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Accountancy Major Paper – VI

**Hire Purchase System and
Branch Account**

(In accordance with National Education Policy 2020)
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Unit 1
Hire Purchase System Part- I

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1.0.Objectives :After studying the this unit students will able to :

1. Understand the concept , meaning, definition and features of hire purchase system
2. Explain the difference between hire purchase and sale
3. Analyse the different methods of calculation of interest under hire purchase system
4. Implement the different methods of calculation of interest for solving the numerical problems based on hire purchase system

1.1.Introduction:

The Hire Purchase System is a method of acquiring assets without paying the full price upfront.It allows the buyer to use the asset immediately while making payments in installments. This system is commonly used for consumer durables like vehicles, appliances, and machinery. The buyer (hire purchaser) and seller (hire vendor) enter into a legal agreement.Ownership of the asset remains with the seller until all installments are paid. The first payment made is usually called the down payment. The remaining amount is paid over time in monthly or periodic installments.Each installment includes a part of the principal and interest. If the buyer defaults, the seller has the right to repossess the asset. It is a popular

financing method for those who cannot afford to pay the full cost immediately. The buyer gets the right to use the asset but not the ownership initially. The hire purchase agreement must clearly mention all terms, including interest rate and penalties. The system encourages savings and helps buyers manage their budgets. It is different from a credit sale, where ownership is transferred immediately. Depreciation is usually claimed by the seller until full payment is made. It is widely used by both individuals and businesses. The agreement may include clauses regarding early payment or termination. Accounting for hire purchase involves recognizing interest and asset use properly. It is regulated by consumer protection laws in many countries. Overall, the hire purchase system provides a flexible and practical financing alternative.

1.2.1. Definitions of hire purchase

Here are **different definitions of the Hire Purchase System** as given by various authorities and accounting references:

1. **Institute of Chartered Accountants of India (ICAI):**

"A hire purchase transaction is a transaction where goods are purchased and the payment is made in installments. Ownership of goods passes to the purchaser only after the payment of all installments."

2. **Chambers Dictionary of Accounting:**

"A system by which a buyer pays for a thing in regular installments while enjoying the use of it. Ownership is transferred only when all payments are made."

3. **Oxford Dictionary of Business:**

"A method of buying goods in which the buyer pays a deposit followed by regular installments and becomes the owner only when the final payment has been made."

4. **Spicer and Pegler (Accounting Authors):**

"Hire purchase is a system of purchase under which the buyer pays an initial amount and the balance in installments and acquires the ownership of the goods after the payment of the last installment."

5. **Webster's Dictionary:**

"A system of purchasing whereby a person may secure immediate possession of goods and pay for them in installments, ownership vesting only after the full payment is made."

6. **Prof. J.R. Batliboi:**

"Hire purchase is a system under which the purchaser pays the amount in regular installments and gets the delivery of goods immediately but ownership is transferred only after the payment of the last installment."

1.2.2.Features of Hire Purchase System

1.Immediate Possession but Deferred Ownership:The buyer gets immediate possession of the asset after signing the agreement and making the initial down payment.Ownership remains with the seller (hire vendor) until all installments are paid. This distinguishes hire purchase from outright sales.The buyer gets the asset immediately but ownership stays with the seller until the last installment is paid.

Example: Ramesh buys a washing machine on hire purchase. He takes it home the same day but will legally own it only after completing last payments.

2. Payment in Installments: The purchase price is paid over time through fixed periodic installments (monthly, quarterly, etc.). Each installment includes a portion of principal and interest. The structure makes it easier for buyers who cannot afford lump-sum payments. The buyer pays the cost of the asset in equal or structured installments over a period.

Example: A laptop worth ₹60,000 is purchased in 12 monthly installments of ₹5,500 each (including interest).

3. Down Payment: A certain percentage of the asset's cost is paid upfront, known as the down payment. It reduces the amount to be financed under the hire purchase agreement. An initial lump-sum amount paid at the start of the agreement.

Example: Seema buys a refrigerator on hire purchase with a down payment of ₹10,000 and the remaining ₹30,000 in 10 monthly installments.

4.Interest on Outstanding Balance: Interest is charged on the outstanding balance of the hire purchase price. The total hire purchase price is usually higher

than the cash price due to this added interest. Interest is charged on the unpaid amount of the asset, increasing the total cost.

Example: The cash price of a bike is ₹80,000, but on hire purchase, Ravi pays a total of ₹90,000 due to 10% interest.

5. Ownership Transfer on Last Installment :Legal ownership is transferred to the buyer only after the payment of the final installment.Until then, the seller retains ownership rights and can repossess the goods in case of default.Legal ownership is transferred to the buyer only after the final installment is paid.

Example: Neha completes the last payment for her hired scooter after 24 months, and the registration papers are then transferred to her name.

6. Right to Use the Asset :The buyer has the **right to use the asset** from the time of agreement. However, they cannot legally sell or transfer the asset to someone else before full ownership is obtained. The buyer can use the asset from the start of the agreement.

Example: Amit starts using the computer he bought on hire purchase immediately after signing the agreement and paying the down payment.

7.Repossession Rights: If the buyer defaults in payment, the seller has the legal right to repossess the asset. All previous payments may be forfeited, depending on the terms of the agreement.The seller can take back the asset if the buyer defaults on payments.

Example: After missing three EMI payments, the car dealer repossesses the car sold to Anil under a hire purchase agreement.

8. Option to Cancel: The buyer may sometimes have an option to terminate the agreement by returning the asset and paying due installments, though this depends on the specific agreement terms. The buyer may be allowed to cancel the agreement by returning the goods and settling dues.

Example: Priya returns the air conditioner after six months due to financial issues, paying the outstanding dues and canceling the hire purchase contract.

9. Legal Agreement: A **formal legal agreement** is executed between the buyer and the seller.It includes all terms such as installment amount, interest rate, due dates, repossession clause, penalties for default, and conditions for ownership transfer. A written agreement outlines all terms and conditions.

Example: The hire purchase agreement between Samsung Electronics and a customer details the EMI amount, tenure, interest rate, repossession clause, and ownership terms.

10. Separate Accounting Treatment: In accounting, hire purchase transactions require special treatment: Asset is recorded in the books. Interest and depreciation are accounted for separately. Ownership and installment status are disclosed. Specific accounting entries for interest, principal, and depreciation are required.

Example: ABC Ltd. buys machinery on hire purchase and records interest as a finance cost and depreciation as an expense until ownership is transferred.

12. Useful for Consumers and Businesses : Facilitates the acquisition of high-value assets without blocking large capital. Widely used by individual consumers and businesses alike for planned purchases and investments. Individuals and organizations use it to finance large purchases without blocking capital.

Example: A small business acquires a photocopier machine on hire purchase to manage cash flow efficiently.

13. Regulated by Law: Hire Purchase agreements are governed by specific laws (e.g., the **Hire Purchase Act** in some countries). Consumer protection laws also apply to ensure transparency and fairness. The system is governed by specific consumer and commercial laws.

Example: In India, hire purchase transactions are regulated under the Indian Contract Act and various consumer protection laws to avoid exploitation.

14. Higher Cost than Cash Purchase: Due to interest and administrative fees, the total cost of the asset under hire purchase is higher than outright purchase. Due to interest and charges, the total cost under hire purchase is more than the cash price.

Example: The cash price of a fridge is ₹25,000, but under hire purchase, Rahul pays ₹28,500 due to added interest over 12 months.

15. Risk of Loss or Damage Lies with the Buyer: Even though ownership is not transferred, the risk of damage or loss typically lies with the buyer from the date of possession. The buyer bears the risk even though the asset is not legally owned.

Example: The hired TV set is damaged in an accident at the buyer's home — the loss is borne by the buyer, not the seller.

16. Security for the Seller: The seller retains ownership as security until all dues are cleared. This minimizes the risk of non-payment or default. Ownership remains with the seller until full payment, reducing the seller's financial risk.

Example: Until the last payment is made, the seller retains ownership of the furniture sold to the buyer, acting as collateral.

These features make the Hire Purchase System a flexible yet legally binding financing method, enabling users to acquire assets with minimal upfront investment while ensuring security and payment structure for the seller.

Check Your Progress

Section -I

Multiple Choice Questions (MCQs)

- 1. In the Hire Purchase System, ownership is transferred to the buyer:**
A) Immediately after the agreement B) On down payment
C) After full payment of installments D) After one installment
- 2. The first payment made in a hire purchase agreement is known as:**
A) Interest B) Final installment
C) Down payment D) Initial fee
- 3. In case of default, the seller has the right to:**
A) Cancel the agreement B) Repossess the asset
C) Reduce the price D) Forgive the remaining installments
- 4. -----is *not* a feature of the Hire Purchase System.**
A) Deferred ownership B) Lump-sum payment
C) Legal agreement D) Payment in installments
- 5. The buyer under hire purchase has the right to:**
A) Ownership B) Transfer asset before payment

C) Use the asset D) Sell the asset immediately

6. **Installments in hire purchase include:**

- A) Only interest B) Only principal
C) Both principal and interest D) Administrative charges only

7. **Which term applies when the seller keeps ownership till final payment?**

- A) Absolute sale B) Credit purchase
C) Conditional sale D) Hire vendor loan

8. **The hire purchase system is regulated under:**

- A) Sales Tax Act B) Banking Regulation Act
C) Consumer protection and contract laws D) Negotiable Instruments Act

9. **Depreciation on the hired asset is claimed by:**

- A) Buyer B) Government
C) Seller D) Hire purchase agent

10. **Which of these is commonly purchased under hire purchase?**

- A) Land B) Shares
C) Machinery D) Patents

11. **The hire purchase system benefits the buyer by:**

- A) Immediate ownership B) Tax deductions
C) Reduced paperwork D) Managing budget through installments

12. **The total cost under hire purchase is usually:**

- A) Less than cash price B) Equal to cash price
C) More than cash price D) Negligible

13. **If the asset is damaged during the agreement, the risk is borne by:**

- A) Seller B) Buyer
C) Insurance company D) Government

14. The term 'hire purchaser' refers to:

- A) A leasing agent B) The seller
C) The buyer using the asset D) A guarantor

15. What is the nature of the hire purchase agreement?

- A) Oral understanding B) Informal agreement
C) Legal written agreement D) Verbal contract

True or False

1. In hire purchase, ownership is transferred immediately.
2. Installments include both principal and interest.
3. The buyer cannot use the asset until full payment is made.
4. The seller can repossess the asset in case of default.
5. A down payment is not mandatory in hire purchase.
6. The risk of damage lies with the seller until ownership is transferred.
7. Hire purchase agreements are legally enforceable.
8. The buyer may terminate the agreement under certain terms.
9. Depreciation can be claimed by the buyer from the beginning.
10. Hire purchase is a popular method for buying high-value goods.

1.2.3. Most Important Accounting Standards (AS) in the hire purchase accounting

1. AS 9 – Revenue Recognition

Meaning: Seller recognizes revenue when significant risks and rewards of ownership are transferred to the buyer.

Example:

A car is sold on hire purchase at a cash price of ₹5,00,000. The buyer pays ₹1,00,000 down and the rest in 4 annual installments (with interest).

The seller records **₹5,00,000 as sales revenue** in the year of agreement and interest income is recognized over 4 years.

2. AS 10 – Property, Plant and Equipment

Meaning: The buyer records the asset at its cash price and charges depreciation on it.

Example:

A machine is purchased on hire purchase:

- Cash Price = ₹2,00,000
- Total Installments = ₹2,40,000 (includes ₹40,000 interest)

The buyer records the **asset at ₹2,00,000** and depreciates it (e.g., ₹20,000 per year at 10%).

1.2.4 Most Important Accounting Concepts and Principles in Hire Purchase Accounting system

1. Accrual Concept :Record income and expenses when they occur, not when cash is paid.

Example:Annual interest of ₹10,000 is due on a hire purchase agreement. Even if not yet paid, it is recorded as an expense in that year.

2. Matching Principle : Match related expenses (like depreciation and interest) with the revenue of the same period.

Example: An asset generates income in 2024-25, Depreciation = ₹15,000, Interest = ₹5,000

Both expenses are shown in **2024–25**, matching them with the income earned from the asset.

3. Substance Over Form : Record based on economic reality, not just legal ownership.

Example: :A vehicle is bought on hire purchase. Though legal ownership is with the seller, the buyer uses and maintains it. The buyer shows the vehicle in their books, charges depreciation, and pays interest.

4. Prudence (Conservatism): Don't overstate assets or profits; recognize losses and expenses early. **Example:** Expected interest over 3 years = ₹30,000 Year 1 interest = ₹12,000. ₹12,000 interest expense is **immediately recorded** even if paid later.

1.2.5. Important Term used in Hire Purchase Accounting System

1. Hire Vendor : The seller of the goods who gives them on hire purchase. Retains ownership until full payment is made.

Example: ABC Ltd. sells a machine to X on hire purchase. ABC Ltd. is the hire vendor.

2. Hire Purchaser (Hirer): The buyer who takes possession of goods and pays in installments. Gets ownership only after paying the full amount.

Example: X purchases a machine from ABC Ltd. on hire purchase. X is the hire purchaser.

3. Cash Price: The original price of the asset if paid in full at once (without interest).

Example: The cash price of a car is ₹5,00,000.

4. Down Payment: The initial payment made by the hirer at the time of agreement.

Example: Out of ₹5,00,000, ₹1,00,000 is paid upfront. This is the down payment.

5. Hire Purchase Price : The total amount paid by the hirer including the cash price + interest.

Formula: Hire Purchase Price = Down Payment + Total of All Installments (including interest)

Example: Cash Price = ₹5,00,000

Interest = ₹50,000

Hire Purchase Price = ₹5,50,000

6. Interest: The extra amount charged by the vendor for allowing payment in installments. Example: On ₹4,00,000 balance, vendor charges ₹50,000 interest over 4 years.

7. Installment: The fixed amount paid periodically by the hirer (includes part of principal + interest). Example: ₹1,12,500 is paid annually for 4 years = 4 installments.

8. Principal Amount: The actual amount of cash price included in each installment (excluding interest). Example: If installment is ₹1,12,500 and interest is ₹12,500, principal is ₹1,00,000.

9. Repossession : If the hirer fails to pay, the vendor can take back (repossess) the asset. Example: Hirer defaults after 2 installments. Vendor repossesses the machine.

10. Default: Failure of the hirer to pay an installment on time. Example: If a ₹1,12,500 installment is not paid on the due date, it's a default.

11. Depreciation: The reduction in the value of the asset over time due to use or wear and tear. Example: A machine purchased for ₹5,00,000 may depreciate at ₹50,000 per year (10%).

12. Ownership Transfer: Ownership shifts from vendor to hirer only after full payment of the hire purchase price. Example: Hirer becomes legal owner after the last installment is paid.

1.2.6. Hire Purchase Agreement –

A **Hire Purchase Agreement** is a legal contract between two parties:

- **Owner (Hire Vendor):** The person who owns the goods.
- **Hirer (Buyer):** The person who takes possession of the goods and pays in installments.

Under this agreement:

- The hirer takes possession of the goods immediately.
- The ownership of goods **remains with the vendor** until all installments are paid.
- The hirer can use the goods but **becomes the owner only after the last payment.**

1.2.7. Essential Features of a Hire Purchase Agreement

1. **Installment-Based Payment** – The hirer pays in fixed monthly/annual installments.
2. **Ownership Transfer** – Ownership passes to the hirer only after the last installment is paid.
3. **Right to Use** – The hirer can use the goods during the agreement.
4. **Right to Return** – The hirer can return the goods if unable to pay.
5. **Repossession** – The vendor can take back the goods if the hirer defaults.
6. **Interest Included** – Each installment includes both principal and interest.

1.2.8. Hire Purchase vs. Sale (under the Sale of Goods Act, 1930)

Basis	Hire Purchase	Sale (Under Sale of Goods Act)
Ownership	Transfers after full payment	Transfers at the time of agreement
Right to Return	Hirer can return the goods	Buyer cannot return unless allowed by law
Installments	Includes both interest and principal	Sale can be on cash or credit (with or without interest)
Risk of Loss	Usually with the vendor until ownership is transferred	Buyer bears the risk after sale
Default by Buyer	Vendor can repossess goods	Seller may sue for the price or damages

1.2.9. Legal Provisions Related to Hire Purchase in India

1. **Indian Contract Act, 1872** :Governs the basic validity and enforcement of contracts.
2. **Sale of Goods Act, 1930** :Governs sale transactions, and helps distinguish between a sale and a hire purchase.

3. **Transfer of Property Act, 1882** :Applies when ownership of goods is transferred after conditions are fulfilled.

Section :II- Check Your Progress

A) Multiple Choice Questions (MCQs)

1. ----- **Accounting Standard deals with revenue recognition in hire purchase?**
a) AS 10 b) AS 2
c) AS 9 d) AS 3
2. **According to AS 10, the asset acquired under hire purchase is recorded at:**
a) Hire purchase price b) Installment value
c) Market value d) Cash price
3. **Under the accrual concept, expenses are recorded:**
a) When paid b) When incurred
c) At the year-end d) When approved by auditor
4. **Ownership in hire purchase transfers to the hirer:**
a) After down payment b) At agreement signing
c) After full installment payment d) At first installment
5. ----- **concept suggests recording based on economic reality and not legal title.**
a) Matching b) Prudence
c) Substance over form d) Consistency
6. **In hire purchase, depreciation is charged by:**
a) Seller until last installment b) Buyer from the beginning
c) Government d) None of the above
7. -----**is included in each installment under hire purchase.**
a) Only interest b) Only principal
c) Principal and interest d) Maintenance charges
8. ----- **term describes the initial amount paid at the start of hire purchase.**
a) Installment b) Security
c) Down payment d) Margin
9. **If a hirer fails to pay an installment, the seller can:**
a) Cancel the agreement b) Repossess the goods
c) Reduce the interest d) Waive the payment

10. **The legal basis for distinguishing hire purchase from sale in India is governed by:**
- a) Indian Penal Code b) Indian Contract Act, 1872
 - c) Sale of Goods Act, 1930 d) Both b and c

B) True or False

1. Ownership under hire purchase transfers immediately on signing the agreement.
2. Each installment in hire purchase includes both interest and principal.
3. AS 9 requires revenue to be recognized only after full payment is received.
4. Cash price includes interest under hire purchase.
5. The matching principle requires aligning revenue with related expenses in the same period.
6. In hire purchase, the buyer can sell the asset before full payment.
7. Under the substance over form concept, assets are shown in the user's books even without legal ownership.
8. Repossession refers to the seller taking back the asset on buyer's default.
9. The prudence concept allows recognition of unrealized gains.
10. The Hire Purchase Agreement allows the hirer to return the goods.

1.2.10 .Accounting in the books of Hire Vendor and Hire purchaser.

D) Installment Analysis :-

In hire purchase system the purchaser agrees to pay the cost of assets (called cash price) in convenient installments along with the interest thereon. Thus, each installment paid by him consists of

- 1) Capital Cost : The amount paid towards the cost of Assets.
- 2) Revenue Cost : Interest paid for delay in payment. This interest paid is revenue expenditure to the installment purchaser and it is gain to the vendor.

For accounting of hire purchase transaction, it is of almost importance to separate these two elements in each installment viz. Cash Price and Interest Charge. Interest is revenue expenditure must be transferred to Profit and Loss Account and cash value being capital expenditure should be debited to Asset Account.

Accounting Entries in the books of Hire Purchaser :-

The Hire purchaser generally opens the following Ledger Account:

- | | |
|------------------|-------------------------------|
| 1) Assets A/c | 2) Hire Vendors A/ c (Seller) |
| 3) Interest A/ c | 4) Depreciation A/ c |

There are two methods of recording the hire purchase transactions in the books of hire purchaser : A) Part Cash Price Method B) Full Cash Price Method

Out of these two methods Generally the 'Part cash price method' is used to record hire purchase transactions. But when there is repossession of assets for non payment of installment the second method - full cost price method becomes more suitable.

