch)
3. Cash remitted to branch or paid to others.	Branch A/c Dr To Cash / Bank A/c (Being amount sent to branch for payment / expenses)
4. Expenses in respect of branch paid head office	Branch A/c Dr To Cash / Bank A/c (Being payment for expenses relating to branch)
5. Provisions for expenses relating to branch / Outstanding Expenses at branch payable by Head Office	Branch A/c Dr To Outstanding Expenses A/c (Being provision of unpaid expenses) Or This can also be shown as balance.
6. Cash remitted by Branch to Head office.	Cash/ A/c Bank Dr To Branch A/c (Being amount remitted by branch)
7. Amount received from customer and other sundry	Cash A/c / Bank Dr

income of branch by head office.	To Branch A/c (Being amount received from third party in respect of branch sales/ income)
8. Goods received from customer of branch by head office.	Goods sent to Branch A/c Dr To Branch A/c (Being value of goods sent to branch returned by customer directly)
9. Goods sent to Branch Account transferred to Trading Account at the end of accounting period.	Goods sent to Branch A/c Dr To Purchase A/c or (Trading A/c) (Being value of goods sent to branch transferred to Trading)
10. Profit or Loss at Branch (Balancing figure in Branch Account)	Branch A/c Dr To Profit & Loss A/c (Being profit / loss for the year at the branch) (in case of loss, entry will be reverse)
11. Assets at the branch at the end of the accounting year.	Branch Assets A/c Dr To Branch A/c
12. Liabilities at the end of the accounting year	Branch Assets A/c Dr To Branch Liabilities A/c
13. Assets & Liabilities of the Branch at the end of the accounting year will appear in H.O. Balance sheet. In the beginning of the next year, they will be transferred to Branch Account. The entry will be :	a) For Branch Assets Branch A/c Dr To Branch Assets A/c b) For Branch Liabilities Branch Liabilities A/c Dr To Branch A/c
14. Inter Branch transfer of goods, cash or any asset	Receiving Branch A/c Dr To Giving Branch A/c (Being transfer from one branch to another branch)
15. Goods sent to Branch but not received by the branch	Goods in Transit A/c Dr To Branch A/c (Being goods sent not received by the branch)
16. Cash sent to Branch but not received	Cash in Transit A/c Dr To Branch A/c

	(Being cash sent not received)	
17. Transfer of Branch Profit to General P&L A/c	Branch A/c To General P & L A/c (Being transfer of Profits to General P & L A/c)	Dr

The following transactions effected by branch will not be recorded in Branch Account:

- i) Sales of goods by branch on cash or credit.
- ii) Purchase of goods by branch on cash or credit.
- iii) Return of goods by debtors to branch.
- iv) Return of goods by branch to suppliers.
- v) Receipt of cash from customer.
- vi) Payment to suppliers or for expenses.
- vii) Discount allowed to customers and by suppliers.
- viii) Write off / bad Debt(s).
- ix) Loss of cash or goods at branch.
- x) Other sundry receipts at branch.
- xi) Purchase of assets by branch.

The omission of these transactions does not affect correctness of the accounts and profits as will be evident through subsequent illustrations.

4.1.2. Proforma Branch Account

Branch A/c (In the H.O Books)

Particulars	F.	₹	Particulars	F.	₹
To Balance b/d			By Balance b/d		
Stocks			Outstanding		
Debtors			Expenses		
Prepaid Expenses			Creditors		
Petty Cash			By Goods sent to Branch		
Fixed Asset			(For goods returned		
Cash			by		
			Branch or its		
			customer		
			To head office)		
To Goods sent to Branch A/c			By Cash / Bank		
To Cash / Bank			(Remitted by		
(For Expenses)			customer of		
			Branch to Head		
			Office)		
To Balance c/d			By Cash in Transit		
Outstanding Expenses			By Goods in Transit		
Creditors			By Profit & Loss A/c		
			(Balancing Figure)		
			By Balance c/d		
			Stocks		
			Debtors		
			Prepaid Expenses		
			Cash		
			Petty Cash		
			Fixed Asset		
Total			Total		

Explanatory notes:

1. Opening Balance:

Opening Balances of assets appear on Dr. Side of Branch A/c and opening balances of liabilities appear on crest side of the Branch A/c.

2. Debited

Branch A/c is debited by Goods sent to Branch and cash given by H.O. to the Branch.

3. Credited

Branch A/c is credited by goods received from the branch as well as cash received from the Branch.