1.2.11.Part Cash Price Method :-

Under this method the asset account is debited with the amount of cash price paid through installment as and when the installments are paid and interest account is debited with the interest amount paid from time to time.

Following entries are passed to record hire purchase transactions under this method :

Transaction	Journal Entries
A) On the date of Agreement	
1) When Cash down payment (Advance) becomes due.	Assets A/ c -----Dr. To Vendors A/c (with cash down payment)
2) When cash down payment is made	Vendors A/ c -----Dr. To Bank A/c (with cash down payment)
B) At the End of each Accounting Year	
1) When subsequent instalment becomes due	Assets A/c (cash price-- Dr. Interest A/c (Interest amount) -----Dr. To Vendors A/c (with amount of instalments)

2) When instalment is paid	Vendors A/C ----- Dr. To Bank A/c (with amount of Instalment)
3) When depreciation is provided at the end of year.	Depreciation A/c ----- Dr. To Assets A/c (At the given percentage of full cash price)
4) When depreciation and interest transferred to Profit and Loss Account at the end of each accounting year.	Profit and Loss A/c ---- Dr. To Interest A/c To Depreciation A/c

1.2.12.Full Cash Price Method :-

Under this method the asset account debited and hire vendors account is credited with the full amount of cash price, immediately on completion of hire purchase agreement. Generally, this method is suitable to solve the problems wherein the asset is repossessed by the vendor on nonpayment of installments. For recording hire purchase transactions under this method following entries are passed.

Transaction	Journal Entries
A) On the date of Agreement	
1) When agreement is made (Assets purchased)	Assets A/c ----- Dr. To Vendor A/c (Full cash price of asset)
2) When cash down payment (Advance) is paid	Vendor A/c ----- Dr. To Bank A/c (with cash down amount)
B) At the End of each Accounting Year	
1) When interest payable	Interest A/c ----- Dr. To Vendors A/c (with interest in the installment)
2) When installment is paid	Vendors A/c ----- Dr. To Bank A/c (with amount of Installment)

3) When depreciation is provided	Depreciation A/c ---- Dr. To Assets A/c (with given percentage on full cash price)
4) When interest and depreciation are transferred to profit and loss account at the end of each accounting year.	Profit and Loss A/c - Dr. To Interest A/c To Depreciation A/c

1.2.13. Accounting Entries in the books of Vendor (Seller) :-

Hire Vendor treats the transaction like ordinary sale and hence opens the following Ledger Account - 1) Hire purchaser A/c 2) Interest A/c

He debits the hire purchaser account with the full cash price and credits the sales account. Interest is debited to the hire purchaser account when installments become due and cash received on installments is credited to the hire purchaser account. The journal entries to be passed by the hire vendor are as follows :

Transaction	Journal Entries
A) On the date of Agreement	
1) When the hire purchaser agreement is signed (Asset Sold)	Hire Purchas A/c ----- Dr. To Sales A/c (with full cash price)
2) When the cash down payment (Advance) is received	Bank A/c ----- Dr. To Hire Purchaser A/c (with cash down amount)
B) At the End of each Accounting Year	
1) When interest receivable	Hire Purchaser A/c --- Dr. To Interest A/c (with interest amount)
2) When the installment is received	Bank A/c ----- Dr. To Hire Purchaser A/c (with the amount of Installment)
3) When amount of interest is transferred to Profit and Loss A/C	Interest A/c -----Dr. To Profit and Loss A/c (Closed Interest A/c)

1.2.14.Methods of Interest Calculation:-

The price quoted by the seller in hire purchase system is higher than the price which he would have quoted for sale on cash basis. The Excess of hire purchase price over the cash price is treated as payment for interest. Calculation of interest depends upon the specific information given in the problem. Following are the different methods of calculation of interest:

A) When Cash Price, Rate of Interest and Installments are given separately :-

When cash price of asset, rate of interest and hire purchase installment are given in the problem in that case calculation of interest is very simple. Interest at a given rate is calculated on the outstanding balance of cash price at the beginning of each year. The interest for the final period should be taken as the difference between the cash price outstanding at the end of that period and the amount of installment. The following example is based on the above method.

Example No. 1 :-

On 1st April 2020 Santosh purchased a machine from Anand whose cash price is Rs. 27300. Rs. 6000 is paid at the signing of the contract and the balance is to be paid in four instalments of Rs. 6000 each. The rate of interest is being 5% p.a. Find out the amount of interest included in each instalment.

Solution :-

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 5% Interest on outstanding Balance
1.4.2020	6000	6000	-	-
31.3.2021	6000	4935	1065	Int. = 27300 - 6000 = 21300 at 5%
31.3.2022	6000	5182	818	Int. =21300 - 4935 = 16365 at 5%
31.3.2023	6000	5441	559	Int. =16365 - 5182 = 11183 at 5%
31.3.2024	6000	5742	258	Int. =11183 - 5441 = 5742
Total	30000	27300	2700	

* Interest adjusted in last installment

B) When cash price and rate of interest given, Hire purchase price is not given :-

Cash price of an asset purchased and the rate of interest is given but hire purchase price are not given. Under this method the calculation of interest is done on the outstanding cash price of the asset and the interest amount so arrived is added in the cash portion of the asset and total of cash portion and interest outstanding is taken as the hire purchase price for the period. The following example will illustrate this method.

Example No. 2 :-

Ajay purchased a machine on 1st April 2021 from Vijay under hire purchase system. The cash price of the machine was Rs. 74000. As per the agreement Ajay has to pay Rs. 14000 cash down and the remaining amount in three equal installment of Rs. 20000 each. The rate of interest being charged at 10% p.a.

Find out the hire purchase price of the machine and calculate the amount of interest included in each installment.

Solution: -

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 10% Interest on outstanding Balance
1.4.2021	14000	14000	-	-
31.3.2022	26000	20000	6000	Int. = 74000 - 14000 = 60000 at 10%
31.3.2023	24000	20000	4000	Int. = 60000 - 20000 = 40000 at 10%
31.3.2024	22000	20000	2000	Int. = 40000 - 20000 = 20000 at 10%
Total	86000	74000	12000	

Here each installment means

Hire Purchase Price = Cash Price + Interest.

C) When Hire Purchase Price and Rate of Interest is given but Cash price is not given :-

When Cash Price of the asset is not given in the problem, interest as well as cash price will be calculated by working backward. It means the interest included in the last installment is calculated first, then interest included in the cash portion of the last installment plus last but one installment is calculated. This process is continued upto first installment. This method is also known as LIFO method / Reserve method.

Example No. 3 :-

Ram Purchases machine from Laxman under Hire purchase system on 1st April 2019. Ram agreed to pay the price of the machine in five, annual installment as stated below and also agreed to pay 10% interest on unpaid balance of cash price. Ascertain the cash price of the machine and calculate interest included in each installment.

31st March 2020 - Rs. 1500 - 1st Installment

31st March 2021 - Rs. 1400 - 2nd Installment

31st March 2022 - Rs. 1300 - 3rd Installment

31st March 2023 - Rs. 1200 - 4th Installment

31st March 2024 - Rs. 1100 - 5th Installment

Solution :-

Interest Calculation :-

$$\text{Interest Rate} = 10\% = \frac{10}{100} = \frac{1}{10+1} = \frac{1}{11}$$

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 5% Interest on outstanding Balance
31.03.2020	1500	1000	500	Int. $= (1000+1000+1000+1000+1500) \times \frac{1}{11} = 500$ CP = 1500 - 500 = 1000
31.03.2021	1400	1000	400	Int. = $(1000+1000+1000+1400) \times \frac{1}{11} = 400$ CP = 1400 - 400 = 1000
31.03.2022	1300	1000	300	Int. $= (1000+1000+1300) \times \frac{1}{11} = 300$

31.03.2023	1200	1000	200	$CP = 1300 - 300 = 1000$ $Int. = (1000+1200) \times \frac{1}{11} = 200$ $CP = 1200 - 200 = 1000$
31.03.2024	1100	1000	100	$Int. = 1100 \times \frac{1}{11} = 100$ $CP = 1100 - 100 = 1000$
Total	6500	5000	1500	

Cash Price of Machine was Rs. 5000.

D) When Cash Price and Hire Purchase price is given but rate of Interest not given : (Ratio Method)

In some problem the cash price of assets purchased and installments payable by purchaser are given but the rate of interest is not stated. In such cases the total interest (i.e. Hire purchase price less cash price of asset) is distributed in the ratio of outstanding balance of the hire purchase price at the commencement of each period. The following example will illustrate this method.

Example No. 4

Ganesh purchase machine from Shiva under Hire Purchase system on 1st April 2020. The Cash price of the machine was Rs. 60000. The hire purchase agreement provides that Rs. 20000 is to be paid at the signing of the contract and the balance to be paid in three equal installment of Rs. 20000 each. Calculate the interest amount included in each installment.

Solution :

1) Total Interest = Hire Purchase price - Cash Price

= 80000 - 60000

∴ Total Interest = ₹. 20000.

2) Calculate outstanding Balance in Hire Purchase installment

Hire Purchase price on 01.04.2020	80000
Less : Cash down payment	20000
Outstanding Balance on 31.03.2021	60000
Less : 1 st Installment on 31.03.2021	20000
Outstanding Balance on 31.03.2022	40000
Less : 2 nd Installment on 31.03.2022	20000
Outstanding Balance on 31.03.2023	20000
Less : 3 rd Installment on 31.03.2023	20000
	Nil

3) Calculation of Outstanding Balance Ratio

Outstanding Balance

31.03.2021	31.03.2022	31.03.2023
60000	: 40000	: 20000
3	: 2	: 1

Outstanding Balance Ratio = 3:2:1

Outstanding Balance Ratio was 3:2:1. Therefore the amount of Total Interest Rs. 20000 will be apportioned in the ratio of 3:2:1

4) Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of Interest
01.04.2020	20000	20000	-	-
31.03.2021	20000	10000	1000	Int. = $20000 \times \frac{3}{6} =$ 10000 CP = 20000 - 10000 = 10000
31.03.2022	20000	13333	6667	Int. = $20000 \times \frac{2}{6} =$ 6667 CP = 20000 - 6667 = 13333

31.03.2023	20000	16667	3333	Int. $20000 \times \frac{1}{6} = 3333$ CP = $20000 - 3333 = 16667$
Total	80000	60000	20000	

1.2.14.1. When Cash Price, Rate of Interest and Installments are given separately :

Illustration :1(Part Cash Price Method)

Mr. Sushant purchased motor vehicle for a cash price of Rs. 168000 under hire purchase system from Bharat Motors Co. on 1-4-2020. The terms provided that Rs. 45000 be paid on signing the agreement and the balance amount in three equal instalments of Rs. 45000 at the end of the each year . The interest at 5% p.a. on unpaid balance is charged. The motor Vehicle was depreciated at 20% p.a. on the reducing balance method. From the above transactions draft the journal entries in the books of both the parties and also prepare necessary ledger account. (Use part cash price method)

Solution:

The cash price of the asset is Rs.168000

The rate of interest is Rs. 5% p.a.

The hire purchase price is Rs. 180000 (Cash down is Rs. 45000 plus three instalments of Rs.45000)

In the given problem Cash price is Rs. 168000 and Hire Purchase Price is Rs. 180000 (including down payment plus all installment) and rate of interest is given so use the working note of calculation of interest

Calculation of Interest and instalment is as given below

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 5% Interest on outstanding Balance
1-4-21	45000	45000	---	----
31-3-22	45000	38850	6150	Int=168000- 45000=123000*5%=6150 C.P.=45000-6150=38850
31-3-23	45000	40793	4207	Int=123000- 38850=84150*5%=4207 C.P.=84150-4207=40793
31-3-24	45000	43357	1643	Int=84150-40793=43357 Last Interest=45000- 43357=1643

Journal Entries

In the books of Mr. Sushant (Hire Purchaser)

Journal Entries

Date	Particulars	LF	Debit	Credit
01.04.2021	Machinery A/c -----Dr. To Bharat Motors Co.A/c (Being payable amount on signing the agreement.)		45000 -	- 45000
01.04.2021	Bharat Motors Co. A/c -----Dr. To Bank A/c (Being made cash down payment.)		45000 -	- 45000
31.03.2022	Machinery A/c -----Dr. Interest A/c -----Dr. To Bharat Motors Co. A/c (Being payable 1 st installment including interest.)		38850 6150 -	- - 45000
31.03.2022	Bharat Motors Co. A/c -----Dr. To Bank A/c (Being paid 1 st installment.)		45000 -	- 45000
31.03.2022	Depreciation A/c -----Dr. To Machinery A/c (Being charged 20% depreciation on WDV basis.)		33600 -	- 33600
31.03.2022	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and		39750 - -	- 6150 33600

	depreciation accounts to profit & loss A/c.)		
31.03.2018	Machinery A/c -----Dr. Interest A/c -----Dr. To Bharat Motors Co. A/c (Being payable 2 nd installment including interest.)	40793 4207 -	- - 45000
31.03.2018	Bharat Motors Co.A/c -----Dr. To Bank A/c (Being paid 2 nd installment.)	45000 -	- 45000
31.03.2018	Depreciation A/c -----Dr. To Machinery A/c (Being charged 20% depreciation on WDV basis.)	26880 -	26880 -
31.03.2018	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and depreciation accounts to profit & loss A/c.)	31087 - -	 4207 26880
31.03.2019	Machinery A/c -----Dr. Interest A/c -----Dr. To Bharat Motors Co. A/c (Being payable 3 rd installment including interest.)	43357 1643 -	- - 45000
31.03.2019	Bharat Motors Co. A/c -----Dr. To Bank A/c (Being paid 3 rd installment.)	45000 -	- 45000
31.03.2019	Depreciation A/c -----Dr. To Machinery A/c (Being charged 20% depreciation on WDV basis.)	21504 -	- 21504
31.03.2019	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and depreciation accounts to profit & loss A/c.)	23147 - -	- 1643 21504

Ledger Accounts in the books of Mr.Sushant (Hirer)(Buyer)

Dr.				Cr.			
Bharat Motors Co. A/c							
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank A/c		45000	1.4.21	By Machinery A/c		45000
31.3.22	To Bank A/c		45000	31.3.22	By Machinery A/c		38850
				31.3.22	By Interest A/c		6150
	Total		90000		Total		90000
31.3.23	To Bank A/c		45000	31.3.23	By Machinery A/c		40793
					By Interest A/c		4207
	Total		45000		Total		45000
31.3.24	To Bank A/c		45000	31.3.24	By Machinery A/c		43357
				31.3.24	By Interest A/c		1643
	Total		45000		Total		45000

Motor Vehicle A/C

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Barat Motors Co. A/c		45000	31.3.22	By Depreciation a/c		33600
31.3.22	To Barat Motors Co. A/c		38850	31.3.22	By Balance c/d		50250
	Total		83850		Total		83850
1.4.22	To Balance b/d		50250	31.3.23	By Depreciation A/c		26550
31.3.23	To Barat Motors Co. A/c		40493	31.3.23	By Balance c/d		63863
	Total		90743		Total		90743
1.4.23	To Balance		63863	31.3.24	By Dep.A/c		21504

31.3.24	b/d To Barat Motors Co. A/c		43357	31.3.24	By Balance c/d		85716
	Total		107220		Total		107220
1.4.24	To Balance b/d		85716				

Interest A/C

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Bharat Motor Co. A/c		6150	31.3.22	By Profit & Loss A/c		6150
	Total		6150		Total		6150
31.3.23	To Bharat Motor Co. A/c		4207	31.3.23	By Profit & Loss A/c		4207
	Total		4207		Total		4207
31.3.24	To Bharat Motor Co. A/c		1643	31.3.24	By Profit & Loss A/c		1643
	Total		1643		Total		1643

Depreciation A/c

Dr.

Cr

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Machinery A/c		33600	31.3.22	By Profit & Loss A/c		33600
	Total		33600		Total		33600
31.3.23	To Machinery A/c		26880	31.3.23	By Profit & Loss A/c		26880
	Total		26880		Total		26880
31.3.24	To Machinery		21504	31.3.24	By Profit		21504

	A/c		&Loss A/c	
	Total	21504	Total	21504

In the Books of Bharat Motors Co.(Vendor)

Journal Entries

Date	Particulars	LF	Debit	Credit
01.04.2021	Sushant A/c -----Dr. To Sales A/c (Being sold machinery on hire-purchase.)		168000 -	- 168000
01.04.2021	Bank A/c -----Dr. To SushantA/C (Being received cash down payment.)		45000 -	- 45000
31.03.2022	Sushant A/c -----Dr. To Interest A/c (Being receivable interest.)		6150 -	- 6150
31.03.2022	Bank A/c -----Dr. To Sushant A/c (Being paid 1 st installment.)		45000 -	- 45000
31.03.2022	Interest A/C -----Dr. To Profit and Loss A/c (Being transferred balance of Interest A/C to Profit and Loss A/c)		6150 -	- 6150
31.03.2022	Sushant A/c -----Dr. To Interest A/c (Being receivable interest.)		4207 -	- 4207
31.03.2023	Bank A/c -----Dr. To Sushant A/c (Being received second installment including interest.)		45000 -	- 45000
31.03.2023	Interest A/c -----Dr. To Profit and Loss A/c (Being transferred balance of Interest Account to Profit and Loss A/c.)		4207 -	- 4207
31.03.2024	Sushant A/c -----Dr. To Interest A/c		1643 -	- 1643

	(Being receivable interest.)		
31.03.2024	Bank A/c -----Dr. To Sushant A/c (Being received third installment including interest.)	45000	- 45000
31.03.2024	Interest A/c -----Dr. To Profit and Loss A/c (Being transferred balance of Interest Account to Profit and Loss Account.)	1643	- 1643

Ledger Accounts in the Books of Bharat Motors Co.

Sushant A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Sales A/c		168000	1.4.21	By Bank A/c		45000
31.3.22	To Interest A/c		6150	31.3.22	By Bank A/c		45000
				31.3.22	By Balance c/d		84150
	Total		174150		Total		174150
1.4.22	To Balance b/d		84150	31.3.23	By Bank A/c		45000
	To Interest A/c		4207	31.3.23	By Balance c/d		43357
	Total		88357		Total		88357
1.4.23	To Balance b/d		43357	31.3.24	By Bank A/c		45000
31.3.24	To Interest A/c		1643				
	Total		45000		Total		45000

Interest A/C

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Profit & Loss A/c		6150	31.3.22	By Sushant A/c		6150
	Total		6150		Total		6150
31.3.23	To Profit		4207	31.3.23	By Sushant A/c		4207

31.3.24	&Loss A/c		31.3.24		
	Total	4207		Total	4207
	To Profit	1643		By Sushant A/c	1643
	&Loss A/c				
	Total	1643		Total	1643

Illustration -2 (Full Cash Price Method)

Mr. Mahesh purchased a scooter from Hira Motors Co. on H.P.system on 1-4-2021. The cash price of the scooter is Rs.159800. The amount was payable Rs.40000 as a down payment and 3 instalments of Rs.60000, Rs.50000 and Rs.20000 respectively. Interest is charged at 5% p.a. Mr. Mahesh provided a depreciation at 10% p.a.

Pass the journal entries in the books of Mahesh and Hira Motors Co. and also prepare ledger accounts in the books of Mr. Mahesh and Hira Motors Co. under full cash price method.

Solution

Cash price - Rs. 159800

Cash down payment Rs. 40000

Hire purchase price - Rs.40000+60000+50000+20000=170000, Interest Rate at 5% p.a.

Rate of Depreciation is 10%

Calculation of Interest and instalment is as given below

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 5% Interest on outstanding Balance
1-4-21	40000	40000	---	----
31-3-22	60000	54010	5990	Int=159800-40000=119800*5%=5990 C.P.=60000-5990=54010
31-3-23	50000	46710	3290	Int=119800-54010=65790*5%=3290 C.P.=50000-3290=46710

31-3-24	20000	19080	920	Int=65790-46710=19080 Last Interest=20000-19080=920
Total	170000	159800	10200	

Journal Entries

In the books of Mahesh (Hire Purchaser)				
Journal Entries				
Date	Particulars	LF	Debit	Credit
01.04.2021	Machinery A/c -----Dr. To A/c (Being purchased assets on hire purchase system.)		159800 -	- 159800
01.04.2021	Hira Motors Co A/c -----Dr. To Bank A/c (Being made cash down payment.)		40000 -	- 40000
31.03.2022	Interest A/c -----Dr. To Hira Motors Co A/c (Being payable interest.)		5990 -	- 5990
31.03.2022	Hira Motors Co A/c -----Dr. To Bank A/c (Being paid 1 st installment including interest.)		60000 -	- 60000
31.03.2022	Depreciation A/c -----Dr. To Machinery A/c (Being charged 10% depreciation on WDV basis.)		15980 -	- 15980
31.03.2022	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and depreciation accounts to profit & loss a/c.)		21970 - -	- 5990 15980
31.03.2023	Interest A/c -----Dr. To Hira Motors Co A/c (Being payable interest.)		3290 -	- 3290

31.03.2023	Hira Motors Co A/c -----Dr. To Bank A/c (Being paid 2 nd installment including interest.)	50000 -	- 50000
31.03.2023	Depreciation A/c -----Dr. To Machinery A/c (Being charged 10% depreciation on WDV basis.)	14382 -	- 14382
31.03.2023	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and depreciation accounts to profit & loss A/c.)	17672 - -	- 3290 14382
31.03.2024	Interest A/C -----Dr. To Hira Motors Co A/c (Being payable interest.)	920 -	- 920
31.03.2024	Hira Motors Co A/c -----Dr. To Bank A/C (Being paid 3 rd installment including interest.)	20000 -	- 20000
31.03.2024	Depreciation A/c -----Dr. To Machinery A/c (Being charged 10% depreciation on WDV basis.)	12944 -	- 12944
31.03.2024	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and depreciation accounts to profit & loss a/c.)	13864 - -	- 920 12944

In the Books of Mahesh(Hirer)(Buyer)
Hira Motors Co A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank		40000	1.4.21	By Machinery		159800
31.3.22	To Bank		60000	31.3.22	A/c		5990
31.3.22	To Balance c/d		65790		By Interest		
	Total		165790		Total		165790
31.3.23	To Bank		50000	1.4.22	By Balance b/d		65790
31.3.23	To Balance c/d		19080	31.3.23	By Interest		3290
	Total		69080		Total		69080
31.3.24	To Bank		20000	1.4.23	By Balance b/d		19080
				31.3.24	By Interest		920
	Total		20000		Total		20000

Scooter A/C

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1-4-21	To Hira Motors A/C		159800	31-3-22	By Dep. A/c		15980
				31.3.22	By Balance c/d		143820
	Total		159800		Total		159800
1.4.22	To Balance b/d		143820	31.3.23	By Dep.A/c		14382
				31.3.23	By Balance c/d		129438
	Total		143820		Total		143820
1.4.23	To Balance b/d		129438	31.3.24	By Dep.A/c		12344
				31.3.24	By Balance c/d		116494
	Total		129438		Total		129438
1.4.24	To Balance b/d		116494				

Interest A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Hira Motor Co. A/c		5990	31.3.22	By Profit &Loss A/c		5990
	Total		5990		Total		5990
31.3.23	To Hira Motor Co. A/c		3290	31.3.23	By Profit &Loss A/c		3290
	Total		3290		Total		3290
31.3.24	To Hira Motor Co. A/c		920	31.3.24	By Profit &Loss A/c		920
	Total		920		Total		920

Depreciation A/c

Dr.				Cr			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Machinery A/c		15980	31.3.22	By Profit &Loss A/c		15980
	Total		15980		Total		15980
31.3.23	To Machinery A/c		14382	31.3.23	By Profit &Loss A/c		14382
	Total		14382		Total		14382
31.3.24	To Machinery A/c		12944	31.3.24	By Profit &Loss A/c		12944
	Total		12944		Total		12944

In the Books of Hira Motors Co (Vendor)

Journal Entries

In the books of Hira Motors Co. (Vendor)				
Journal Entries				
Date	Particulars	LF	Debit	Credit
01.04.2021	Mahesh's A/c -----Dr. To Sales A/c (Being sold machinery on hire - purchase system.)		159800	-
			-	159800
01.04.2021	Bank A/c -----Dr.		40000	-

	To Mahesh A/c (Being received cash down payment.)	-	40000
31.03.2022	Mahesh A/c -----Dr. To Interest A/c (Being receivable interest.)	5990 -	- 5990
31.03.2022	Bank A/C -----Dr. To Mahesh A/c (Being received 1 st installment including interest.)	60000 -	- 60000
31.03.2022	Interest A/C -----Dr. To Profit and Loss A/c (Being transferred balance of interest a/c to Profit and Loss A/c.)	5990 -	- 5990
31.03.2023	Mahesh A/c -----Dr. To Interest A/c (Being receivable interest.)	3290 -	- 3290
31.03.2023	Bank A/c -----Dr. To Mahesh A/c (Being received 2 nd installment including interest.)	50000 -	- 50000
31.03.2013	Interest A/c -----Dr. To Profit and Loss A/c (Being transferred balance of interest a/c to Profit and Loss A/c.)	3290 -	- 3290
31.03.2024	Mahesh A/c -----Dr. To Interest A/c (Being receivable interest.)	920 -	- 920
31.03.2024	Bank A/c -----Dr. To Mahesh A/c (Being received 3 rd installment including interest.)	20000 -	- 20000
31.03.2024	Interest A/c -----Dr. To Profit and Loss A/c (Being transferred balance of interest a/c to Profit and Loss A/c.)	920 -	- 920

In the Books of Hira Motors Co(Vendor)
Mahesh A/C

Dr.				Cr.			
Date	Particulars	L F	₹	Date	Particulars	L F	₹
1.4.21	To Sales A/c		159800	1.4.21	By Bank		40000
31.3.22	To Interest A/c		5990	31.3.22	By Bank		60000
				31-3-22	By Balance c/d		65790
	Total		165790		Total		165790
1.4.22	To Balance b/d		65790	31-3-23	By Bank		50000
31.3.23	To Interest		3290	31-3-23	By Balance c/d		19000
	Total		69080		Total		69080
1.4.23	To Balance b/d		19080	31-3-24	By Bank		20000
31.3.24	To Interest		920				
	Total		20000		Total		20000

Interest A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Profit & Loss A/c		5990	31.3.22	By Mahesh A/c		5990
	Total		5990		Total		5990
31.3.23	To Profit & Loss A/c		3290	31.3.23	By Mahesh A/c		3290
	Total		3290		Total		3290
31.3.24	To Profit & Loss A/c		920	31.3.24	By Mahesh A/c		920
	Total		920		Total		920

1.2.14.2. When cash price and rate of interest given, Hire purchase price is not given

Illustration-3

On 4.2.21 Mr. Vishnu purchased a machine from Shekhar Co. The cash price of the machine was Rs. 600000. The amount paid on signing the agreement

Rs.240000 and balance to be paid in 3 equal instalments of Rs.120000. Interest is charged at 5% p.a. Provide a depreciation at 10% p.a.

Pass the journal entries in the books of and also prepare ledger accounts in the both books (full cash price method)

Solution In the above example following information is given

1. Cash price-Rs. 600000
2. Signing amount Rs.240000
- 3 .Three equal instalment Rs. 120000 each
4. Rate of interest-5%p.a.
5. Rate of depreciation 10% on diminishing balance method

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 5% Interest on outstanding Balance
1-4-21	240000	240000	---	----
31-3-22	138000	120000	18000	Int= 600000- 240000=360000*5%=18000 H.P.=120000+18000=138000
31-3-23	132000	120000	12000	Int= 360000- 120000=240000*5%=12000 H.P.=120000+12000=132000
31-3-24	126000	120000	6000	Int=240000- 120000=120000*5%=6000 H.P.=120000+6000=126000

Depreciation =10% p.a.

Date	₹
	600000
31-3-2022	(-) 60000
	540000
31.3.2023	(-) 54000

31.3.2024	486000
	(-) 48600
Balance	437400

In the books of Vishnu (Hire Purchaser)

Journal Entries				
Date	Particulars	LF.	Debit	Credit
01.04.2021	Machinery A/c -----Dr. To A/c (Being purchased assets on hire purchase system.)		600000 -	- 600000
01.04.2021	Shekhar Co A/c -----Dr. To Bank A/c (Being made cash down payment.)		240000 -	- 240000
31.03.2022	Interest A/c -----Dr. To Shekhar Co A/C (Being payable interest.)		18000 -	- 18000
31.03.2022	Shekhar Co A/c -----Dr. To Bank A/c (Being paid 1 st installment including interest.)		138000 -	- 138000
31.03.2022	Depreciation A/c -----Dr. To Machinery A/c (Being charged 10% depreciation on WDV basis.)		60000 -	- 60000
31.03.2022	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and depreciation accounts to profit & loss A/c.)		78000 - -	- 18000 60000
31.03.2023	Interest A/c -----Dr. To Shekhar Co A/c (Being payable interest.)		12000 -	- 12000
31.03.2023	Shekhar Co A/c -----Dr. To Bank A/c (Being paid 2 nd installment		132000 -	- 132000

	including interest.)						
31.03.2023	Depreciation A/c -----Dr. To Machinery A/c (Being charged 10% depreciation on WDV basis.)		54000		-		54000
31.03.2023	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and depreciation accounts to profit & loss a/c.)		66000		-	12000	54000
31.03.2024	Interest A/c -----Dr. To Hira Motors Co A/c (Being payable interest.)		6000				6000
31.03.2024	Shekhar Co A/c -----Dr. To Bank A/c (Being paid 3 rd installment including interest.)		-	126000		-	126000
31.03.2024	Depreciation A/c -----Dr. To Machinery A/c (Being charged 10% depreciation on WDV basis.)		48600		-		48600
31.03.2024	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance in interest and depreciation accounts to profit & loss a/c.)		54600		-	6000	48600

In the Books of Vishnu(Hirer)(Buyer)

Shekhar Co. A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank A/c		240000	1.4.21	By Machinery		600000
31.3.22	To Bank A/c		138000	31.3.22	A/C		18000
31.3.22	To Balance c/d		240000		By Interest A/c		
	Total		618000		Total		618000

31.3.23	To Bank A/c		132000	1.4.22	By Balance b/d		240000
31.3.23	To Balance c/d		120000	31.3.23	By Interest A/c		12000
	Total		252000		Total		252000
31.3.24	To Bank A/c		126000	1.4.23	By Balance b/d		120000
	Total		126000	31.3.24	By Interest A/c		6000
					Total		126000

Machinery A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1-4-21	To Shekhar A/c		600000	31-3.22	By Depreciation A/c		60000
	Total		600000	31.3.22	By Balance c/d		540000
1.4.22	To Balance b/d		540000	31.3.23	By Depreciation A/c		486000
	Total		540000	31.3.23	By Balance c/d		540000
1.4.23	To Balance b/d		486000	31.3.24	By Depreciation A/c		48600
	Total		486000	31.3.24	By Balance c/d		437400
1.4.24	To Balance b/d		437400		Total		486000

Interest A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Shekhar Co. A/c		18000	31.3.22	By Profit & Loss A/c		18000
	Total		18000		Total		18000
31.3.23	To Shekhar Co. A/c		12000	31.3.23	By Profit & Loss A/c		12000
	Total		12000		Total		12000
31.3.24	To Shekhar Co. A/c		6000	31.3.24	By Profit & Loss A/c		6000

Total	6000	Total	6000
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Depreciation A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Machinery A/c		60000	31.3.22	By Profit & Loss A/c		60000
	Total		60000		Total		60000
31.3.23	To Machinery A/c		54000	31.3.23	By Profit & Loss A/c		54000
	Total		54000		Total		54000
31.3.24	To Machinery A/c		48600	31.3.24	By Profit & Loss A/c		48600
	Total		48600		Total		48600

**In the Books of Shekhar Co(Vendor)
Vishnu A/c**

Dr.				Cr.			
Date	Particulars	L F	₹	Date	Particulars	L F	₹
1.4.21	To Sales A/c		600000	1.4.21	By Bank		240000
31.3.22	To Interest A/c		18000	31.3.22	By Bank		138000
	Total		618000	31-3-22	By Balance c/d		240000
1.4.22	To Bal. b/d		240000		Total		618000
31.3.23	To Interest		12000	31-3-23	By Bank		132000
	Total		252000	31-3-23	By Balance c/d		120000
1.4.23	To Bal. b/d		120000		Total		250000
31.3.24	To Interest		6000	31-3-24	By Bank		126000
	Total		126000		Total		126000

Interest A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Profit & Loss A/c		18000	31.3.22	By Vishnu A/c		18000
	Total		18000		Total		18000
31.3.23	To Profit & Loss A/c		54000	31.3.23	By Vishnu A/c		54000
	Total		54000		Total		54000
31.3.24	To Profit & Loss A/c		48600	31.3.24	By Vishnu A/c		48600
	Total		48600		Total		48600

1.2.14.3. When Hire Purchase Price is given, rate of interest is given but Cash Price is not given

Illustration :4

On 1-4-2021 Mr. Akash purchased a Motor Car from Mahendra Co. on H.P. basis. The signing amount paid Rs. 250000 on 1-4-2021, first instalment Rs. 325000, second instalment Rs. 300000 and third instalment Rs. 275000 respectively at the end of every year. The rate of interest is 10% and depreciation charged at 20% p.a.

Solution

Cash down payment Rs. 250000

First Installment Rs. 325000

Second Installment Rs. 300000

Third Installment Rs. 275000

Total H.P. Price = 250000 + 325000 + 300000 + 275000 = 1150000

Rate of interest = 10%

Rate of depreciation = 20%

Cash price is not given so to calculate the cash price use the following formula of interest

$$\text{Interest Rate :- } 10\% \text{ p.a.} = \frac{10}{100} = \frac{1}{10+1} = \frac{1}{11}$$

Here Interest Rate taken $\frac{1}{11}$ from last installment to first installment.

Calculation of Interest (To find out the cash price of Motor Car)

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 10% Interest
1.4.2021	250000	250000	-	-
31.03.2022	325000	250000	75000	Int. = $(250000+250000+325000) \times \frac{1}{11}$ = 75000 CP = $325000 - 75000 =$ 250000
31.03.2023	300000	250000	50000	Int. = $(250000+300000) \times \frac{1}{11} =$ 50000 CP = $300000 - 50000 =$ 250000
31.03.2024	275000	250000	25000	Interest = $275000 \times \frac{1}{11} = 25000$ CP = $275000 - 25000 = 250000$
Total	1150000	1000000	150000	

In the Books of Mr.Akash Hirer (Buyer)

Mahendra CO A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank		250000	1.4.21	By Motor car A/c		250000
31.3.22	A/c		325000	(down)			250000
	To Bank			31.3.22	By Motor Car(1 st		75000
	A/c			31.3.22	Instal)		
	Total		575000		By Interest		
					Total		575000
31.3.23	To Bank		300000	1.4.22	By Motor Car		250000
	A/c			31.3.23	By Interest		50000

31.3.24	Total		300000	1.4.23 31.3.24	Total		300000
	To Bank		275000		By Motor Car		250000
	A/c				By Interest		25000
	Total		275000		Total		275000

Motor Car A/C

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Mahendra		250000	31.3.22	By Dep. A/c		200000
31.3.22	Co. A/c			31.3.22	By Balance c/d		300000
	To Mahendra		250000		Total		500000
	Co. A/c				By Dep.A/c		160000
	Total		500000	31.3.23	By Balance c/d		390000
1.4.22	To Balance b/d		300000	31.3.23	Total		550000
31.3.23	To Mahendra		250000		By Dep. A/c		128000
	Co. A/c			31.3.24	By Balance c/d		512000
	Total		550000	31.3.24	Total		640000
1.4.23	To Balance b/d		390000				
31.3.24	To Mahendra		250000				
	Co. A/c						
	Total		640000				
1.4.24	To Balance b/d		512000				

Interest A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Mahendra		75000	31.3.22	By Profit		75000
	Co. Co.A/c				&Loss A/c		
	Total		75000		Total		75000
31.3.23	To Mahendra		50000	31.3.23	By Profit		50000
	Co. Co.A/c				&Loss A/c		
	Total		50000		Total		50000
31.3.24	To Mahendra		25000	31.3.24	By Profit		25000
	Co. Co.A/c				&Loss A/c		
	Total		25000		Total		25000

Depreciation A/c

Dr.				Cr			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Machinery A/c		200000	31.3.22	By Profit & Loss A/c		200000
	Total		200000		Total		200000
31.3.23	To Machinery A/c		160000	31.3.23	By Profit & Loss A/c		160000
	Total		160000		Total		160000
31.3.24	To Machinery A/c		128000	31.3.24	By Profit & Loss A/c		128000
	Total		128000		Total		128000

**In the Books of Mahendra Co.(Vendor)
Akash A/c**

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Sales A/c		1000000	1.4.21	By Bank A/c		250000
31.3.22	To Interest A/c		75000	31.3.22	By Bank A/c		325000
	Total		1075000	31.3.22	By Balance c/d		500000
1.4.22	To Bal. b/d		500000		Total		1075000
	To Interest A/c		50000	31.3.23	By Bank A/c		300000
	Total		550000	31.3.23	By Balance c/d		250000
1.4.23	To Bal. b/d		250000		Total		550000
31.3.24	To Interest A/c		25000	31.3.24	By Bank A/c		275000
	Total		275000		Total		275000

Interest A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Profit & Loss A/c		75000	31.3.22	By Akash A/c		75000
	Total		75000		Total		75000
31.3.23	To Profit & Loss A/c		50000	31.3.23	By Akash A/c		50000
	Total		50000		Total		50000
31.3.24	To Profit & Loss A/c		25000	31.3.24	By Akash A/c		25000
	Total		25000		Total		25000

1.2.14.4. Rate of Interest is Not given (Ratio Method) :-

Illustration:5

On 1st April 2021 Shri. Kamat Purchased one Motor Truck from Prasad Co. for a cash price of Rs. 840000 on hire purchase system. Rs. 225000 paid on signing of an agreement and the balance amount is paid as under : 31.3.2022- Rs.300000, 31.3.2023- Rs.150000, 31.3.2024-Rs,225000.

Depreciation is to be written off at the rate of 20% on reducing balance method.