4. Closing Balances

Closing balances of assets are recorded on credit side of the Branch A/c and closing balances of liabilities are recorded on the debit side of the Branch A/c.

5. Transactions Recorded

Branch A/c is maintained by the H.O. in its books. Hence the transactions between H.O and the branch are recorded in Branch A/c.

6. Profit / Loss

Credit balance on Branch A/c indicates profit and Debit Balance indicates loss.

7. Missing Information

Opening balances of branch assets and liabilities as well as closing balances are normally given in the question. In case it is missing it can be ascertained by preparation of Br. Stock, Br. cash, Br. Debtor, Br. Fixed Assets, etc. These accounts will record all the transactions by the branch with the H.O. Or outsiders. The balancing figure will indicate missing information.

Particulars	₹	Particulars	₹
To Branch A/c (Goods returned by Br. To H.O, To HO or Goods sent to Br. By Another BR.)	xx	By Branch A/c (Goods sent by branch to another branch or to branch by H.O.)	xx
To Purchase A/c	-		-
Trading A/c (Balancing figure)			

4.1.3 Treatment of Some Transactions

Following points should be kept in mind while recording transactions in the Branch Account:

1. Branch expenses paid by the branch out of petty cash

Any branch expenses paid by the branch should be deducted from branch should be deducted from branch cash and the reduced cash balance should be shown on the credit side of the branch account. Expenses need not be shown in the Branch account. However, opening and closing balance of petty cash should be shown in the Branch Account.

2. Depreciation of fixed assets

Depreciating of fixed assets is not shown in the Branch Account. However, the branch account is debited with the value of fixed assets at the beginning of the year and credited with value of fixed assets at the end of the year.

3. Sale of fixed assets

If the branch has sold out fixed asset for cash, the amount of remittance will increase. The value of asset after adjustment of sale is credited to Branch Account. If the asset is sold on credit, the amount due is shown as debtors at the branch at the end of the year. The net asset to be show on credit sale of the Branch Account is arrived at as follows:

Particulars	₹
Asset at the beginning of the year	XX
Add: Purchase of assets during the year	XX
Less: Amount realised on sale of asset	XX
	XX

No separate entry is passed for any profit or loss made on sale of fixed asset since it is automatically taken care of.

4. Credit sales, bad debts, discount

No entry is made by the head office in Branch Account in respect of the above items. These items do not cause movements of goods or cash between head office and branch. They affect the amount of closing doors.

5. Return of goods by branch debtors to the branch

No entry is made by the head office in Branch Account if branch debtors have returned goods to the branch. Entry will be made by the head office in Branch Account only when goods are returned by the branch debtors to the head office.

6. Purchase of fixed assets by the branch

If the branch has purchased any fixed asset, the remittance from the branch will be reduced to that extent and the Branch Account will be credited. If the purchase of fixed asset is on credit basis, the liability arising from such purchase will be shown on debit side of the Branch Account.

7. Receipt from Insurance Company

If the insurance company pays compensation to the branch for loss of stock or any property, the amount received will be sent by the branch to the head office. In case the claim is not paid, the amount will be shown as an asset at the branch on credit side of Branch account.

8. Shortage or surplus of stock

No entry is made in Branch Account regarding shortage or surplus of branch stock. These items affect the amount of branch stock at the end and thereby affect the profits.

9. Petty Expenses

No entry is passed in Branch Account in respect of petty expenses paid by the branch out of its petty cash balance. Opening Balance of petty cash is shown on debit of Branch Account and closing balance is shown on its credit side. The difference is petty expenditure which gets automatically charged to Branch Account.

Treatment of goods sent to another branch and goods received from another branch:

1. Goods sent to another branch.	:	It should be treated like goods Returned to head office. It should Shown on debit side of Branch Account.
2. Goods received from another Branch. should	:	It should be treated like goods received from head office. It be shown on debit side of Branch Account.

Treatment of Normal loss, abnormal loss, Insurance claim and agreed allowance:

Normal Loss	:	It does not appear in the Branch Account because closing stock at adjusted figure.
Abnormal Loss	:	It does not appear in the Branch Account because closing stock appears at adjusted figure.
Insurance Claim admitted and received	:	It should be shown on credit side of Branch Account.
Insurance claim admitted and received	:	Insurance company should be shown as a debtor on credit side of Branch Account.
Agreed allowance trade discount	:	It does not appear in the branch account as closing debtor is shown at adjusted figure.

5. INCOMPLETE RECORDS

The head office maintains the account of a branch on the basis of periodical statements / returns submitted.