Prepare : Motor Truck Account for 3 years with part Cash price method

Solution :-

In this problem -

Cash price - Rs. 840000

Hire purchase price – 225000+300000+150000+225000= Rs.900000

Cash down payment - Rs. 225000

Installments - Three yearly = Rs. 300000, Rs. 150000, Rs. 225000

Rate of Interest included in each installment is not given which is calculate as under :

1) Calculation of Total Interest

Total Interest = Hire Purchase Price - Cash Price

= 900000 - 840000

Tota Interest = Rs. 60000

Particulars	₹
Total Hire purchase price	900000
(-)Cash down payment on 1-4-2021	225000
Outstanding balance on 31-3-22	675000
(-)first instalment on 31-3-22	300000
Outstanding balance on 31-3-23	375000
(-)Second Installment on 31-3-2023	150000
Outstanding balance on 31-3-24	225000
(-)Third Installment on 31-3-24	225000
	Nil

3) Calculation of Ratio of outstanding balance of Hire Purchase three Installment

31.3.2022	31.3.2023	31.3.2024
675000	375000	225000
9	5	3

Outstanding balance ratio is 9 : 5 : 3

So Total Interest Rs. 60000 shall be divided in 9 : 5 : 3

$$31-3-2022 = 60000 \times \frac{9}{17} = 31765$$

$$31-3-2023 = 60000 \times \frac{5}{17} = 17645$$

$$31-3-2024 = 60000 \times \frac{3}{17} = 10590$$

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of Interest
1.4.2021	225000	225000	-	-
31.03.2022	300000	268235	31765	Interest = $60000 \times \frac{9}{17} = 31765$ CP = $300000 - 31765 = 268235$
31.03.2023	150000	132355	17645	Interest = $60000 \times \frac{5}{17} = 17645$ CP = $150000 - 17645 = 132355$
31.03.2024	225000	214410	10590	Interest = $60000 \times \frac{3}{17} = 10590$ CP = $225000 - 10590 = 214410$
Total	900000	840000	60000	

Calculation of Depreciation

Particulars	
Cash of Motor Truck(1-4-2021)	840000

(-) Depreciation on 31-3-2022	168000
	672000
(-) Depreciation on 31-3-2023	134400
	537600
(-) Depreciation on 31-3-2024	107520
	430080

In the Books of Shri Kamat (Hire Purchaser)
Motor Truck A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Prasad Co. A/c		225000	31.3.22	By Dep. A/c		168000
31.3.22	To Prasad Co. a/c		268235	31.3.22	By Balance c/d		325235
	Total		493235	31.3.22	Total		493235
1.4.22	To Balance b/d		325235	31.3.23	By Depreciation A/c		134400
31.3.23	To Prasad Co. A/c		132355	31.3.23	By Balance c/d		323190
	Total		457590	31.3.24	By Dep. A/c		107520
1.4.23	To Balance b/d		323190	31.3.24	By Balance c/d		430080
31.3.24	To Prasad Co. A/c		214410		Total		537600
	Total		537600				
1.4.24	To Balance b/d		430080				

Illustration:6

On 1st April 2021 Shri. Yogesh Purchased one Scooter from Acharya Co. for a cash price of Rs. 170000 on hire purchase system. Rs. 50000 paid on signing of an agreement and the balance amount is paid as under : 31.3.2022- Rs.50000, 31.3.2023 Rs.50000, 31.3.2024 Rs.50000

Depreciation is to be written off at the rate of 20% on diminishing balance method.

Prepare : Scooter Account for 3 years with part Cash price method

Solution :-

In this problem -

Cash price - Rs. 170000

Hire purchase price – 50000+50000+50000+50000=200000

Cash down payment - Rs. 50000

Installments - Three yearly = Rs. 50000, Rs. 50000, Rs. 50000

Rate of Interest included in each installment is not given which is calculate as under :

1) Calculation of Total Interest

Total Interest = Hire Purchase Price - Cash Price

= 200000-170000

Tota Interest = Rs. 30000

Calculation of Interest

Particulars	Rs.
Total Hire purchase price	200000
(-)Cash down payment on 1-4-2021	50000
Outstanding balance on 31-3-22	150000
(-)first instalment on 31-3-22	50000
Outstanding balance on 31-3-23	100000
(-)Second Installment on 31-3-2023	50000
Outstanding balance on 31-3-24	50000
(-)Third Installment on 31-3-24	50000
	Nil

3) Calculation of Ratio of outstanding balance of Hire Purchase three Installment

31.3.2022 31.3.2023 31.3.2024

150000 : 100000 : 50000

3 : 2 : 1

Outstanding balance ratio = 3: 2 : 1

So Total Interest Rs. 30000 shall be divided in 3 : 2 : 1

31-3-2022=30000 x $\frac{3}{6}$ =31765

31-3-2023=30000 x $\frac{2}{6}$ =17645

31-3-2024=30000 x $\frac{1}{6}$ =10590

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of Interest
1.4.2021	50000	50000	-	-
31.03.2022	50000	35000	15000	Interest = 30000 x $\frac{3}{6}$ = 15000 CP = 50000 - 15000 = 35000

31.03.2023	50000	40000	10000	Interest = $30000 \times \frac{2}{6} = 10000$ CP = $50000 - 10000 = 40000$
31.03.2024	50000	45000	5000	
Total	200000	170000	30000	

Calculation of Depreciation

Particulars	₹
Cash of Motor Truck(1-4-2021)	170000
(-) Depreciation on 31-3-2022	34000
	136000
(-) Depreciation on 31-3-2023	27200
	108800
(-) Depreciation on 31-3-2024	21760
	87040

In the Books of Shri Kamat (Hire Purchaser)

Prasad Co. A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank A/c		50000	31.3.22	By Scooter A/c		50000
31.3.22	To Bank A/c		50000	31.3.22	By Scooter A/c		35000
				31.3.22	By Interest A/c		15000
	Total		100000		Total		100000
31.3.23	To Bank A/c		50000	31.3.23	By Scooter A/c		40000
				31.3.23	By Interest A/c		10000
	Total		50000		Total		50000
31.3.24	To Bank A/c		50000	31.3.24	By Scooter A/c		45000
				31.3.24	By Interest A/c		5000
	Total		50000		Total		50000

Scooter A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Prasad			31.3.22	By		
31.3.22	Co. a/c		50000	31.3.22	Depreciation		34000
	To Prasad Co.		35000		A/c		
	A/c				By Balance		51000
	Total		85000		c/d		
1.4.22	To Bal. b/d		51000	31.3.23	Total		85000
31.3.23	To Prasad Co.		40000	31.3.23	By Dep. A/c		27200
	A/c				By Balance		
	Total		91000		c/d		63800
1.4.23	To Balance			31.3.24	Total		91000
31.3.24	b/d		63800	31.3.24	By Dep. A/c		21760
	To Prasad Co.		45000		By Balance		87040
	A/c				c/d		
	Total		108800		Total		108800
1.4.24	To Balance		87040				
	b/d						

Section -III

A) Multiple Choice Questions

1. **In a hire purchase system, each installment consists of:**

- A) Only cash price B) Only interest
C) Cash price and interest D) Depreciation

2. **Interest paid by the hire purchaser is treated as:**

- A) Asset B) Capital Expenditure
C) Revenue Expenditure D) Liability

3. **In Part Cash Price Method, asset is debited with:**

- A) Full cash price B) Cash down only
C) Cash price portion of each installment D) None of these

4. Which account is not maintained by the hire purchaser?

- A) Depreciation A/C B) Interest A/C
C) Sales A/C D) Vendor A/C

5. In Full Cash Price Method, asset account is debited:

- A) When each installment is paid B) Only at year-end
C) With full cash price at the beginning D) Never

B) True or False

1. Interest paid by hire purchaser is a capital expenditure.
2. In the vendor's books, hire purchaser is debited with full cash price.
3. Depreciation is charged on full cash price under Part Cash Price Method.
4. Full Cash Price Method is preferred in repossession cases.
5. Interest received by vendor is revenue income.

1.3. Summary

The hire purchase system allows asset acquisition with deferred ownership. Buyers gain immediate possession but not ownership until full payment. Installments are paid monthly or periodically, including interest. The first payment made is called the down payment. Ownership is transferred only after the last installment. Default in payment gives repossession rights to the seller. Buyers can use the asset during the payment period. Down payment reduces the financed amount under the agreement. Separate accounting treatment is needed for interest and depreciation. Depreciation is claimed by the seller until ownership transfer. Legal agreements outline all terms, rates, and conditions. Interest increases the total cost of the asset over time. The buyer cannot transfer or sell the asset before ownership. Used by both consumers and businesses for high-value purchases. Regulated by contract and consumer protection laws. Risk of damage or loss lies with the buyer from possession. It is different from credit sales which transfer ownership immediately. Option to cancel may be available under specific conditions. Provides flexible financing for buyers with limited upfront capital. Ensures security for sellers through retained ownership.

Hire purchase allows asset usage without immediate ownership transfer. AS 9 governs revenue recognition – revenue is recognized when risks and rewards are transferred. AS 10 applies to asset accounting – the asset is recorded at cash price by the hirer. Interest in installments is not capitalized but shown as a finance cost. Accrual concept ensures income and expenses are recorded when they occur. Matching principle aligns expenses like depreciation and interest with revenue. Substance over form means assets are recorded even if legal ownership isn't transferred. Prudence concept avoids overstatement of profits and recognizes expenses early. Down payment reduces the financed amount in the agreement. Each installment includes principal and interest. The buyer can use the asset from day one but gets ownership at the end. Repossession is allowed if the hirer defaults on payments. The hire vendor retains ownership until all installments are paid. Terms must be defined in a legally binding agreement. Depreciation is charged from the date of possession. Cash price differs from hire purchase price due to interest inclusion. Important legal frameworks include Indian Contract Act and Sale of Goods Act. Default and risk clauses protect the vendor's interests. Installments spread payment burden, aiding affordability. Proper accounting ensures transparent, fair, and compliant financial reporting.

Hire purchase involves buying assets with periodic payments. Each installment includes a capital (cash price) and revenue (interest) component. Interest is an expense for purchaser and income for vendor. The purchaser debits asset for the cash price and interest separately. Depreciation is charged annually on the asset. Two main accounting methods: Part Cash Price and Full Cash Price. Part Cash Price Method debits asset gradually as installments are paid. Full Cash Price Method debits the asset account with the entire cash price upfront. Interest is calculated on the outstanding balance of cash price. Vendor treats the transaction as a credit sale. Vendor credits Sales A/C and debits Hire Purchaser A/C. When installments are received, Bank A/C is debited and Hire Purchaser A/C is credited. At year-end, interest is transferred to P&L A/C. Depreciation is charged on full cash price in both methods. Interest can be calculated using different methods depending on available data. Methods include Direct Method, Working Backward (LIFO), and Ratio Method. The ratio method is used when interest rate is not given. Hire purchase price = cash price + total interest. Repossession cases prefer full cash price accounting. Proper analysis of each installment helps accurate accounting and reporting.

1.4. Terms to Remember

Term	Meaning
Hire Purchase	Purchase system with installment payments
Cash Price	Original price of asset without interest
Hire Purchase Price	Total amount paid including interest
Installment	Periodic payment including capital + interest
Hire Vendor	Seller of the asset under hire purchase
Hire Purchaser	Buyer under hire purchase system
Interest	Cost of delayed payment
Part Cash Price Method	Asset recorded as installment is paid
Full Cash Price Method	Asset recorded in full at beginning
Depreciation	Loss in asset value over time
Profit & Loss A/C	Account for recording revenue/expense
Sales A/C	Vendor's account to record asset sale
Bank A/C	Account used for actual cash flow
Outstanding Balance	Remaining amount of unpaid cash price
Revenue Expenditure	Expenses debited to P&L like interest
Capital Expenditure	Payments towards acquiring assets
Ratio Method	Interest apportionment without rate info
Agreement Date	Date of initiating the hire purchase contract

1.5. Answer to check your Progress

Section-I

Answer-MCQ

MCQ	1	C	2	C	3	B	4	B	5	C	6	C	7	C	8	C
	9	C	10	C	11	D	12	C	13	B	14	C	15	C		

Answer: True or False

T/F	1	F	2	T	3	F	4	T	5	F	6	F	7	T	8	T	9	F	10	T
-----	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	----	---

Section :II

A)MCQ

1	C	2	d	3	b	4	c	5	c	6	B	7	c	8	c	9	b	10	d
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	----	---

B)True or False

1	F	2	T	3	F	4	F	5	T	6	F	7	T	8	T	9	F	10	T
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	----	---

Section :III

MCQ

1	C	2	C	3	C	4	C	5	C
---	---	---	---	---	---	---	---	---	---

True or False

1	F	2	T	3	F	4	T	5	T
---	---	---	---	---	---	---	---	---	---

1.6. Exercise

1.7.References for further study

A)Exercise :

Illustration : 1 (Part Cash Price method)

Rajesh purchased a Machinery from Sumit Ltd. on Hire purchase system on 1st April 2021 Paying Rs. 20000 cash and agreeing to pay three further installments of Rs. 20000 each on 31st March each year.

The cash price of the machinery was Rs. 74500

The Sumit Ltd. Charges interest 5% p.a.

Rajesh decided to depreciate the Machinery @ 10% p.a. as per diminishing balance method.

From the above transaction draft the Journal Entries in the books of both the parties and also prepare necessary ledger accounts. (Use part cash price method)

Illustration : 2 (Full Cash Price method)

On 1st April 2021, Laxman Purchased a Machine from Ram on hire purchase basis. The particulars was as under -

- 1) Cash Price of Machine Rs. 200000
- 2) Cash down payment Rs. 80000
- 3) Balance in three annual installment of Rs. 46000, Rs. 44000 and Rs. 42000
- 4) Interest to be charged on outstanding balance at 5% p.a.
- 5) Depreciation at 10% on reducing balance method.

For the above transaction pass journal entries in the books of both the parties and give necessary ledger accounts under full cash price method. (Year ending 31st March every year)

Illustration : 3 (Dec. 2016) (Part Cash Price Method)

On 1st April 2021, a Mina Purchased from Jay Washing co.. a washine machine whose cash price was Rs. 150000 on Hire purchase basis and agreed to pay three yearly installments of Rs. 55500 each. The first payment was to be made at the end of the first year i.e. on 31st March 2022

The rate of interest was calculated at 5% per annum on yearly balance and machinery was to be depreciated 10% per annum under diminishing balance method.

Draw the journal entries and ledger accounts in the both books

Illustration : 4 (Full Cash Price Method)

M/S. Refrigeration Ltd. Supplied a Refrigerator to Hotel Victory on the Hire Purchase System on 1st April 2021. The cash price of the Refrigerator was Rs. 22350. Under Hire purchase system it was agreed to pay Rs. 6000 on the date of agreement and Rs. 6000 annually for three years. Interest was charged at 5% p.a. and depreciation was to be written down off the asset at 10% p.a. by diminishing balance method.

Show Refrigerator Account, Interest Account and M/S. Refrigerator Ltd. Account in the books of Hotel Victory for three years.

Illustration : 5 (Half Yearly installment and Part Cash Price)

On 1st April 2021 Kamal company purchased a machinery on hire purchase system from Prashant Co.. The cash price was Rs. 102000 and hire - purchase price was Rs. 111900 payable as to Rs. 21900 on delivery and the balance in five half yearly installment. The books are closed annually on 31st March and buyer writes off depreciation at 20% p.a. on diminishing balance method. The hire vendor charges interest at 8% p.a.

Set out the Machinery Account, Interest Account and Hire Vendors Account in the books of buyer.

Illustration :6

Rakesh Roadways purchased a Truck from Telco Ltd. on Hire Purchase system on 1st April 2021. The Cash price of the Truck was Rs. 125000. Payment was made as follows –

Particular	Rs.
01.04.2021 (on agreement)	25000
31.3.2022	50000
31.3.2023	25000
31.3.2024	50000

Rakesh Roadways charged depreciation at 20% p.a. on reducing balance method. You are required to show :

- i) Calculation of Interest
- ii) Truck A/C and Telco Ltd. A/C in the books of Rakesh Roadways
- iii) Rakesh Roadways A/C in the books of Telco Ltd.

Illustration : 6 (Oct. 2012)

Mr. Sandeep Purchase a Machine on the basis of Hire Purchase system from Mr. Krushnaji on 1st April 2021. The cash price of the machine was Rs. 74300 Mr. Prashant paid Rs. 20000 on signing of the agreement and rest in three annual installment of Rs. 20000 each. Payable on 31st March every year.

The depreciation at 10% p.a. under written down value method.

Prepare the Machine Account for four years with part Cash Price Method also show the working of interest calculation.

B) Short Notes

1. Meaning and features of hire Purchase
2. Difference between hire purchase and sale
3. Part cash price method in hire purchase accounting
4. Full cash price method in hire purchase accounting
5. Any two method of interest calculation

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Unit 2

Hire Purchase System Part- II

2.0. Objectives

2.1. Introduction

2.2. Presentation of Subject Matter

2.2.1. Definition of Repossession of Asset in Hire Purchase

2.2.2. Features of Repossession of Asset in Hire Purchase System

2.2.3. Most Important Accounting Standards (AS) in Repossession Hire Purchase Accounting

2.2.4. Most Important Accounting Concepts and Principles in Repossession Hire Purchase Accounting System

2.2.5. Important Terms Used in Repossession Hire Purchase Accounting System

2.2.6. Repossession of Asset in Hire Purchase

2.2.7. Difference Between Complete Repossession and Partial Repossession

2.2.8. Check your progress

2.2.8. Types of repossession:

2.2.8.1. Complete Repossession (Full Repossession)

2.2.8.2. Partial Repossession- When the vendor takes repossession of only a part of the total assets sold by hire-purchase. (Partical Repossession of Assets)

Check your progress

2.2.8.3. Hire Purchase trading account.

Check your progress

2.3. Summary

2.4. Terms to Remember

2.5. Answer to check your Progress

2.6. Exercise

2.7. References for further study

2.0. Objectives

After studying this unit, students will be able to:

1. Understand the meaning and nature of repossession in the hire purchase system.
2. Differentiate between partial and complete repossession of assets.
3. Identify the features of repossession in the context of hire purchase.
4. Understand the accounting treatment for repossession in the books of both the hire purchaser and the hire vendor.
5. Apply relevant Accounting Standards, concepts, and principles to repossession accounting.

2.1. Introduction

In a hire purchase system, the ownership of the asset remains with the hire vendor until the final installment is paid by the hire purchaser. If the hire purchaser defaults in payment, the hire vendor has the legal right to take back (repossess) the asset, either fully or partially. This act is called **repossession**. Repossession can be of two types:

- **Complete repossession** – when the entire asset is taken back.
- **Partial repossession** – when only a part of the asset is taken back.

This unit provides a detailed understanding of the concept, types, and accounting treatments of repossession.

2.2.1. Definition of Repossession of Asset in Hire Purchase

Repossession in hire purchase refers to the act of the hire vendor reclaiming the asset that was sold on hire purchase terms, due to default by the hire purchaser in fulfilling the agreed terms, usually payment of installments.

- **Complete Repossession:** The hire vendor takes back the full asset.
- **Partial Repossession:** The hire vendor takes back only a part of the asset, and the remaining part continues to be used by the hire purchaser.

2.2.2. Features of Repossession of Asset in Hire Purchase System

- **Legal Right:** The hire vendor has the legal right to repossess the asset upon default.
- **Ownership Retained:** The ownership of the asset remains with the vendor until full payment.
- **Types:** Can be complete or partial based on the extent of default.
- **Valuation:** The asset repossessed is valued either at the agreed value or fair market value.
- **Accounting Entries:** Different entries are required in the books of both parties depending on the type of repossession.
- **Depreciation Consideration:** The value of the asset may be adjusted for depreciation before repossession.

2.2.3. Most Important Accounting Standards (AS) in Repossession Hire Purchase Accounting

The following Accounting Standards are most relevant:

- **AS 9 – Revenue Recognition:** Recognizing revenue only when it is reasonably certain, which affects the hire vendor's income recognition.
- **AS 10 – Property, Plant, and Equipment:** Valuation and treatment of assets repossessed.
- **AS 29 – Provisions, Contingent Liabilities and Contingent Assets:** Applicable in estimating losses and uncertainties in case of repossession.
- **Ind AS 116 (if applicable):** Pertains to lease accounting which may intersect with certain hire purchase arrangements under revised frameworks.

2.2.4. Most Important Accounting Concepts and Principles in Repossession Hire Purchase Accounting System

- **Going Concern Concept:** Assumes the business will continue; repossession is treated as an exceptional transaction.
- **Accrual Concept:** Expenses and incomes are recorded when they occur, not when cash is paid or received.
- **Prudence Concept:** Losses are accounted for when anticipated; affects valuation of repossessed assets.
- **Matching Principle:** Expenses related to the hire purchase must be matched with corresponding revenues.

2.2.5. Important Terms Used in Repossession Hire Purchase Accounting System

1. Hire Purchase Price

Explanation: The total amount payable by the hire purchaser, including the down payment and all future installments (which include interest).

Example: If the cash price of a laptop is ₹40,000 and the hire purchaser pays ₹10,000 upfront and 10 installments of ₹3,500 each (₹35,000), then:

Hire Purchase Price = ₹10,000 + ₹35,000 = ₹45,000

2. Cash Price

Explanation: The price of the asset if paid in full at the time of purchase, without any interest.

Example: A motorbike has a cash price of ₹80,000. If bought on hire purchase, the total paid might be ₹90,000 due to interest.

3. Installment

Explanation: A periodic payment made by the hire purchaser, which includes a portion of principal and interest.

Example: Monthly installment of ₹2,000 for 12 months to purchase a refrigerator.

4. Default

Explanation: When the hire purchaser fails to pay the agreed installment (s) on time.

Example: If the purchaser stops paying after 3 installments out of 10, it is called a default.

5. Repossession

Explanation: The act of the hire vendor taking back the goods from the hire purchaser due to non-payment of installments.

Example: A TV is taken back by the seller after the buyer fails to pay 4 monthly dues.

6. Partial Repossession

Explanation: Only a part of the asset is taken back by the vendor.

Example: If a hire purchaser bought 10 air conditioners and fails to pay, the vendor may repossess only 4 of them.

7. Complete Repossession

Explanation: The entire asset is taken back by the vendor when the hire purchaser defaults.

Example: A car financed through hire purchase is completely taken back by the financier after default on EMIs.

8. Agreed Value

Explanation: The value mutually agreed upon between the vendor and purchaser for the asset at the time of repossession.

Example: A machine's original cost was ₹50,000, and on repossession, both parties agree its value is ₹20,000.

9. Depreciation

Explanation: The reduction in the value of the asset due to use or wear and tear.

Example: A computer purchased at ₹40,000 might have a depreciated value of ₹30,000 after two years.

10. Book Value

Explanation: The value of the asset shown in the hire purchaser's books after reducing depreciation.

Example: An air cooler worth ₹12,000 with ₹2,000 depreciation will have a book value of ₹10,000.

2.2.6.Repossession of Asset in Hire Purchase:

When a buyer (called **hire purchaser**) fails to pay installments on time, the seller (**hire vendor**) has the right to take back the goods. This process is called **repossession**.

. Complete Repossession

- **Meaning:** The hire vendor takes back **the entire asset** from the hire purchaser.
- **Reason:** Usually happens when the purchaser **fails to pay multiple installments** or breaches the agreement seriously.
- **Effect:**
 - Purchaser **loses full rights** to the asset.
 - Vendor may **repair/recondition and resell** the asset.
- **Accounting Treatment:**
 - Purchaser removes the asset and depreciation from books.
 - Vendor records the asset at its **repossessed value**.

Example: A person buys a machine on hire purchase but fails to pay 3 installments. The vendor takes back the **entire machine**.

2. Partial Repossession

- **Meaning:** The hire vendor takes back **only a part of the asset** sold.

- **Reason:** Happens when the purchaser is unable to pay some installments, but not a complete default.

- **Effect:**

Purchaser retains part of the asset.

Vendor takes back only a portion and may **adjust value** against dues.

- **Accounting Treatment:**

- Purchaser reduces asset value by repossessed portion.
- Vendor records the **repossessed portion only**.

Example: A person buys 10 computers on hire purchase and defaults partially. The vendor repossesses **4 computers** only.

2.2.7. Difference Between Complete Repossession and Partial Repossession

Basis	Complete Repossession	Partial Repossession
Scope	Entire asset is taken back	Only a portion of the asset is taken back
Purchaser's Rights	Fully ends	Still retains part of the asset
Reason	Major default	Partial or temporary payment issue
Accounting for Purchaser	Remove full asset and depreciation	Reduce asset value by repossessed portion
Accounting for Vendor	Records full asset	Records only repossessed part

Session -1

Check Your Progress

A) Multiple Choice Questions (MCQs)

1. -----retains the ownership of the asset under a hire purchase agreement until the final installment is paid.
A) Hire Purchaser B) Bank
C) Hire Vendor D) Government
2. **Complete repossession means -----**
A) Repossession of part of the asset B) No repossession
C) Full asset is taken back D) Only interest is collected
3. **The hire vendor gets the legal right to repossess the asset-----**
A) On sale B) On payment of all installments
C) On default of payment D) On termination
4. **In partial repossession, the hire purchaser-**
A) Loses the entire asset B) Retains the entire asset
C) Retains part of the asset D) Gets refund
5. ----- account is debited by the vendor for repair cost of repossessed goods.
A) Cash A/c B) Asset A/c
C) Goods Repossessed A/c D) Depreciation A/c
6. **AS-9 is related to-----**
A) Lease Accounting B) Property Valuation
C) Revenue Recognition D) Asset Disposal
7. **In the books of the purchaser, loss on repossession is transferred to-----**
-
A) Capital Reserve B) Hire Vendor A/c
C) Profit and Loss A/c D) Goods Returned A/c
8. ----- concept is followed when losses are accounted as soon as anticipated.
A) Going Concern B) Matching Principle
C) Accrual Concept D) Prudence Concept
9. **In the hire purchase-----**
A) Ownership is transferred immediately B) Lump sum payment
C) Interest-free payments D) Ownership remains with vendor until last payment

10. **Repossession accounting applies when-----**
 A) Full payment is made B) Cash discount is offered
 C) Installments are defaulted D) Asset is replaced
11. **The balance of the Goods Repossessed Account is transferred to:**
 A) Hire Purchaser A/c B) Revaluation Reserve
 C) Profit and Loss A/c D) Asset Disposal A/c
12. -----accounting standard is related to Property, Plant & Equipment.
 A) AS-10 B) AS-9
 C) AS-3 D) AS-29
13. **In partial repossession the asset is shown in the books of the purchaser after-----**
 A) Fully removed B) Increased in value
 C) Reduced by the repossessed part D) Not shown
14. -----is not a type of repossession
 A) Partial B) Conditional
 C) Complete D) None of the above
15. ----- document records the cost and profit or loss on hire purchase transactions.
 A) Sales Book B) Hire Purchase Trading Account
 C) Cash Book D) Petty Cash Book

B) True or False Statements with Answers

1. In hire purchase, the hire purchaser becomes the owner at the time of signing the agreement.
2. Partial repossession occurs when only part of the asset is taken back by the vendor.
3. In complete repossession, the entire asset is removed from the hire purchaser's books.
4. AS-29 deals with revenue recognition in hire purchase accounting.

5. The vendor debits the Goods Repossessed Account when recording the repossessed asset.
6. Prudence concept states that profits should be recorded as soon as they are anticipated.
7. Matching principle means income and expenses of the same period must be matched.
8. In the books of the vendor, the repair cost of repossessed goods is credited to the Goods Repossessed Account.
9. Hire Purchase Trading Account shows revenue, cost, and profit on hire purchase sales.
10. The value of repossessed goods is always taken at the original cash price.

2.2.8.Types of repossession:

2.2.8.1.Complete Repossession (Full Repossession)

This happens when the vendor takes back the entire asset sold to the purchaser. The seller takes back all the goods because the buyer did not pay on time. All accounting entries up to the date of default (non-payment) are recorded as usual. Interest due till the default date must also be recorded. But the entry for the missed installment is not recorded. The buyer closes the seller's account by transferring its balance to the asset account. If there is any remaining amount in the asset account, it is treated as a loss. This loss is transferred to the Profit and Loss Account.

Then on complete repossession, the following Journal Entries are to be passed in the books of Hire Purchaser.(Buyer)

- A) **Entries upto the date of default are as usual** in the books of Hire Purchaser(Buyer)

Transaction	Journal Entries
A) On the date of Agreement	
1) When Cash down payment (Advance) becomes due.	Assets A/c ----- Dr. To Vendors A/c (with cash down payment)
2) When cash down payment is made	Vendors A/c ----- Dr. To Bank A/c

	(with cash down payment)
B) At the End of each Accounting Year	
1) When subsequent instalment becomes due	Assets A/c (cash price) ----- Dr. Interest A/c (Interest amount) ----- Dr. To Vendors A/c (with amount of instalments)
2) When instalment is paid	Vendors A/c ----- Dr. To Bank A/c (with amount of Instalment)
3) When depreciation is provided at the end of year.	Depreciation A/c ----- Dr. To Assets A/c (At the given percentage of full cash price)
4) When depreciation and interest transferred to Profit and Loss Account at the end of each accounting year.	Profit and Loss A/c ----- Dr. To Interest A/c To Depreciation A/c

Then on complete repossession, the following Journal Entries are to be passed in the books of Hire Purchaser.(Buyer)

In the books of Hire Purchaser
B) On the date of default the following entries are passed
i) For Closing Hire Vendors A/c Hire Vendor's A/c ----- Dr. To Asset A/c
ii) For Closing Asset A/c Profit and Loss A/c ----- Dr. To Assets A/c

Also vendor will close the account of hire purchaser by transferring its balance to Repossessed Stock Account this account will further be debited with expenses incurred in repairing or overhauling goods and crediting with sale price. The balance will represent profit or loss on repossessed stock and will be closed by transfer to profit and loss account. The following Journal Entries are to be passed in the books of Hire Vendor.

In the books of Hire Vendor (Seller)

A. Entries upto the date of default are as usual.

Transaction	Journal Entries
A) On the date of Agreement	
1) When the hire purchaser agreement is signed (Asset Sold)	Hire Purchas A/c ----- Dr. To Sales A/c (with full cash price)
2) When the cash down payment (Advance) is received	Bank A/c ----- Dr. To Hire Purchaser A/c (with cash down amount)
B) At the End of each Accounting Year	
1) When interest receivable	Hire Purchaser A/c ----- Dr. To Interest A/c (with interest amount)
2) When the installment is received	Bank A A/c ----- Dr. To Hire Purchaser A/c (with the amount of Installment)
3) When amount of interest is transferred to Profit and Loss A/C	Interest A/c ----- Dr. To Profit and Loss A/c (Closed Interest A/c)

On the date of default the following entries are passed

In the books of Hire Vendor	
Transaction	Journal Entries
i) For closing Hire Purchaser Account	Goods Repossessed A/c----- Dr. To Hire Purchaser A/c
ii) For amount spent on reconditioning of Goods Repossessed	Goods Repossessed A/c-----Dr. To Cash / Bank A/c
iii) For Sale of Goods Repossessed	Bank A/c ----- Dr. To Goods Repossessed A/c
iv) For Loss on sale of Goods Repossessed OR For Profit on sale of Goods	Profit and Loss A/c ----- Dr. To Goods Repossessed A/c OR Goods Repossessed A/C ----- Dr.

Repossessed	To Profit and Loss A/C
-------------	------------------------

Illustration -1

On 1st April 2016 M/S. Tara Traders acquired two Scooters costing Rs. 74600 each From M/S Hundai Ltd. on hire purchase system. Payment to be made Rs. 40000 down and the balance in three equal installment of Rs. 40000 each at the end of each year on 31st March. The interest is charged at 5% p.a. Depreciation to be provided is at 10% p.a. on diminishing balance method.

M/s Tara traders after having paid the advance and the first installment at the end of first year, failed to pay the second installment because of financial difficulties. M/s Hundai took the possession of both the scooters and sold them Rs. 87994 after spending Rs. 3600 for repairs.

From the above transaction draft the Journal Entries in the books of both the parties and also prepare necessary ledger accounts in the books of both the parties assuming full cash price method.

Solution :-

Working Note :

In this problem -

Cash price - 7460×2 scooter = Rs. 149200

Cash down payment - Rs. 40000

Installments = Three year = Rs. 40000 each

Hire purchase price - $40000 + 40000 + 40000 + 40000 =$ Rs. 160000

Interest Rate = 5% p.a.

Hence, the Interest is to be calculated as under

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 5% Interest on Outstanding Balance
1.4.2021	40000	40000	-	-
31.03.2022	40000	34540	5460	Int. = $149200 - 40000 = 109200$ at 5%=5460 CP = 40000 - 5460=34540
31.03.2023	40000	36267	3733	Int. = $109200 - 34540 = 74660$ at 5%=3733

31.03.2024	40000	38393	6203	CP = 40000 - 3733 = 36267 Int. = 10800-5460- 3733=6203 CP =149200-40000- 34540-36267=38393
Total	160000	149200	10800	

**In the books of M/S. Tara Traders (Hire Purchaser)
Journal Entries (Full Cash Price)**

Date	Particulars	LF	Debit	Credit
1.4.2021	Scooter A/c ----- Dr. To M/S. M/S Hundai Ltd. Ltd. A/c (Being purchased 2 scooters on hire purchase system.)		149200	-
			-	149200
1.4.2021	M/S Hundai Ltd. Ltd. A/c-Dr. To Bank A/c (Being paid cash down payment.)		40000	-
			-	40000
31.3.2022	Interest A/c ----- Dr. To M/S M/S Hundai Ltd.Ltd. A/c (Being payable interest.)		5460	-
			-	5460
31.3.2022	M/S Hundai Ltd.Ltd. A/c-Dr. To Bank A/c (Being paid 1 st installment including interest.)		40000	-
			-	40000
31.3.2022	Depreciation A/ ----- Dr. To Scooter A/c (149200x10%) (Being charged 10% depreciation on WDV basis.)		14920	-
			-	14920

31.3.2022	Profit and Loss A/c ----- Dr. To Interest A/c To Depreciation A/c (Being transferred balance on interest and depreciation account to Profit and Loss A/c.)		20380	-
			-	5460
			-	14920
31.3.2023	Interest A/c ----- Dr. To M/S M/S Hundai Ltd. Ltd. (Being payable interest.)		3733	-
			-	3733
31.3.2023	Depreciation A/c ----- Dr. To Scooters A/C (149200-14920) x 10% (Being charged 10% depreciation on WDV basis.)		13428	-
			-	13428
31.3.2024	M/S. Hundai Ltd.Ltd. A/C-Dr. To Scooters A/c (Being closed vendor account.)		78393	-
			-	78393
31.3.2024	Profit and Loss A/c -----Dr. To Scooters A/c (Being transferred balance on asset account to Profit and Loss Account)		42459	-
			-	42459
31.3.2024	Profit and Loss A/c -----Dr. To Interest A/c To Depreciation A/c (Being transferred balance on interest and depreciation account to Profit and Loss A/c.)		71161	-
			-	3733
				13428

Ledger Accounts
In the Books of Tara Traders
Scooter Account

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To M/s Hundai Ltd A/c		149200	31.3.22	By Dep. A/c		14920
	Total		149200	31.3.22	By Balance c/d		134280
1.4.22	To Balance b/d		134280	31.3.23	By Dep. A/c		13428
	Total		134280	31.3.23	By M/s Hundai Ltd		78393
				31.3.23	By Profit & Loss A/c		42459
				Total	Total		134280

M/s Hundai Ltd A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank A/c		40000	1.4.21	By Scooter A/c		149200
31.3.22	To Bank A/c		40000	31.3.22	By Interest A/c		5460
31.3.22	To Balance c/d		74660	Total	Total		154660
	Total		154660	1.4.22	By Balance		74660
31.3.23	To Scooter A/c** (Balancing figure)		78393	31.3.23	b/d		3733
	Total		78393	Total	Total		78393

Interest A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To M/S Hundai Ltd		5460	31.3.22	By Profit & Loss A/c		5460
	Total		5460		Total		5460
31.3.23	To M/S Hundai Ltd		3733	31.3.23	By Profit & Loss A/c		3733
	Total		3733		Total		3733

Depreciation A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Scooter A/c		14920	31.3.22	By Profit & Loss A/c		14920
	Total		14920		Total		14920
31.3.23	To Scooter A/c		13428	31.3.23	By Profit & Loss A/c		13428
	Total		13428		Total		13428

Journal Entries

In the Books of Hundai Ltd (Hire Vendor)

Date	Particulars	LF	Debit	Credit
1.4.2021	M/S Tara Traders A/c ----- Dr. To Sales A/c (Being sold two scooter on hire purchase system.)		149200	-
1.4.2021	Bank A/c ----- Dr. To M/S Tara Traders A/c (Being received cash down payment.)		40000	-
31.3.2022	M/S Tara Traders A/c ----- Dr. To Interest A/c (Being receivable interest.)		5460	-
31.3.2022	Bank A/c ----- Dr.		40000	-

	To M/S Tara Traders A/c (Being received 1 st installment including interest.)		-	40000
31.3.2022	Interest A/c ----- Dr. To Profit and Loss A/c (Being transferred balance on interest account to Profit and Loss A/c.)		5460	-
			-	5460
31.3.2023	M/S Tara Traders A/c ----- Dr. To Interest A/c (Being receivable interest.)		3733	-
			-	3733
31.3.2023	Goods Repossession A/c ----- Dr. To M/S Tara Traders A/c (Being repossessed goods for not received installment.)		78393	-
			-	78393
31.3.2023	Goods Repossessed A/c ----- Dr. To Bank A/c (Being paid amount, spent on repairs of goods repossessed.)		3600	-
			-	3600
31.3.2023	Bank A/c ----- Dr. To Goods Repossessed A/c (Being sold of goods repossessed.)		87994	-
			-	87994
31.3.2023	Goods Repossessed A/c ----- Dr. Interest A/c ----- Dr. To Profit and Loss A/C (Being transferred profit on sale of goods repossessed and interest to Profit and Loss A/C.)		6001 3733 -	- - 9733

In the Books of Hundai Ltd(Hire Vendor)

Ledger account

M/S Tara Traders A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To H.P.sales A/c		149200	1.4.21	By Bank		40000
31.3.22	To Interest A/c		5460	31.3.22	A/c		
				31.3.22	By Bank A/c		40000

					By Balance c/d		74660
	Total		154660		Total		154660
31.3.23	To Balance		74660	31.3.23	By Goods		78393
31.3.23	b/d				Repossessed		
	To Interest		3733		(Balancing figure)		
	A/c				Total		78393
	Total		78393				

Goods Repossessed A/c

Dr.				Cr.			
Date	Particulars	J / F	₹	Date	Particulars	J/ F	₹
31.3.23	To Tara Traders A/c		78393	31.3.2 023	By Bank (sale)		87994
31.3.23	To Bank A/c (Exp)		3600				
31.3.23	To Profit & Loss A/c (Balancing figure)		6001				
	Total		87994		Total		87994

Interest Account

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Profit & Loss A/c		5460	31.3.22	By M/S Tara Traders A/c		5460
	Total		5460		Total		5460
31.3.23	To Profit & Loss A/c		3733	31.3.23	By M/s Tara Traders A/c		3733
	Total		3733		Total		3733

Method 2-Part Cash Price Method

In the Books of Tara Traders (Part Cash Price Method)

Scooter Account

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To M/s Hundai Ltd A/c		40000	31.3.22	By Depreciation A/c		14920
31-3-21	To M/S Hundai Ltd A/c		34540	31.3.22	By Balance c/d		59620
	Total		74540		Total		74540
1.4.22	To Balance b/d		59620	31.3.23	By Depreciation A/c		13428
31-3-23	To Hundai Ltd A/c		36267	31.3.23	By M/s Hundai Ltd		40000
	Total		95887	31.3.23	By Profit & Loss A/c		42459
					Total		95927

M/s Hundai Ltd A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank A/c		40000	1.4.21	By Scooter A/c		40000
31.3.22	To Bank A/c		40000	31.3.22	By Scooter A/c		34540
	Total		80000		By Interest A/c		5460
31.3.23	To Scooter A/c** (Balancing figure)		78393		Total		80000
	Total		78393	1.4.22	By Balance b/d		36267
				31.3.23	By Interest A/c		3733
					Total		78393

Interest A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To M/S Hundai Ltd		5460	31.3.22	By Profit & Loss A/c		5460
	Total		5460		Total		5460
31.3.23	To M/S Hundai Ltd		3733	31.3.23	By Profit & Loss A/c		3733
	Total		3733		Total		3733

Illustration-2

Mr. Sachine Purchased a truck on hire purchase system on 1st April 2021 for Rs. 1400000 from M/S Verendra Co.. Payment to be made Rs. 375000 down and three annual installments of Rs. 375000 each at the end of each year. Rate of interest is charged at 5% p.a. Buyer depreciates assets at 10% p.a. on written down value basis.