However, sometimes the said returns may not yield sufficient information. In such a case, it is necessary to ascertain the said information and then prepare Branch Account.

As we have seen earlier, under debtor system, the head office ignores trading transactions of the branch. This does not undermine the importance of complete records of branches.

In brief, for completing Branch Account the complete information is required in respect of –

1. Cash and goods sent by head office to branch.

This transaction originates at head office and hence such records would not be incomplete.

2. Cash remitted and goods returned by branch and received by head office.

Such record is also available at head office.

3. The assets at the beginning and at the end of the year at branch.

The head office may not have complete information / records. In such a case, it is essential to have complete records and thereafter prepare accounts.

Generally the incomplete records may relate to (1) stock (2) debtors or (3) cash at the close of the year. Under debtor system, since trading transactions of branch are not recorded by head office, the incomplete records relating to trading transactions need not be considered except to the extent required for obtaining the required data.

To obtain required information the account for relevant items are required to be prepared. Thus, one need (1) Stock Account, (2) Debtors Account, (3) Cash Account, (4) Bank Account as may be required.

These accounts can be prepared in the same manner as one prepares accounts in the case of incomplete records.

6. PRICING GOODS SENT TO BRANCH

We have so far considered the goods sent to branches; but the question of pricing is not considered. Since branch and head office are part of the same organization the transfer between them is treated as at cost. This practice is on sound accounting principles and it enables ascertainment of profits earned by branch and value of stock at branch without any difficulty or adjustment.

However, sometimes the head office decides to invoice to the branch for goods sent at a higher price, which is intended to be at selling price. The invoice price may be determined as (i) cost plus a fixed percentage or (ii) Expected selling price at which branch is expected to sell the goods.

6.1 Objectives

The practice of sending goods at invoice price has two objectives :

- a) Not to allow branch to know the profits made by the organization. As the goods are invoiced at a higher price, actual profits earned will be kept secret from branch.
- b) To facilitate control of stock at branch. As receipt of goods by branch and the sale by branch of such goods is at same price, the quantitative and value record of goods can be co-related easily. The stock at branch at any time must be equal to opening stock plus goods from head office minus sales at branch. This enables easier control of stocks.

If such a practice is followed the entries for goods sent to or returned by branch. Opening and closing stock are shown initially at the invoice value. At the year end, the profit element included is segregated to arrive at true profit earned by branch.

The transactions requiring such adjustments are :

- i) Stock at the beginning.
- ii) Goods sent to branch.
- iii) Goods returned by branch.
- iv) Stock at the end.

As other transactions relating to branch stock viz. sales, sales return, etc. are not recorded by head office in its books the profits element in them need not be adjusted.

6.2 Accounting Entries

The accounting entries in such a case can be divided into 2 categories :

i). Original transaction. ii) Adjustment of profit element.

In principle, (i) Original Transactions are recorded in invoice value and (ii) Adjustment of profit element is by passing a reverse entry in case of goods sent to branch or returned by branch. However, in case of stocks, this is done by transfer to stock reserve.

The accounting entries under debtors system have been considered earlier under 4.1.

The adjustment entries will be passed in the books of head office as follows:

1. Goods sent to Branch Dr.

 To Branch A/c

(Being entry to adjust the profits included in goods sent to branch)

2. Branch A/c Dr.

 To Goods sent to Branch A/c

(Being entry to adjust the profit included in goods returned by branch)

Note : These two entries may be consolidated and only one entry for net amount may be passed.

3. Branch A/c Dr.

 To Stock Reserve A/c

(Being adjustments of profits included in closing stock)

4. Stock Reserve A/c Dr.

 To Branch A/c

(Being profits included in opening stock adjusted in last year transferred to Branch)

For the purpose of Balance Sheet, stock reserve is to be reduced from value of stock. Similar adjustments should not be shown in respect of any other transaction or balances appearing in Branch Account.

It is worth noting that Branch account prepared with (i) goods transactions entered at cost and (ii) goods transactions entered at invoice value with aforesaid adjustments will show the same amount of net profit.