Because of financial difficulties Mr. P after having paid down payment and first installment at the of first year could not pay second installment and seller took possession of the truck. Seller after expending Rs.8925 on repairs of the assets, sold it away for Rs. 30110.

Show the ledger accounts 1) Truck A/C and Hire Vendor A/C in the books of Mr. P 2) Mr. P A/C and Goods Repossession A/C in the books of Hire Vendor.

Solution :-

Working Note :

In this problem -

Cash price - Rs. 1400000

Cash down payment - Rs. 375000

Installments = Three years = Rs. 375000 each

Interest Rate = 5% p.a.

Hence, the Interest is to be Calculated as Under

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 5% Interest on Outstanding Balance
1.4.21	375000	375000	-	-
31.3.22	375000	323750	51250	Int. = 140000-375000 = 1025000 at 5%=51250 CP = 375000-51250=323750
31.3.23	375000	339937	35036	Int. = 1025000- 323750=701250 at 5% CP = 375000-35063=339937
31.3.24	375000	361313	13687	Int. = 100000-51250- 35063=13687 CP=140000-375000-51250- 35036=13687
Total	1500000	1400000	100000	

In the Books of Mr. Sachine
M/S Virendra Co. A/c

Dr.				Cr.			
Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank A/c		375000	1.4.21	By Scooter		
31.3.22	To Bank A/c		375000	31.3.22	A/c		1400000
31.3.22	To Balance c/d		701250		By Interest		51250
	Total		1451250		A/c		
					Total		1451250
31.3.23	To Scooter		736313	1.4.22	By Balance		701250
	A/c**			31.3.23	b/d		35063
	(Balancing				By Interest		
	figure)				A/c		
	Total		736313		Total		736313

Truck Account

Dr.

CR.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To M/s Virendra Co. A/c		1400000	31.3.22	By Depreciation A/c		140000
				31.3.22	By Balance c/d		1260000
	Total		1400000		Total		1400000
1.4.22	To Balance b/d		1260000	31.3.23	By Depreciation A/c		126000
				31.3.23	By M/s Virendra Co A/c		737186
				31.3.23	By Profit & Loss A/c		366814
	Total		1260000		Total		1260000

Interest A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To M/S Virendra Co.		51250	31.3.22	By Profit &Loss A/c		51250
	Total		51250		Total		51250
31.3.23	To M/S Virendra Co.		35063	31.3.23	By Profit &Loss A/c		35063
	Total		35063		Total		35063

Depreciation A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Scooter A/c		140000	31.3.22	By Profit & Loss A/c		140000
	Total		140000		Total		140000
31.3.23	To Scooter A/c		126000	31.3.23	By Profit & Loss A/c		126000
	Total		126000		Total		126000

In the Books of M/S Virendra Co.

Mr.Sachine A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To H.P.sales A/c		1400000	1.4.21	By Bank A/c		375000
	To Interest A/c		51250	31.3.22	By Bank A/c		375000
31.3.22	Total		1451250	31.3.22	By Balance c/d		701250
31.3.23	To Balance b/d		701250		Total		1451250
31.3.23	To Interest A/c		35063	31.3.23	By Goods Repossessed (Balancing figure)		736313
	Total		736313		Total		736313

Goods Repossessed A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.23	To Tara		736313	31.3.2023	By Bank		752750
31.3.23	Traders A/c		8925		(sale)		
31.3.23	To Bank A/c		7512				
	(Exp)						
	To Profit						
	&Loss A/c						
	(Balancing						
	figure)						
	Total		752750		Total		752750

Interest Account

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Profit &			31.3.22	By Sachine		
	Loss A/c		51250		A/c		51250
	Total		51250		Total		51250
31.3.23	To Profit &			31.3.23	By Sachine		
	Loss A/c		35063		A/c		35063
	Total		35063		Total		35063

Partial Repossession- When the vendor takes repossession of only a part of the total assets sold by hire-purchase. (Partial Repossession of Assets)

This situation arises when the hire vendor (seller) takes back only a part of the goods sold under the hire purchase agreement. The vendor does not take back the entire asset—only a portion of it. This may happen when the vendor does not want to be too strict with the purchaser.

The vendor may later repair or recondition the repossessed goods and then sell them again to someone else. In such a case, the accounting treatment is different

because only part of the asset is taken back, not the whole. The hire purchaser (buyer) is allowed to keep the remaining portion of the asset.

In the purchaser's books, they should show the present value of the part of the asset that is still with them. The value of the part taken back by the vendor should be written off or removed from the books. All accounting entries made up to the date of default (non-payment) are passed in the normal way. After that, some additional entries are needed to show the repossession properly in the accounts.

Example:

Suppose Mr. A buys 4 machines on hire purchase from XYZ Ltd. for a total price of ₹4,00,000. He pays some installments but later fails to make further payments. On default, XYZ Ltd. decides to take back 2 machines and allows Mr. A to keep the remaining 2 machines.

Now, Mr. A must calculate the present value of the 2 machines still with him and show it in his books. The value of the 2 machines taken back by the vendor should be removed (written off) from the asset account. XYZ Ltd. may repair the 2 repossessed machines and sell them again.

All entries till the date of default are passed in the usual manner. The additional treatment is as follows:

In the books of Hire – Purchaser	
Transaction	Journal Entry
1) For transfer of the agreed value of Goods Repossessed (Note: The balance left in the Hire-Vendor A/c represents the amount due to him)	Hire Vendor A/cDr To Assets A/c
2) For transfer of loss on default (Note: with the difference in the book value and agree value of the goods repossessed)	Profit and Loss A/cDr To Assets A/c

Note : In case of Profit on default the reverse entry will be passed

In the books of Hire – Vendor	
Transaction	Journal Entry
1) On repossession of goods at	Goods Repossession A/cDr

agreed value	To Hire-Purchaser A/c
2) Amount spend on repair charges on the goods repossessed	Goods Repossession A/cDr To Bank A/c
3) For sale of goods repossessed	Bank A/cDr To Goods Repossessed A/c
4) For loss on sale of goods repossessed Or For Profit on sale of goods repossessed	P &L A/c.....Dr. To Goods Repossessed A/c Or Goods Repossessed A/cDr To Profit and Loss A/c

Note : The balance in hire purchaser account will represent the amount due from him for the goods retained with him.

Session -2

A) MCQs

-----is complete repossession in hire purchase

- A) Partial recovery of goods B) Taking back full goods due to default
C) Taking back with no installments due D) Goods are gifted

In complete repossession, the balance in the hire vendor's account is transferred to-----

- A) Capital Account B) Cash Account
C) Asset Account D) Repossessed Goods Account

In the books of hire purchaser, the loss on complete repossession is transferred to---

- A) Purchase Account B) Cash Book
C) Suspense Account D) Profit and Loss Account

When only part of the asset is taken back, it is called-----

- A) Full repossession B) Complete disposal
C) Partial repossession D) Full settlement

In the books of the vendor, when goods are repossessed ----- account is debited.

In complete repossession, the hire purchaser retains-----

- A) Half of the asset
- B) No part of the asset
- C) All of the asset
- D) Intangible rights

The amount due from hire purchaser for goods retained (partial repossession) is shown as-

- A) Asset
- B) Liability
- C) Balance with Vendor
- D) None of the above

The balance in the Goods Repossessed Account show after all transactions is transferred to

- A) Outstanding loan
- B) Hire charges
- C) Profit or loss on sale
- D) Depreciation

----- journal entry is passed by vendor for profit on sale of repossessed goods.

- A) Goods Repossessed A/c Dr. To Bank A/c
- B) Goods Repossessed A/c Dr. To P&L A/c
- C) P&L A/c Dr. To Goods Repossessed A/c
- D) None of the above

B) True or False

Complete repossession means only a portion of goods is taken back by the vendor.

In complete repossession, the buyer does not retain any part of the asset.

Repair expenses on repossessed goods are debited to the Profit and Loss Account directly.

Partial repossession occurs when only part of the asset is taken back.

In partial repossession, the buyer must remove the value of the part repossessed from their books.

Goods Repossessed Account is prepared only in the books of the hire purchaser.

All entries up to the date of default are recorded as usual in both cases.

Loss on repossession in purchaser's books is transferred to the Asset Account.

Hire Vendor's A/C is debited while transferring agreed value in case of partial repossession

The difference between book value and agreed value in partial repossession is recorded as profit or loss.

In complete repossession, the missed installment is recorded.

Bank Account is credited when the vendor spends on repairs.

In vendor's books, Goods Repossessed A/C is credited at the time of sale of repossessed goods.

Partial repossession always leads to a profit for the hire purchaser.

Profit or loss on repossession is ultimately shown in the Profit and Loss Account.

Illustration : 3

Pune Transport Co. purchased three trucks costing Rs. 2500000 each from Sahara Auto Ltd. on 1st April 2021 on Hire Purchase system. The terms were payment on delivery Rs. 625000 for each truck and balance of the principal amount by three equal installment plus interest at 15% p.a. to be paid at the end of each year on 31st March.

Mumbai Roadways Ltd. writes off 20% depreciation each year on the diminishing balance method.

Mumbai Roadways Ltd. paid the installments due on 31st March 2022 and 31st March 2023 but could not pay the final installment.

Hindustan Auto Ltd. repossessed two trucks adjusting values against the amount due. The repossession was done on 1st April 2024 on the basis of 40% depreciation on the diminishing balance method.

You are required to :

a) Write up Truck A/c and Sahara Auto Ltd. A/c in the books of Pune Transport Co..

b) Show Pune Transport Co .A/c and Goods Repossessed A/c in the books of Sahara Auto Ltd. assuming that the repossessed two trucks were reconditioned at the expenses of Rs. 395000 and sold for Rs. 1850000.

Solution :-

Working Note :

In this problem -

Cash price - Rs. 2500000 x 3 trucks = Rs. 7500000

Cash down payment - Rs. 625000 x 3 Trucks = Rs. 1875000

Installments = Three years = Rs. 7500000 -1875000 = 5625000 ÷ 3 = Rs. 1875000 each

Hire Purchase Price : ?

Interest Rate = 15% p.a.

Hence, the Interest is to be calculated as under

Calculation of Interest

Date	Hire Purchase Price	Cash Price	Interest	Calculation of 15% Interest on Outstanding Balance
1.4.21	1875000	1875000	-	-
31.3.22	2718750	1875000	873750	Int. = 7500000 - 1875000 = 5625000 at 15% = 843750 HP = 1875000 + 843750 = 2718750
31.3.23	2437500	1875000	562500	Int. = 5625000 - 1875000 = 3750000 at 15% = 562500 HP = 1875000 + 562500 = 2437500
31.3.24	2156250	1875000	281250	Int. = 3750000 - 1875000 = 1875000 at 15% = 281250 HP = 1875000 + 281250 = 2156250
Total	9187500	4687500	9581250	

In the Books of Pune Transport Co.

Sahara Auto Ltd.

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Bank A/c		1875000	1.4.21	By Truck a/c		7500000
31.3.22	To Bank A/c		2718750	31.3.22	By Interest		843750
31.3.22	To Balance c/d		3750000		A/c		
	Total		8343750		Total		8343750
31.3.23	To Bank A/C		2437500	1.4.22	By Bal. b/d		3750000
31.3.23	To balance c/d		1875000	31.3.23	By Interest		562500
	Total		4312500		A/C		
31.3.24	To Truck A/C		1080000		Total		4312500
31.3.24	To Bal. c/d		1076250	1.4.23	By Bal. B/d		1875000
	Total		2156250	31.3.24	By Interest		281250
					Total		2156250

Truck Account

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To Sahara Auto Ltd. A/c		7500000	31.3.22	By Dep.A/C(20%		1500000
				31.3.22	of 7500000)		
					By Balance c/d		6000000
	Total		7500000		Total		7500000
1.4.22	To Bal.b/d		6000000	31.3.23	By Dep. A/C		1200000
					(20% of		
					6000000)		
					By Balance c/d		4800000
	Total		6000000		Total		6000000

1.4.23	To Balance b/d		4800000	31.3.24	By Depreciation		960000
				31.3.24	By Sahara ltd By		1080000
				31.3.24	Profit & Loss a/c (Balancing figure***)		1480000
				31.3.24	By Balance c/d		1280000
	Total		4800000	Total			4800000

Interest A/c

Dr.

Cr.

Date	Particulars	J F	Rs.	Date	Particulars	J F	Rs.
31.3.22	To Sahara Auto Ltd.		843750	31.3.22	By Profit & Loss A/c		843750
	Total		843750		Total		843750
31.3.23	To Sahara Auto Ltd.		562500	31.3.23	By Profit & Loss A/c		562500
	Total		562500		Total		562500
31.3.24	Sahara Auto Ltd.		281250	31.3.24	By Interest A/c		281250
	Total		281250		Total		281250

Depreciation A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Truck A/c		1500000	31.3.22	By Profit & Loss A/c		1500000
	Total		1500000		Total		1500000
31.3.23	To Truck A/c		1200000	31.3.23	By Profit & Loss A/c		1200000
	Total		1200000		Total		1200000
31.3.24	To Truck		960000	31.3.24	By Profit & Loss A/c		960000
	Total		960000		Total		960000

In the Books of Sahara Auto Ltd.

Pune Transport Co. A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
1.4.21	To			1.4.21	By Bank		1875000
31.3.22	H.P.sales A/c		7500000	31.3.22	A/c		
	To Interest A/c		843750	31.3.22	By Bank A/c		2718750
	Total		8343750		By Balance c/d		3750000
1.4.23	To		3750000	31.3.23	By Bank		2437500
31.3.23	Balance b/d			31.3.23	By Balance c/d		1875000
	To Interest a/c		562500		Total		4312500
	Total		4312500	31.3.24	By Goods Repossessed (Balancing figure)		1080000
31.3.24	To		1875000	31.3.24	By Balance c/d		1076250
	Balance b/d				Total		2156250
31.3.24	To Interest A/C		281250				
	Total		2156250				

Goods Repossessed A/c

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.24	To Pune Transport Co. A/C		1080000	31.3.24	By Bank (sale)		1850000
31.3.24	To Bank A/C(Exp)		345000				
31.3.24	To Profit & Loss A/C (Balancing figure)		425000				
	Total		1850000		Total		1850000

Interest Account

Dr.

Cr.

Date	Particulars	J F	₹	Date	Particulars	J F	₹
31.3.22	To Profit & Loss A/c		843750	31.3.22	By Pune Transport Co. A/c		843750
	Total		849750				849750
31.3.23	To Profit & Loss A/c		562500	31.3.23	By Pune Transport Co. A/c		562500
	Total		562500		Total		562500
31.3.24	To Profit & Loss A/c		281250	31.3.24	By Pune Transport Co.		281250
	Total		281250		Total		281250

2.2.8.3.Hire Purchase Trading Account.

When there are large number of hire purchase transactions and goods sold are of small value it becomes rather inconvenient for hire-vendor to maintain a separate account for each of his customers on the lines explained above. In such a case , therefore, he maintains a subsidiary books like hire purchase register and records all the hire purchase transactions in it . The register has number of columns such as date, name of hire purchaser, name of article ,cost price, number of instalments, amount of each instalment due, due dates of instalments, dates of payment of instalment etc. at the end of the every accounting period al the particulars of the hire purchase transactions during the period are collected from the totals of various columns of this register and hire purchase trading account is prepared to ascertain the profit or loss on ire purchase transactions during the period.

2.2.8.3.1.Terms used in Hire Purchase Trading Account

1.Instalment due but not received- It is also termed as instalment overdue or book debts overdue customers still paying or matured instalments . It refers to the total of instalments which have already become due from hire purchaser but not yet received . The due date of these instalments as per agreement have been already explained and customers are likely to pay these instalments in a short period of time. This term is like debtors on hire purchase transactions.

2.Instalment not due – It also termed as unmatured instalments . It refers to the value of goods with the hire purchase customers against which the due dates of instalments have not yet fallen due. They may fall due in subsequent period as per the agreement . As the ownership in these goods sold on hire purchase is not passed on to the customers, till they pay all the instalments, it is like stock with the customers . But it is shown at invoice price. It should be shown at cost price and the recorded in hire purchase trading.

3.Repossessed stock – It referes to the value of goods repossessed from the hire purchase customers for non payment of the amount due. The cost price of total unpaid instalment on such repossessed goods I to be ascertained and credited to hire purchase trading account.

Journal entries of Hire Purchase Trading Account

Sr.No	Transaction	Journal Entry
1	For opening stock with customer	Hire Purchase Trading A/c -Dr. To Opening stock with customer/instalment not due
2	For Opening balance on hire purchase during the year	Hire Purchase Trading A/c -Dr To instalment due but not received
3	For goods sent on hire purchase customers	Hire Purchase Trading A/c -Dr To goods sent on hire purchase
4	For cash received from hire purchase customers	Bank A/c-----Dr. To Hire Purchase Trading A/c
5	For goods repossessed due to non payment of instalments	Goods repossessed A/c-----Dr. To Hire Purchase Trading A/c
6	For instalments due but not paid at the end of the period	Install. due but not receive A/c-Dr. To Hire Purchase Trading A/c
7	For closing stock with customers in respect of which instalments are not yet due	Closing stock with custo. A/c ---Dr. To Hire Purchase Trading A/c
8	To remove the loading in opening stock with customers	Stock Reserve a/c-----Dr. To Hire Purchase Trading A/c
9	To remove the loading in goods sold on hire purchase during period	Goods sent on hire purchase A/c-Dr To Hire Purchase Trading A/c
10	To remove the loading in closing stock with customers	Hire Purchase Trading A/c-Dr To Stock reserve (with loading)
11	For transfer of profit.	Hire Purchase Trading A/c-Dr To Profit and Loss A/c

Note : Reverse entry is passed in case of loss

Hire Purchase Trading Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening stock with customers(instalment not due)	H.P.Price	By Opening stock Reserve(Loading in opening stock)	Loading
To Opening instalments due but not received(opening debtors)	H.P.Price	By Bank/cash(instalment /cash down payment received from H.P. customer)	Actual
To Goods sent on Hire Purchase	H.P.Price	By Goods repossessed(Cost of estimated value of goods repossessed)	Cost
To Bank /cash expenses	Actual	By Goods sold on H.P.	Loading
To Closing Stock Reserve	Loading	By Closing Instalment due but not received(Closing debtors)	H.P.Price
To Profit on hire purchase	(Bal. fig.)	By Closing stock with customers(instalment not due)	H.P.Price

Hire Purchase Debtors A/c

Dr.

Cr.