Format of Branch A/c
(When goods are sent at Invoice price)

Particulars	₹	Particulars	₹
To Bal. b/d :		By bal. b/d	
Stock (at IP)	xx	Stock Reserve	xx
Debtors	xx	(Load of Opening stock)	xx
Cash	xx	Creditors	xx
Fixed Assets	xx	Expenses Outstanding	xx
Prepaid Expenses	xx		
To Goods Sent to		By Goods sent to Branch	xx
Branch A/c	xx	A/c (IP)	
(Invoice Price)		(Goods returned by Br to	
(Goods sent by HO,		Ho returned to HO by	
Goods to branch by		customers)	xx
another Branch, Goods			
sent to another		By Bank A/c	
Branch)		(Sent by Br to Ho sent to	xx
To Bank A/c		HO by Br. Customers)	
(Sent by Ho, To Br. Or	xx	By Goods sent to Br. A/c	xx
spent by HO for	xx	(Load in Goods sent to	xx
Branch)	xx	Branch)	xx
To Balance c/d	xx	By stock (IP) Bal. c/d :	xx
Stock Reserve		Debtors	xx
(Load on closing	-	Cash	xx
stock)	-	Fixed Assets	-
Creditors		Prepaid Expenses	
Expense Outstanding		By P & L A/c (Net Loss)	
To P & L A/c			
(Net Profit)			

Stock Reserve

Stock Reserve arises when goods are sent by H.O. to Branch at a price which is higher than the cost. Stock Reserve arises when opening stock and closing stock are valued at Invoice Price. It is a difference between cost and invoice price of opening stock and closing stock with the branch.

Adjustment of load in Opening Stock

Stock Reserve A/c

Dr.

To Branch A/c

Adjustment of load in Closing Stock

Branch A/c

Dr.

To Stock Reserve A/c.

Stock Reserve in respect of opening stock is credited to Branch A/c and Stock Reserve respect of closing is debited to Branch A/c.

6.3 Calculations

In order to arrive at the profits to be adjusted as aforesaid, it is necessary to consider the value of goods and profits included.

Normally, profit element is expressed as a percentage of cost (i.e. cost plus certain percentage or sales)

If the profit is stated as a % on cost, the same should be converted as an equivalent percentage on sales e.g. If profit is 25% on cost, it will be equivalent to 20% on sales.

Thus,

$$\begin{array}{l} \text{Cost} \quad 100 \therefore \frac{\text{Profit}}{\text{Sales}} \times 100 = \frac{25}{125} \times 100 = 20\% \\ + \text{Profit} \quad 25 \\ \text{Sales} \quad 25 \end{array}$$

For ready reference, corresponding ratios are :

Profit stated as a percentage on cost		Equivalent % on sales	
Fraction		Fraction	
$\frac{1}{20}$	5.0%	$\frac{1}{21}$	4.76%
$\frac{1}{10}$	10.0%	$\frac{1}{11}$	9.09%
$\frac{1}{8}$	12.5%	$\frac{1}{9}$	11.11%
$\frac{1}{5}$	20.0%	$\frac{1}{6}$	16.67%
$\frac{1}{4}$	25.0%	$\frac{1}{5}$	20.0%
$\frac{1}{3}$	33.3%	$\frac{1}{4}$	25.0%

3		4	
$\frac{2}{5}$	40.0%	$\frac{2}{7}$	28.57%
$\frac{1}{2}$	50.0%	$\frac{1}{3}$	33.33%
$\frac{2}{3}$	66.66%	$\frac{2}{5}$	40.0%

These fractions are normally adopted. If any other fraction is to be converted the ----- initiated in earlier illustration is applicable

**Disclosure of relevant items in the Branch Account after adjustment of load :
Extract of Branch Stock A/c**

	₹		₹
To Opening Stock (at I.P.)	xx	By Stock Reserve A/c (load on Opening Stock)	xx
To Goods sent to Branch A/c (at I.P)	xx	By Goods sent to Branch A/c	xx
To Stock Reserve A/c (Loading on Closing Stock)	xx	(Loading on goods sent to Branch A/c)	xx
		By Goods sent to Branch A/c	xx
	-	(Return at I.P)	-
	xx	By Closing Stock A/c (at I.P.)	xx

Practical Questions:

1. Hari is having his Head Office at Mumbai and Branch Office at Nasik. Prepare the Branch Account in the books of the Head Office from the following transactions with the branch:

Particulars	₹	Particulars	₹
Opening Balance at Branch:		Amounts remitted to the Branch for:	
- Petty Cash	1,000	- Petty Cash Expenses	4,000
- Stock	39,500	- Salary	12,000
- Debtors	21,000	- rent and Taxes	3,500
Goods supplied to Branch during the year	3,10,000	Closing balances at Branch:	
Amounts remitted by the Branch:		- Petty Cash	950
- Cash Sales	1,13,000	- Debtors	53,000
- Realization from debtors	2,30,300	- Stock	26,500