Particulars	₹	Particulars	₹
To Opening stock with customers(instalment not due)	H.P.Price	By Bank/cash(instalment /cash down payment received from H.P. customer)	Actual H.P.Price
To Opening instalments due but not received(opening debtors)	H.P.Price	By Goods repossessed(Cost of estimated value of goods repossessed)	Balancing Fig.
To Goods sent on Hire Purchase	H.P.Price	By Closing Instalment due but not received	H.P.Price
		By Closing stock with customers(instalment not due)	H.P.Price
Total	*****	Total	*****

Shop Stock a/c

Dr.

Cr.

Particulars	₹	Particulars	₹.
To Opening stock at shop	Cost.Price	By Goods sent on H.P.(Cost of goods sold on H.P.)	Cost price
To Purchase	Cost price	By balance c/d (stock at shop)	Cost price
Total	*****	Total	*****

Check Your Progress

Session -3

A) Multiple Choice Questions (MCQs):

1. ----- is the purpose of preparing a Hire Purchase Trading Account?
A) To record daily shop sales
B) To determine total instalments collected
C) To ascertain profit or loss on hire purchase transactions during the period
D) To calculate interest on overdue payments
2. If ----- then "Instalment Not Due" represent in a hire purchase transaction?
A) Outstanding instalments
B) Cash discount
C) Value of goods for which instalments are yet to fall due
D) Repossessed goods
3. The 'Goods Repossessed' value shown in the Hire Purchase Trading Account-----
A) On the debit side as opening stock B) On the credit side at cost price
C) On the credit side at selling price D) Not shown at all
4. ----- entry is passed when goods are sent on hire purchase
A) Hire Purchase Trading A/c Dr. To Goods sent on HP A/c
B) Goods A/c Dr. To HP Trading A/c
C) Bank A/c Dr. To HP Trading A/c
D) Repossessed Goods A/c Dr. To HP Trading A/c
5. -----of the following is not a component of the Hire Purchase Trading Account.
A) Instalment due but not received B) Closing stock at shop
C) Goods sent on hire purchase D) Cash received from hire
purchase customers

B) True or False:

1. The hire purchase register is used to record individual customer accounts only.
2. Instalment due but not received is treated similar to debtors in hire purchase.
3. Goods repossessed are recorded at selling price in the Hire Purchase Trading Account.
4. Loading is removed from the opening and closing stock with customers.
5. Cash received from hire purchase customers is debited to Hire Purchase Trading Account.

Illustration -1

The following figures have been extracted from the books of Akash Furniture, dealer of furniture, who carries on his business on Hire -Purchase System.

Date	Particulars	₹
1-4-23	Stock out on hire with customer	50000
	Stock in hand at shop	6250
	Instalments overdue	3750
31-3-24	Stock out on hire with customer	57500
	Stock in hand at shop	8750
	Instalments overdue	6250
	Purchases	85000
	Cash Received from the Hire-purchase Customers	100000

Assuming his gross profit to be 25% on hire purchase price, prepare

1. Hire -Purchase Trading A/C
2. Hire Purchase Customers A/C
3. Hire Purchase Shop Stock A/C

Solution:

1. Gross profit is 25% on Hire Purchase Price means the $33\frac{1}{3}\%$ of cost price

In the Books of Akash Furniture Dealer

Hire Purchase Trading Account

Dr.	₹	Cr.	₹
To Opening stock out on H.P. with customers(at H.P.Price)	50000	By Bank (Cash received from H.P. Consumers)	100000
To Opening instalments over due (opening debtors)	3750	By Goods repossessed (at Cost)	Nil
To Goods sent on Hire Purchase	100000	By Opening stock reserve (loading 50000*1/4)	12500
To Closing Stock Reserve (Loading) (57500*1/4)	14375	By Goods send on hire Purchase (110000*1/4)	27500
To Bank /cash(S.expenses)	Nil	By Closing Instalment over due (Closing debtors)	6250
To Profit on hire purchase	25625	By Closing stock out of Hire at H.P. Price	57500
	203750		203750

Hire Purchase Debtors A/c

Dr.	₹	Cr.	₹
To Balance b/d(Opening stock out on H.P. Price)	50000	By Bank/cash(cash down payment received from H.P. customer)	100000
To Opening instalments over due	3750	By Goods repossessed at H.P.Price	Nil
To Goods sent on Hire Purchase	110000	By Closing instalment over due (Balancing Figure)	6250
		By Balance c/d(closing stock out on hire at H.P.Price)	57500
Total	163750	Total	163750

Shop Stock a/c

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	6250	By Goods sent on H.P.	82500
To Purchase	85000	By balance c/d	8750
Total	91250	Total	91250

Illustration:2

The following figures have been extracted from the books of Adarsha Furniture, dealer of furniture, who carries on his business on Hire -Purchase System.

Date	Particulars	₹
1-4-23	Stock out on hire with customer	200000
	Stock in hand at shop	25000
	Instalments overdue	15000
31-3-24	Stock out on hire with customer	230000
	Stock in hand at shop	35000
	Instalments overdue	25000
	Purchases	340000
	Cash Received from the Hire-purchase Customers	400000

Assuming his gross profit to be 25% on hire purchase price, prepare

1. Hire -Purchase Trading A/C
2. Hire Purchase Customers A/C
3. Hire Purchase Shop Stock A/C

Solution:

1. Gross profit is 25% on Hire Purchase Price means the $33 \frac{1}{3}$ % of cost price

In the Books of Adarsha Furniture Dealer
Hire Purchase Trading Account

Dr.	₹	Cr.	₹
To Opening stock out on H.P. with customers(at H.P.Price)	200000	By Bank (Cash received from H.P. Consumers)	400000
To Opening instalments over due (opening debtors)	15000	By Goods repossessed (at Cost)	Nil
To Goods sent on Hire Purchase	400000	By Opening stock reserve (loading 50000*1/4)	50000
To Closing Stock Reserve (Loading) (57500*1/4)	57500	By Goods send on hire Purchase (110000*1/4)	110000
To Bank /cash(S.expenses)	Nil	By Closing Instalment over due (Closing debtors)	25000
To Profit on hire purchase	102500	By Closing stock out of Hire at H.P. Price	230000
Total	815000	Total	815000

Hire Purchase Debtors A/c

Dr.	₹	Cr.	₹
To Balance b/d(Opening stock out on H.P. Price)	200000	By Bank/cash(cash down payment received from H.P. customer)	400000
To Opening instalments over due	15000	By Goods repossessed at H.P.Price	Nil
To Goods sent on Hire Purchase	440000	By Closing instalment over due (Balancing Figure)	25000
		By Balance c/d(closing stock out on hire at H.P.Price)	230000
Total	655000	Total	655000

Shop Stock A/c

Dr.		Dr.	
Particulars	₹	Particulars	₹
To Balance b/d	25000	By Goods sent on	330000
To Purchase	40000	H.P.	
		By balance c/d	35000
Total	365000	Total	365000

Exercise 3.

Mr.Pareekh Trading Co. sells goods on Hire Purchase at cost plus 50% from the following particulars relating to the hire purchase department for the year ending 31-3-2024 . Prepare Hire Purchase Trading A/C

Date	Particulars	₹
1-4-23	Stock with hire Purchase with customer at selling price	36000
	Stock in hand at shop at cost	72000
	Instalments overdue	20000
31-3-24	Cash Received from Customers	240000
	Goods Repossessed (Instalments due Rs. 4000) valued at	2000
	Instalments due Customers Paying	36000
	Stock at shop at cost (Excluding repossessed goods)	80000
	Goods purchased during the year	240000

Solution :

Profit is Rs. 50% of cost or $33 \frac{1}{3}$ of selling price

3

In the books of Pareekh Trading Co.
Hire Purchase Trading A/C

Dr.	₹	Cr.	₹
To Opening Stock with Hire Purchase Customers (At H.P.Price)	36000	By Bank (Cash received)	240000
To Opening Instalments Due(Opening Debtors)	20000	By Goods Repossessed(Estimated Value)	2000
To Goods sent on Hire Purchase (H.P.Price)	348000	By Opening Stock Reserve (Loading 36000*1/3)	12000
To Closing Stock Reserve(120000*1/3)	40000	By Goods Sent to Hire Purchase (Loading 348000*1/3)	116000
To Profit on hire purchase Trading(Transferred to Hire Purchase General P&L A/c)	82000	By Closing Instalments Due customer Paying	36000
		By Closing Stock with customers	120000
Total	526000	Total	526000

Hire Purchase Debtors A/C

Dr.	₹	Cr.24	₹
To Balance b/d(Opening stock out on hire at H.P.Price)	36000	By Bank (Cash received)	240000
To Opening Instalment Due	20000	By Repossessed goods(Instalment Due)	8000
To Goods Sent on Hire Purchase at H.P.Price	348000	By Closing Instalments Due	36000
		By Balance c/d	120000
Total	404000	Total	404000

Shop stock A/c

Dr.

Cr.

Particulars	₹	Particulars	₹
To Balance b/d	72000	By Goods sent on Hire Purchase (Balancing figure) (Cost of goods sold)	232000
To Purchase during year	240000	By Balance c/d	80000
Total	312000	Total	312000

Illustration -4

Exercise 3.

Mr.Mehata Trading Co. sells goods on Hire Purchase at cost plus 50% from the following particulars relating to the hire purchase department for the year ending 31-3-2024 . Prepare Hire Purchase Trading A/C

Date	Particulars	₹
1-4-23	Stock with hire Purchase with customer at selling price	72000
	Stock in hand at shop at cost	144000
	Instalments overdue	40000
31-3-24	Cash Received from Customers	480000
	Goods Repossessed (Instalments due Rs. 32000) valued at	4000
	Instalments due Customers Paying	72000
	Stock at shop at cost (Excluding repossessed goods)	160000
	Goods purchased during the year	480000

Solution :

Profit is Rs. 50% of cost or $33 \frac{1}{3}$ of selling price

In the books of Mehata Trading Co.
Hire Purchase Trading A/c

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening Stock with Hire Purchase Customers (At H.P.Price)	72000	By Bank (Cash received)	480000
To Opening Instalments Due(Opening Debtors)	40000	By Goods Repossessed(Estimated Value)	4000
To Goods sent on Hire Purchase (H.P.Price)	696000	By Opening Stock	24000
To Closing Stock Reserve(240000*1/3)	80000	Reserve (Loading 72000*1/3)	
To Profit on hire purchase Trading(Transferred to Hire Purchase General P&L A/c)	164000	By Goods Sent to Hire Purchase (Loading 348000*1/3)	232000
		By Closing Instalments Due customer Paying	72000
		By Closing Stock with customers	240000
Total	1052000	Total	1052000

Hire Purchase Debtors A/C

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d(Opening stock out on hire at H.P.Price)	72000	By Bank (Cash received)	480000
To Opening Instalment Due	40000	By Repossessed goods(Instalment Due)	16000
To Goods Sent on Hire Purchase at H.P.Price	696000	By Closing Instalments Due	72000
		By Balance c/d	240000
Total	808000	Total	808000

Shop stock A/c

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	144000	By Goods sent on Hire	464000
To Purchase during year	480000	Purchase (Balancing figure) (Cost of goods sold)	
		By Balance c/d	160000
Total	624000	Total	624000

2.3.Summary:

Accounting in the Books of Hire Vendor and Hire Purchaser in Case of Default and Repossession

In a hire purchase system, ownership of the asset remains with the hire vendor until all installments are paid. If the hire purchaser defaults, the vendor can repossess the asset—either fully or partially. **Complete repossession** means taking back the entire asset; **partial repossession** refers to taking only a part. Repossession is a legal right of the hire vendor due to non-payment or breach of agreement. In complete repossession, the purchaser loses all rights to the asset, and the vendor may resell it after repair. In partial repossession, the purchaser continues using the remaining asset, and the vendor adjusts the repossessed part. Accounting entries differ for hire vendor and hire purchaser based on the type of repossession. The purchaser must remove the repossessed asset from the books and transfer any loss to the Profit & Loss Account. The vendor records the asset in a **Goods Repossessed Account** and later accounts for repair, sale, and gain/loss. Relevant Accounting Standards include AS-9 (Revenue Recognition), AS-10 (PPE), AS-29 (Provisions), and Ind AS 116. Important principles include the **Going Concern, Prudence, Matching, and Accrual** concepts. Key terms: Hire Purchase Price, Cash Price, Installment, Default, Depreciation, Agreed Value, Book Value. The hire purchaser passes journal entries to close the vendor's and asset accounts, reflecting any loss. The hire vendor closes the purchaser's account, debits expenses to the repossessed stock, and recognizes profit or loss. The process ensures accurate financial reporting of default, asset recovery, and its financial impact on both parties.

Complete Repossession occurs when the vendor takes back the entire asset due to buyer's default in payment. All entries up to the date of default, including interest, are recorded in the usual way. Missed installments are not recorded; the vendor's account is closed by transferring its balance to the asset account. Any remaining balance in the asset account (loss) is transferred to the Profit & Loss A/C. The vendor debits the Goods Repossessed A/C and records reconditioning expenses and sale proceeds. Any resulting profit or loss on sale of repossessed goods is transferred to the Profit & Loss A/C. **Partial Repossession** means the vendor takes back only a part of the goods sold. The hire purchaser retains the remaining goods and values them at their present value. The portion repossessed is written off from the asset account, and any loss is transferred to P&L A/C. Vendor accounts for the repossessed goods similarly, adjusting for repair costs and sale proceeds.

Hire Purchase Trading Account: When numerous low-value hire purchase transactions occur, vendors maintain a **Hire Purchase Register** instead of individual accounts for each customer. This register contains detailed columns about goods sold, installments, and payment records. At the end of the period, all data from the register is used to prepare the **Hire Purchase Trading Account** to determine profit or loss. Entries are made for goods sold, cash received, stock repossessed, and closing balances. Adjustments are made for **loading** (profit element in hire purchase price) and entries are finalized by transferring profit or loss to the Profit & Loss A/C.

2.4. Terms to Remember

Hire Purchase Price refers to the total cost of the asset, which includes the down payment and the total of all future installments.

Cash Price is the price of the asset without including any interest or finance charges; it's the amount payable if bought outright for cash.

Installment is a periodic payment made by the hire purchaser as per the hire purchase agreement.

Default occurs when the hire purchaser fails to pay one or more agreed installments on time.

Repossession is the act of the hire vendor taking back the goods due to non-payment or breach of agreement by the hire purchaser.

Partial Repossession happens when the vendor takes back only a part of the asset sold under the hire purchase agreement.

Complete Repossession takes place when the vendor reclaims the entire asset due to default in payments.

Agreed Value is the value that the purchaser and vendor mutually agree upon at the time of repossession for the returned asset.

Depreciation is the decrease in the value of the asset over time due to use, wear and tear, or obsolescence.

Book Value is the value of the asset recorded in the purchaser's books after accounting for depreciation.

2.5. Answer to check your Progress

CHECK YOUR PROGRESS- 1

ANSWER- MCQ

1	C	2	C	3	C	4	C	5	C	6	C	7	C	8	D	9	D
10	C	11	C	12	A	12	C	14	B	15	B						

True or False

1	F	2	T	3	T	4	F	5	T	6	F	7	T	8	F	9	T	10	F
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	----	---

CHECK YOUR PROGRESS -2

ANSWER-MCQ

1	B	2	C	3	D	4	C	5	C	6	B	7	C	8	D	9	C
10	B	11	B	12	B	13	C	14	C	15	B						

True or false

1	F	2	T	3	F	4	T	5	T	6	F	7	T	8	F	9	T	10	T
11	F	12	T	13	T	14	F	15	T										

CHECK YOUR PROGRESS-3-

ANSWER-MCQ

1	C	2	C	3	B	4	A	5	B
---	---	---	---	---	---	---	---	---	---

True or False

1	F	2	T	3	F	4	T	5	F
---	---	---	---	---	---	---	---	---	---

2.6. Exercise

Exercise : 1 (April 1993)

Mr. X Purchased a Machine on Hire Purchase basis on 1st April 2017 from Mr. Y for Rs. 11175 and payment was to be made as follows :-

Rs. 3000 was to be paid on signing of the agreement and the balance in three annual installment of Rs. 3000 each at the end of each year on 31st March. Rate of Interest is charged at 5% p.a. Buyer depreciate assets at 10% p.a. on diminishing balance method.

Because of financial difficulties Mr. X after having paid down payment and first installment at the end of the first year could not pay second installment and Mr. Y therefore took possession of the machine.

Mr. Y after spending Rs. 500 on repairs of the said machine sold it away for Rs. 7000. Both the buyer and seller close their books on 31st March every year Prepare Mr. X Account and Goods Repossession Account in the books of Mr. Y.

A) When the Vendor takes back the complete Repossession of Assets

Exercise : 2

Rajesh Engineering works sold to Pratap Industries a machine of the cash value of Rs. 31360 on hire purchase basis on 1st April 2017. A sum of Rs. 9000 was paid at the time of delivery. The balance was payable in three equal annual installment of Rs. 9000 each payable on 31st March every year. Interest was charged @ 10% p.a. The purchaser charged 10% depreciation p.a. on diminishing balance of the machine.

Pratap Industries failed to pay the installment due on 31st March 2019. Rajesh Engineering works obtained the permission of the court to repossess the machine

as a result of default by the purchaser and having completed all the statutory requirements took possession of the machine on 31st May 2019.

Prepare the necessary Ledger Accounts in the books of hire purchaser and Hire seller.

(Ans : Loss of Machiner A/C Rs. 8246, Interest on 31.3.2018 Rs. 2236, On 31.3.2019 Rs. 1560, Debit Balance in Pratap Industries Account transferred to Goods Repossessed A/C Rs. 17156)

Exercise : 3

Mumbai Transport Ltd. purchased from Kolhapur Motors Ltd. three trucks costing Rs. 400000 each on Hire purchase system on 1st April 2017 was to be made in three equal installment together with interest 5%. Mumbai Transport Ltd. Writes off depreciation @ 20% on the diminishing balance on 31st March every year. It paid the installment due at the end of the first year but could not pay the next.

Give :-

1. Truck A/C and Kolhapur Motor Ltd. A/C in the books of Mumbai Transport Ltd.
2. Mumbai Transport Ltd. A/C and Goods Repossession A/C in the books of Kolhapur Motors Ltd.

For two years if the hire vendor took possession of all the three trucks. The hire vendor spent Rs. 58000 on getting the trucks overhauled and sold them for Rs. 700000.

(Ans : 1) Loss in Truck A/C Rs. 13800, Interest on 31.3.2018 Rs. 45000 and on 31.3.2019 Rs. 30000.

2) Profit to Vendor on sale of repossessed goods Rs. 12000)

B) Partial Repossession of Assets

Exercise : 4

Transport Ltd. purchased 2 trucks costing Rs. 40000 each from Auto Ltd. On 1st Oct. 2016 on hire purchase system. The terms were :

Payment on delivery Rs. 10000 for each truck. Remainder in three equal installments together with interest at 10% p.a. to be paid at the end of each year on 31st March.

Transport Ltd. write off 25% depreciation each year on the diminishing balance method. Transport Ltd. paid the installment due on 31st march 2017 and 31st March 2018 but could not pay the final installment.

Auto Ltd. repossessed one truck adjusting its value against the amount due. The repossession was done on the basis of 30% depreciation on diminishing balance method. The vendor spent Rs. 4280 for the repairs and overhauling of the truck and sold it for Rs. 20000.

Write up ledger account in the books of both the parties.