2. Babubhai of Mumbai opened a branch at Nasik on 1st January 2019. During the year ended 31st December 2019, the following transactions have taken place-

	₹
Goods sent to Nasik	60,000
Cash sent to Nasik	5,000
Goods returned from Nasik	6,000
Cash received from Nasik	58,000
Rent for Branch paid by Head Office	3,000
Expenses paid by Branch:	

Salaries		6,000
Conveyances	500	
Postage	500	
Carriage	400	
	-----	7,400

discount allowed to customers was ₹ 800. Sales on Credit amounted to ₹ 68,000. Cash Sales amounted to ₹ 8,000. On 31st December, 2019. Stock worth ₹ 6000 was at branch ₹ 5,000 was due from Debtors and Cash on hand was ₹ 1,000.

Show branch account in the books of Babubhai.

3. From the following details prepare Mumbai branch account is for the six months ended 31st December, 2019 after depreciating branch furniture at 20% per annum:-

Particulars	₹	Particulars	₹
Opening Branch Assets:		Branch expenses paid by the Head Office	34,000
- Branch Stock	20,000	Remittances received from the Branch	2,32,800
- Branch Petty Cash	6,000	Closing branch Assets:	24,000
- Branch furniture	26,000	- Branch Stock	4,000
- Branch Debtors	30,000	- Branch Petty Cash	34,000
Opening Branch Liabilities:		- Branch Debtors	
- Branch Outstanding Expenses	1,000	Closing Branch Liabilities:	
Goods sent to the Branch	1,80,000	- Branch Outstanding Salaries	1,400
Petty Cash sent to the Branch	16,000		

4. Gupta Traders of Patna have their branch at Mumbai. Prepare the necessary accounts in the books of the Head Office from the following transactions with the branch.

Particulars	₹	Particulars	₹
Opening Balances:		Closing Balances:	
- Petty Cash at Branch	1,250	- Petty Cash at Branch	1,880
- Stock at Branch	77,000	- Debtors at branch	1,26,150
- Debtors at Branch	41,250	- Stock at Branch	57,880
Goods sent to Branch during the year Amount remitted to the branch:	3,78,000	Discount allowed to customer	1,060
For Petty Cash Expenses	7,500	Amount remitted by the Branch:	26,250
For Salary	18,500	- Cash Sales	4,10,350
For Rent and Taxes	6,000	- Realization from Debtors	9,000
		Mr. Sharma to whom goods were sold by Branch directly remitted the amount to H.O.	

5. Following information is given to you from the books of Shivam Law Agency for its branch at Virar for the financial year 2019-. Prepare Virar Branch A/c in the books of Shivam Law Agency.

Particulars	₹	Particulars	₹
Balance as on 1-4-2019		Transactions during 2019-	
- Branch Debtors	1,200	- Goods sent by H.O.	7,800
- Stock	600	- Cash sent by H. O. for petty cash	2,000
- Cash	100	Goods lost at branch	750
- Balance as on 31-3-		- Credit Sales	3,600
- Branch Debtors	?	- Insurance claim received by branch	600
- Cash	600	- Cash received from debtors	2,400
- Stock	1,000	- discount allowed	480
		- Bad debts	520
		- Goods returned by debtors	100
		- Branch Exp. Paid by H.O. Salary	320
		- Advt.	780
		- amount remitted by branch to H.O.	8,460

6. From the following information prepare Mandras Branch Account in the books of head office for the year ending 31st March . Depreciate the furniture @ 10% p.a.

Particulars	₹	Particulars	₹
Opening Stock (at cost)	3,56,000	Closing Stock (at cost)	3,76,800
Opening Debtors	28,000	Closing Debtors	1,92,000
Opening Petty Cash	500	Closing Petty Cash	240
Furniture (in the beginning)	12,000	Furniture at the end	?
Opening Creditors	12,000	Closing Creditors	12,000
Goods sent to Branch (at cost)	10,44,000	Cheques sent to Branch for Expenses	99,740
Goods returned by Branch to H.O. (at cost)	17,200	Cash Received from Debtors	12,78,000
Goods returned by Customers to Branch s	13,800	Cash Sales	64,000

7. From the following details relating to the Delhi Branch for the year ending on 31st March .Prepare the Branch Account in the books of the Head Office

Particulars	₹	Particulars	₹
Stock as on 1-4-2019	25,000	Cash received from Debtors	65,000
Debtors as on 1-4-2019	10,000	Cash paid by Debtors directly to H.O.	5,000
Furniture as on 1-4-2019	6,000	Stock as on 31-3-	15,000
Petty Cash as on 1-4-2019	1,000	Goods returned by Branch	2,000

Insurance Pre-paid as on 1-4-2019	300	Goods returned by Debtors	1,000
Salaries outstanding as on 1-4-2019	4,000	Cash sent to Branch for Expenses:	
Goods sent to Branch during 2019-	2,00,000	- Rent (₹ 800 p.m.)	9,600
Cash sales during the year	2,70,000	- Salary (₹ 4,000 p.m.)	48,000
Total Sales	3,50,000	- Petty Cash	2,000
Petty Cash Expenses	2,200	Insurance (up to June,)	1,200
Account allowed to Debtors	500		

Goods costing ₹ 2,500 were damaged in transit and a sum of ₹ 2,000 was recovered from the insurance company in full settlement of the claim. Depreciate the Furniture @ 10% p.a.

8. the following information and particular relate to New Delhi Branch for the year 2019-:

Particulars	31-3-2019	31-3-
	₹	₹
Stock	50,000	75,000
Debtors	70,000	95,000
Petty Cash	250	120

Goods costing ₹ 5,50,000 were sold by the Branch @ 25% on cost. Cash sales amounted to ₹ 1,50,000 and the rest were credit sales.

Branch spent ₹30,000 for salaries, ₹ 12,000 for rent and ₹ 8,000 for petty expenses (all expenses were remitted by Head Office.)

Branch received all goods from Head Office.

You are requested to show the New Delhi Branch Account in the books of Head Office for the year 2019- and prove you answer by preparing a Branch Trading and Branch Profit & Los Account.

9. X & Co. of Delhi have a branch at Madras. Goods are sent by the Head Office at invoice price which as at the profit of 25% on cost price. All expenses of the branch are paid by the Head Office. From the following particulars, prepare Branch Account in Head Office books: a) when goods are shown at cost price and b) when goods are shown at invoice price.

Balances:	Opening	Closing
	₹	₹
Stock at invoice price	11,000	13,000
Creditors	1,700	2,000
Petty Cash	100	25

Goods sent to branch at invoice price ₹ 20,000.

Expenses made by head office – Rent ₹ 600, Wages ₹ 200, Salaries ₹ 900.

Remittances made to Head Office – Cash Sales ₹ 2,650

- Cash Collected from Debtors ₹ 21,000

Goods Returned by Branch at invoice price ₹ 400.

10. One Mandras Head Office has a branch at Berhampur to which goods are invoiced at cost plus 20 per cent. From the following particulars prepare the Branch Account in the head Office Books.

Goods sent to Branch at invoice price	2,11,872
Total Sales	2,06,400
Cash Sales	1,10,400
Cash received from Branch Debtors	88,000
Branch Debtors at commencement	24,000
Branch Stock at Commencement at invoice price	7,680
Branch stock at close of the period at invoice price	13,440

11. X Ltd. has a branch at Nasik to which goods are invoice at cost plus 25%. The following information is supplied to you for 2019.

Particulars	₹	Particulars	₹
Stock on 1-1-2019 (invoice Price)	30,000	Cash received from Debtors	68,400
Debtors on 1-1-2019	20,000	Discount allowed to Debtors	1,600
Petty Cash on 1-1-2019	160	Cash remitted to Branch for Expense	16,000
Goods sent to Branch (cost)	80,000	Petty Cash at Branch on 31-12-2019	180
Sales Cash	52,000	Stock on 31-12-2019 (invoice Price)	24,000
Credit	72,000	Liabilities for Expenses on 31-12-2019	500

12. Mandar chemicals (P) Ltd. has a branch of Patna. Goods are invoiced to the Branch at cost plus 30% From the following details prepare Branch Account.

Particulars	₹	Particulars	₹
Stock on 1-1-2019	26,000	Goods returned to H.O.	6,500
Debtors on 1-1-2019	50,000	Goods returned by Branch Debtors to Branch	3,000
Cash in hand on 1-1-2019	250	Total Sales of the Branch	2,23,000
Goods sent to Patna Branch	1,30,000	Cash Sales	1,70,000
Cheques sent to branch		Expenses paid by Branch	23,000
a) Salary	3,000	Collection from Debtor	84,000
Rent	2,000	Closing Stock on 31-12-2019	1,04,000
Furniture purchased by H.O. for the Branch	10,000	Cash balance on 31-12-2019	130

Depreciation on Furniture at 10%.

13. Raj Oils Ltd. opened a branch at Shrinagar on 1st January 2019 Goods are invoiced to the branch at Cost plus 33 1/3% which is the selling price. From the following particulars relating to 2019 and , ascertain the profit made of Shrinagar Branch in the two year and show how the relevant items will appears in company's balance sheet on 31st December, 2019 and .

Particulars	2019	
	₹	₹
Goods sent to Shrinagar branch during the year at selling price	45,000	70,000
Sales a Branch		
- Cash	15,000	30,400
- Credit	19,600	41,000
Cash received from Debtors	15,400	32,300
Discount allowed to Customers	200	500
Cash sent to branch for Expenses (including Petty Cash)	6,000	10,000
Goods returned by the Branch (invoice Price)	1,500	-
Stock at 31 st December at invoice price	8,400	6,900
Petty cash at branch on 31 st December	90	40

14. The Tata Tea Ltd. Simla is having one of its branches at Pune. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to the head office. All expenses are paid by the head office except petty expenses which are met by the branch manager. From the following particular prepare the necessary accounts in the books of Tata Tea Ltd. for the year 2019.

Opening Balances:	₹
- Stock (Invoice price)	15,000
- Sundry Debtors	9,000
- Cash in hand	400
- Office Furniture	1,200
Transactions During the year:	
- Goods sent to the branch (Invoice Price)	80,000
- Goods return to the Hand Office	1,000
- Goods return by the Debtors	480
- Cash received from Debtors	30,000
- Cash Sales	50,000
- Credit Sales	30,000
- Discount allowed to Debtors	30
Expenses paid By the Head Office;	
- Rent	1,200
- Salary	2,400
- Printing & Stationery	300
Petty expenses paid by Branch manager	250
Depreciation is to be provided to branch Furniture @ 10%. P.a.	
Stock on 31r December, 2019 at Invoice Price	14,000

You are further informed that, under the instruction from Head Office, Pune branch paid ₹ 10,000 to one of the Head Office creditor.

15. A Head Office at Nagpur 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 year ended 31-03-2019 from the following information:

Date	Particulars	₹
On 1-4-2019	Debtors	25,000
	Stock at Invoice Price	60,000
(for year ending 31-13)		
	Goods sent to branch at Invoice Price	2,80,000
	Bad Debts	4,000
	Discount Allowed	3,000
	Returns Inward	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- at Invoice Price	20,000

16. BPO company has a branch at Pune. Goods are invoiced to the Branch at 20% profit on Invoiced Price. Branch has been instructed to send cash daily to the head Office. All expense 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 transaction for the year ended 31st December, 2019 were as under:

Particulars	₹
Stock on 1 st Jan.2019 (Invoice Price)	84,000
Sundry Debtors – 1 st Jan. 2019	36,000
Cash in hand – 1 st Jan. 2019	1,600
Furniture – 1 st Jan. 2019	8,000
Goods invoiced to Branch (Invoice price)	3,20,000
Goods returned to H.O. (Invoice Price)	4,800
Goods returned by Debtors	2,000
Cash 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 H.O.	
- 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 2019 at Invoice Price ₹ 60,000.

17. X Company has a branch at Delhi. Goods are invoiced from Head Office at cost plus 33 1/3%. Find out profit at the branch according to Debtors System.

Particulars	₹	Particulars	₹
Opening Balances:		Cash Sales	50,000
- Debtors	10,000	Credit Sales	36,000
- Petty Cash	1,000	Goods returned by Debtor	800
- Furniture	2,000	Goods returned by Branch to H.O.	2,000
- Stock	8,000	Cash received from debtors	20,000
Cash Sent by H.O. for Petty Expenses	2,000	Stock at the end at I.P	7,800
Branch Expenses and Losses:		Goods invoiced by H.O. during the year.	88,000
- Freight and Advertisement	5,600		
- Bad Debts	50		
- Depreciation on Furniture	80		
- Petty Expense	1,500		

18. Delhi head office supplies goods to its branch at Kanpur at invoice price which is cost plus 50% all cash received by branch is remitted to Delhi and all branch expenses are paid by the head office. From the following particular related to Kanpur branch for the year 2019, prepare Kanpur Branch Account.

Particulars	₹	Particulars	₹
Stock with Branch on 1-1-2019 (at Invoice Price)	60,000	Discount allowed to Debtors	2,400
Branch Debtors on 1-1-2019	12,000	Expenses (Cash paid by Head Office):	
Petty Cash balance on 1-1-2019	100	Rent	2,400
Goods received from Head Office (at Invoice Price)	1,86,000	Salaries	24,000
Goods returned to Head Office	3,000	Petty Cash	1,000
Credit Sales less Return	84,000	Cash Sales	1,04,000
Cash received from Debtors	90,000	Stock with branch on 31-12-2019 at Invoice Price	54,000
		Petty Cash balance on 31-12-2019	100

19. A retailer of Calcutta runs shops at Sealdah and Alipore with the head office. At Salt Lake. Purchases are made by head office and charged to the branches at selling price with is 33 1/3% over cost. The branches keep sales ledger. From the following particulars prepare Sealdah Branch account and Alipore Branch Account as they would appear in the books of Head Office.

Particulars	Sealdah	Alipore
	₹	₹
Stock at 1-1-2019 (at selling price)	16,000	20,000
Debtors at 1-1-2019	5,000	7,000
Goods sent to branch (at selling price)	40,000	60,000
Cash sales	20,000	30,000
Credit Sales	45,000	75,000
Cash received from Debtors	30,000	60,000
Expenses	3,000	5,000
Stock at 31-12-2019 (at cost)	16,000	21,000

During the year goods to the value of ₹ 8,000 (at selling price) were transferred from the Sealdah Branch to Alipore Branch.

20. Widespread Ltd. invoices goods to its branch at cost plus 20%. The branch sells goods for cash as well as credit. The branch meets its expenses out of cash collected from its debtors and cash sales and remits the balance of cash to head office after withholding ₹ 10,000 necessary for meeting immediate requirement of cash. On 31st March, 2019 the assets at the branch were as follows:

Particulars	₹ (000)
Cash in hand	10
Trade Debtors	384
Stock, at Invoice Price	1,080
Furniture and fittings	500

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

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

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

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

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

21. Emgee Enterprises of Pune has two branches at Solapur and Kolhapur. The branches maintain an account with State Bank and are authorized to make purchase locally.

Following information is obtained from Solapur branch by Pune Office.

Particulars	Solapur	
	1-4-2019	31-3-2020
	₹	₹
Balance as on		
Cash	4,000	5,400
Stocks	10,000	18,000
Debtors	24,000	8,000
Bank	14,000	12,000
Creditors	2,000	1,000
Transactions during the year-		
Goods received from-		
Pune	40,000	
Kolhapur	3,000	

Locally Bought Goods	6,600	
Payments to Creditors -		
- By Cash	600	
- By Cheque	7,000	
Receipts from Debtors		
- By Cash	12,000	
- By Cheque	18,000	
Sales on Credit	20,000	
Sales for Cash	50,000	
Goods Return by customers	5,000	
Goods Returned to Pune	6,000	
Goods sent to Kolhapur Branch	4,000	
Expenses paid at Branch By Cheque	9,600	
Cash Deposit in Bank	?	
Amount transferred to Pune	?	

Prepare necessary accounts for branches under Stock and Debtor Method in Pune Office Books.

22. 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, branch Expenses Account. Cash is immediately remitted by Branch to Head Office. Expenses are paid direct by Head Office.

Particulars	₹
Stock at branch on 1-1-2005	7,560
Goods from Head Office	35,500

Goods returned by customer	300
Total Sales	46,760
Cash Sales	16,750
Goods return to Head Office	350
Stock at Branch on 31 st December 2005	6,950
Debtors on 1 st January 2005	13,000
Cash paid by customers	24,600
Discount and commission to customers	1,360
Bad Debts	300
Rent Rates and Taxes	900
Salaries and Wages etc.	3,650

23. A Head Office in Solapur has a branch 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) ob 1 st July, 2001	5,000
Branch Debtors on 1 st July, 2001	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 2001 (at invoice price)	2,100

Calculate profit made by the Branch. Account are to be opened on Stock and Debtors system.

24. Delhi Soap Mills Ltd. has branch at Agra. Goods are invoice to branch at cost plus 50% Branch remits all cash received to the head office and all expenses are met by head office. From the following particulars, prepare the necessary accounts under the Stock and Debtors system to show the profit earned at the branch.

Particulars	₹
Stock on the 1 st April, (invoice Price)	93,000
Debtors on 1 st April	68,000
Goods invoiced to branch (cost)	3,40,000
Sales at branches:	
Cash	2,50,100
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