(Ans : Loss of default Rs. 3155, Value of Truck repossessed Rs. 13720, value of truck retained by purchaser Rs. 16875, Interest Rs. 6000, Rs. 4000, Rs. 2000, Balance in Auto Ltd. A/C Rs. 8280, Profit to Vendor On sale of repossessed truck Rs. 2000)

Exercise : 5

Mr. Sham purchased seven taxis on Hire purchase on 1st April 2016. The cash price of each taxi was Rs. 125000. He was to pay 20% of the cash purchase price at the time of delivery and the balance in five half yearly installment starting from 30th september 2016 with interest of 5% p.a.

On Mr. Sham's failure to pay the installment due on 31st March 2017, it was agreed that Mr. Sham could return 3 taxis to the vendor and remaining 4 would be retained by him. The vendor agreed to allow him a credit for the amount paid against these 3 taxis less 25%.

Show the 1) Taxi Account and Vendor Account in the books of Mr. Sham. (Depreciation @ of 20% p.a)

2) Mr. Sham Account and Goods Repossessed Account in the books of Vendor

(Ans : Loss of default Rs. 18750, Value of 3 Taxi repossessed Rs. 101250, value of the 4 taxi retained Rs. 400000, Interest on 30.09.2016 Rs. 17500 and on 31.3.2017 Rs. 14000)

C)H.P.Trading account

Exercise-6

The following figures have been extracted from the books of Dinesh Furniture,dealer of furniture , who carries on his business on Hire -Purchase System.

Date	Particulars	₹
1-4-23	Stock out on hire with customer	250000
	Stock in hand at shop	31250
	Instalments overdue	18750
31-3-24	Stock out on hire with customer	287500

Stock in hand at shop	43750
Instalments overdue	31250
Purchases	425000
Cash Received from the Hire-purchase Customers	500000

Assuming his gross profit to be 25% on hire purchase price , prepare

- 1.Hire -Purchase Trading A/C
- 2.Hire Purchase Customers A/C
3. Hire Purchase Shop Stock A/C

Exercise-7

The following figures have been extracted from the books of Sanket Furniture,dealer of furniture , who carries on his business on Hire -Purchase System.

Date	Particulars	₹
1-4-23	Stock out on hire with customer	500000
	Stock in hand at shop	62500
	Instalments overdue	37500
31-3-24	Stock out on hire with customer	575000
	Stock in hand at shop	87500
	Instalments overdue	62500
	Purchases	850000
	Cash Received from the Hire-purchase Customers	1000000

Assuming his gross profit to be 25% on hire purchase price , prepare

- 1.Hire -Purchase Trading A/C
- 2.Hire Purchase Customers A/C
3. Hire Purchase Shop Stock A/C

Exercise -8

Mr.MehendaTrading Co. sells goods on Hire Purchase at cost plus 50% from the following particulars relating to the hire purchase department for the year ending 31-3-2024 . Prepare Hire Purchase Trading A/C

Date	Particulars	₹
1-4-23	Stock with hire Purchase with customer at selling price	144000
	Stock in hand at shop at cost	288000
	Instalments overdue	80000
31-3-24	Cash Received from Customers	960000
	Goods Repossessed (Instalments due Rs. 32000) valued at	8000
	Instalments due Customers Paying	144000

	Stock at shop at cost (Excluding repossessed goods)	320000
	Goods purchased during the year	960000

Exercise-9

Mr. Manish Trading Co. sells goods on Hire Purchase at cost plus 50% from the following particulars relating to the hire purchase department for the year ending 31-3-2024 . Prepare Hire Purchase Trading A/C

Date	Particulars	Rs.
1-4-23	Stock with hire Purchase with customer at selling price	360000
	Stock in hand at shop at cost	720000
	Instalments overdue	200000
31-3-24	Cash Received from Customers	2400000
	Goods Repossessed (Instalments due Rs. 32000) valued at	20000
	Instalments due Customers Paying	360000
	Stock at shop at cost (Excluding repossessed goods)	800000
	Goods purchased during the year	2400000

B) Short Notes

1. Difference between hire purchase and sale
2. Methods of calculation of interest in hire purchase system.
3. Hire Purchase Price and Cash Price.
4. concept of Default and its impact on accounting treatment in hire purchase.
5. Repossession – Partial and Complete.
6. Difference Between Complete Repossession and Partial Repossession
7. Agreed Value and Book Value in the context of hire purchase repossession.
8. Depreciation and its relevance in Hire Purchase Accounting.

9. Hire Purchase Trading Account

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Unit 3
Branch Account Part I

Structure of Unit:

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3.0 Objectives:

Following are the main objects of keeping the branch accounts.

- To ascertain the correct trading results and measure the progress of each branch by maintaining proper branch accounts.
- To determine the financial position of different branches on a particular date through systematic accounting records.
- To estimate the cash and goods requirements of various branches and make necessary financial arrangements effectively.
- To compute the remuneration of branch managers when it is based on branch profits.
- To identify loss-making branches and suggest corrective measures to improve their performance.
- To evaluate branch performance and exercise effective control over the working of different branches.

3.1 Introduction

To enhance sales and ensure deeper market penetration, many business organizations adopt the strategy of establishing their own retail outlets in various regions. These outlets, commonly known as branches, enable businesses to reach a broader customer base and provide consistent services across different locations. The central administrative unit that oversees and coordinates the operations of these branches is referred to as the head office.

Branches play a crucial role in expanding a company's presence and operations. Depending on the nature and scope of the organization, branches may be involved in a variety of activities, including manufacturing, trading, distribution, customer

service, and more. This decentralized approach allows for better responsiveness to local market demands while maintaining strategic direction from the head office.

In India, the concept of branch networks is especially prominent among banks, insurance companies, and large business enterprises. These organizations maintain a wide network of branches spread across the country to ensure accessibility, customer convenience, and effective delivery of services. The branch system not only supports business growth but also contributes to regional development by generating employment and promoting economic activity in different parts of the nation.

Overall, the branch-head office model serves as an effective organizational structure for managing large-scale operations while fostering closer relationships with customers in diverse geographical markets.

3.2 Presentation of Subject Matter

3.2.1 Definitions

Some important definitions of branch are as follows:

1. “Branch is a section of a business segregated physically from the main section”- William Pickles
2. “Branch is a department conducted at a distance”. – L.C. Cropper

3.2.2 Need for Branch Accounting:

Though a branch is typically located at some distance from the H.O. It carries on all activities under the direction and control of H.O. which may need variety of information from time to time about the functioning of each branch. This becomes possible only if the branches keep proper books of account. Thus, the main reasons of keeping branch accounts can be summarized as follows:

1. To ascertain the profitability of each branch separately for a particular accounting period.
2. To ascertain the financial position of each branch separately at the end of the accounting period.

3. To evaluate the progress and performance of each branch.
4. To incorporate the profit or loss made by the branch and its assets & liabilities in the firms final account.
5. To estimate requirement of stock & cash for each branch
6. To ascertain the amount of commission payable to the manager, if that is based on profit.
7. To assess the prospects for expansion of business in each branches &
8. To meet audit requirement.

3.3 Objectives of Branch Accounts

Branch accounting is an essential aspect of financial management for organizations that operate through multiple locations. By maintaining separate accounts for each branch, the Head Office can effectively control and monitor the performance and financial position of every unit. The key objectives of branch accounts are outlined below:

1. To Determine Branch-wise Profit or Loss

The primary objective of branch accounting is to ascertain the net profit or loss earned by each branch during a specific accounting period. This helps the organization evaluate the contribution of individual branches to the overall profitability.

2. To Assess the Financial Position of Each Branch

Branch accounts help in preparing branch-specific balance sheets, which show the assets, liabilities, and capital employed in each branch. This allows the management to know the exact financial status of every branch.

3. To Ensure Effective Control over Branch Operations

Maintaining detailed branch accounts enables the Head Office to exercise control over the financial transactions and resources of the branches. It helps in monitoring cash flow, inventory, and expenses, ensuring accountability and minimizing the risk of fraud or mismanagement.

4. To Aid in Managerial Evaluation and Performance Appraisal

By analysing branch accounts, the performance of branch managers and staff can be evaluated objectively. This supports decisions related to promotions, incentives, and training needs.

5. To Facilitate Strategic Planning and Decision-Making

Branch accounts provide valuable data for making strategic decisions such as business expansion, closure of underperforming branches, and resource allocation. The profitability and growth potential of each branch can guide long-term planning.

6. To Consolidate Accounts for the Entire Business

Accurate branch records are necessary for preparing consolidated financial statements of the business. The profits, losses, assets, and liabilities of each branch must be incorporated into the final accounts of the firm for a complete and fair representation.

7. To Meet Legal and Audit Requirements

Properly maintained branch accounts ensure compliance with accounting standards and statutory audit requirements. They help in maintaining transparency and satisfying legal obligations.

8. To Estimate Resource Requirements

Branch accounts assist in forecasting the needs for stock, cash, and other resources at the branch level, ensuring that each unit operates efficiently without shortages or overstocking.

In summary, the objectives of branch accounts are not only to track the financial outcomes of branch operations but also to strengthen internal control, support decision-making, and align branch activities with the overall goals of the organization.

3.4 Types of Branches

In modern business organizations, branches play a vital role in expanding operations, reaching new markets, and providing better customer service. Based on the nature of operations, degree of control, and accounting treatment, branches can be classified into various types. A broad classification of branches is presented below:

1. Dependent Branches

Dependent branches are those which do not maintain complete books of accounts on their own. They are entirely controlled by the Head Office (H.O.) in terms of financial and operational decision-making. All important functions such as pricing, purchasing, payroll, and accounting are managed by the H.O.

Features:

1. No independent accounting system.
2. Major decisions taken by the Head Office.
3. Periodic reports submitted to H.O.
4. Head Office maintains all records and prepares the accounts of the branch.

Examples:

Small retail outlets, sales branches in different cities, or remote customer service units.

2. Independent Branches

Independent branches maintain their own complete set of books of accounts. They have greater autonomy and can make decisions related to purchases, sales, and expenses. These branches may prepare their own trial balance and final accounts, which are later consolidated by the Head Office.

Features:

1. Maintains full accounting records.
2. Can purchase goods locally or from third parties.
3. May have separate bank accounts and deal directly with customers.

4. Sends periodic financial reports to the Head Office for consolidation.

Examples:

Large city branches, branches in foreign countries, or manufacturing branches.

3. Foreign Branches

Foreign branches are established in countries outside the home country of the business. These branches typically operate independently and are subject to the local laws, taxation policies, and business practices of the host country.

Features:

1. Operates in foreign currency.
2. Follows host country's legal and financial regulations.
3. Requires conversion of accounts for integration with the Head Office accounts.
4. Faces currency fluctuation and exchange rate adjustments.

Examples:

Overseas retail chains, international subsidiaries, or production units abroad.

4. Domestic Branches

These are branches established within the same country as the Head Office. They may be dependent or independent, based on the level of autonomy and accounting systems in place.

Features:

1. Operates under the laws of the home country.
2. Easier coordination with Head Office.
3. Common currency and tax systems.

Examples:

Regional branches of banks, insurance companies, and retail stores.

5. Wholesale and Retail Branches

These branches are classified based on the nature of business conducted. Wholesale Branches: Deal with bulk sales to other businesses or retailers. Retail Branches: Deal directly with individual customers, often in smaller quantities.

6. Sales and Service Branches

Sales Branches: Focus on the selling of goods or products. They may or may not hold inventory.

Service Branches: Provide services like repairs, maintenance, or customer support rather than selling goods.

7. Manufacturing Branches

These branches are involved in production activities in addition to sales. They may operate partially or fully under the control of the Head Office and often maintain independent accounts due to the complexity of operations.

Examples:

Production units in different industrial zones or regions.

The classification of branches depends on various factors such as the level of autonomy, geographical location, type of activities performed, and accounting systems used. Understanding the types of branches helps in selecting appropriate accounting methods, setting up control mechanisms, and managing operations efficiently across multiple locations.

3.5 Dependent Branches:

When the policies and administration of a branch are totally controlled by the

Head Office (H.O.) who also maintains its accounts, the branches is called dependent branch.

The branches not keeping full system of accounting are also called dependent branches.

Features:

1. They receive goods form Head Office & sells goods to its customers. They are not allowed to purchases the goods in the open market, except with the permission of the H.O.
2. They sells goods either cash or credit as per the instruction of H.O.
3. Goods are supplied by the H.O. to such branches either at cost or at invoice price.
4. All major expenses of the branch are paid by the H.O. The branch Manager is allowed to incur only petty expenses like cartage, postage etc out of the petty cash provided to him for which he is required to maintain a simple petty cash book.
5. The amount received form cash sales & debtors is remitted to the H.O. daily or deposited in the account of H.O. in some local bank.
6. Such branches do not keep complete account books. They simply maintain record of sales & prepare debtors account, if necessary. They also requires to maintain stock register & furnish weekly or monthly statements giving complete information about stock position.
7. The branch either calculates its own profit nor does it maintain complete set of accounts. Branch profit is calculated by H.O.

3.6 Accounting for Dependent Branches:

The accounting system adopted by H.O. for a branch depends upon the size of a branch & the degree of control to be exercised by the H.O. There are three main methods of accounting for branch transactions.

1) Debtors systems: This system of accounting is suitable for the small size branches. Under this system a Branch Account is opened for each branch in the H.O. Ledger. All transactions relating to that branch are recorded in this account. The branch Account is prepared in such a way that it discloses the profit or loss of the branch.

2) Final Account System: Under this system the H.O. prepare a Trading & Profit & Loss Account in order to find out profit or loss of each branch and a Branch

account to find out the amount due to or due from, that branch. In these cases, the Branch Account simply act as a personal account.

3) Stock & Debtor System: Under this system, the H.O. does not open any Branch. Account for each branch it prepares a Branch Stock Account, Branch Expenses Account, Branch Adjustment Account & Goods sent to Branch Account in order to find out the profit or loss of each branch.

3.7 Debtors System:

As stated earlier under debtors system, the H.O. simply opens a Branch account for each branch in which it records all transactions relating to the branch. Under this method, at the beginning of the year the Branch Account is debited with the opening balances of assets such as stock, debtors, petty cash, furniture, prepaid expenses, accrued income etc, lying with the branch. Similarly it is credited with the opening liabilities of the Branch such as Creditors, Outstanding Expenses, Rent, Salaries etc. The Branch Account then debited with amount of goods sent to branch & amounts remitted to meet various expense such as Rent, Salaries etc. The Branch Account is credited with the returns of Goods by the branch & receipt from debtors & cash sales. At the end of the year Branch Account is debited with the closing values of sides represents profit or loss for the branch for a particular period.

Head office sends goods to a branch either at “Cost Price” or at selling price (also called Invoice Price) accordingly there are two methods of preparing the Branch Account a) Cost Price Method and b) Invoice Price Method.

a) Cost Price Method:

When goods are invoice at cost, the following journal entries are passed in the books of the H.O. to records various transactions relating to the branch.

Journal Entries (In the Books of H.O.)

1. For opening balances of assets at the Branch

Branch A/c	Dr	XX
To (Individual) Branch Assets A/c		XX
(Being the opening bal. of assets)		

Note: - opening stock bal. at cost.

2. For Opening balances of Liabilities at the Branch

(Individual) Branch Liabilities A/c	Dr	XX	
To Branch A/c			XX

(Being the opening bal. of liabilities)

3. For Goods sent to Branch

Goods sent to Branch A/c	Dr	XX	
To Branch Account			XX

(Being goods return by the branch)

4. For returns of goods by branch to H.O.

Goods sent to Branch A/c	Dr	XX	
To Branch Account			XX

(Being goods return by the branch)

5. For Amount received from Branch for expenses

Branch A/c	Dr	XX	
To Bank A/c			XX

(Being cheque sent to branch for exps.)

6. For Amount received from Branch

Cash / Bank A/c	Dr	XX	
To Branch A/c			XX

(Being cash/cheques received from branch)

7. For Closing goods sent to branch A/c

Goods sent to branch A/c	Dr	XX	
To Purchases/Trading A/c			XX

(Being balance transferred to trading A/c)

8. For Closing balances of assets at Branch

(Individual) Branch Assets A/c	Dr	XX	
To Branch A/c			XX

(Being closing balances of assets b/d)

9. For closing balances of liabilities at the Branch

Branch A/c	Dr	XX	
To (Individual) Liabilities A/c			XX

(Being closing balances of liabilities b/d)

10. For credit sales

No Entry

11. For Normal loss

No Entry

12. For Abnormal Loss

a) Abnormal loss A/c	Dr	XX (Total)	
To Branch A/c			XX
b) General P/L A/c	Dr	XX (Loss)	
Insurance Claim A/c	Dr	XX (Claim)	
To Abnormal loss A/c			XX (Total)

13. Bad debts, Discount allowed to debtors

No Entry

14. For Depreciation on Assets

No Entry

15. Branch Expenses paid by the branch

No Entry

16. For transferring profit or loss of the Branch

a) If Profit

Branch A/c	Dr	XX	
To General P/L A/c			XX

(Being branch profit transferred to Gen. P/L A/C)

b) If Loss

General P/L A/c	Dr	XX	
To Branch A/c			XX

(Being branch loss transferred to Gen. P/L A/c)

Note: 1) The closing balances of branch assets & liabilities are shown in the balance Sheet of the head office (H.O.)

2) Following items are to be ignored while preparing Branch Account under this method.

a. Credit sales, sales returns, bad debts, discount allowed etc.

(Reasons- All these, items relating to Debtors A/c for calculating closing debtors balance all these items have already been taken in to account therefore these items are to be ignored for the preparation of Branch A/c)

b. Depreciation on fixed Assets.

(Reasons- The branch account is debited with the opening balance of fixed assets & credited with the closing balances of fixed assets after deducting depreciation. Depreciation is automatically accounted for & it should not be shown in the Branch A/c separately.

c. Petty Cash Expenses paid by the Branch:

The branch account is debited with the opening petty cash balance & the amount of petty cash sent by the H.O. & credited with the closing petty cash balance. For calculating closing petty cash all expenses paid by the branch are taken in to considerably. Therefore, it should be ignored for preparing of Branch A/c

d. Shortage or surplus of stock:

At the time of calculating closing balance of Branch Stock Shortage/ Surplus is taken in to consideration. Therefore, it should be ignored for preparing of Branch A/c

e. Profit or loss on sale of fixed asset:

If an asset is sold for cash the Branch A/c is credited with the remittance. If it is sold on credit the Branch Account will be credited with the Debtors for sale of assets. The profit or loss on sale of asset is already included in the remittance / debtors figure. Therefore at the time of preparing Branch A/c P/L on sale of asset should not be shown separately.

f. Purchases by Branch:

The Branch Account is debited with the amount of remittance from H.O. Therefore any direct purchases by branch should not be shown separately in the Branch A/C.

The Branch Account will appear as given below:

In the Books of Head Office (H.O.)

Branch Account

Dr.

Cr.

Dt.	Particulars	₹	Dt.	Particulars	₹
	To Opening Bals.			By Opening Bals.	
	Stock	X		Creditors	X
	Debtors	X		Outstanding Exps	X
	Petty Cash	X		By Bank	XX
	Furniture	X		Cash Sales	
	Prepaid Expenses	X		Collection from Debtors	
	To Goods Sent to Branch A/c	X		By Goods Sent to Branch A/c	X
	To Bank A/c			(Return by Branch)	
	Rent Rates	X		By closing balances	
	Salaries	X		Stock	X
	Petty Cash (Remittance)	X		Debtors	
	(For Exps Payment made by H.O.)			Petty cash	X
	To Closing balances			Furniture	X
	Creditors	X		Prepaid Expenses	X
				By loss if any	X

	Outstanding Exps To Profit (Transferred to Gen. P/L A/c)	X X		Transferred to Gen. P/L A/c	
	Total	XXX			XXX

b) Invoice Price Method:

The goods may be invoiced to branches at a price higher than the cost (termed as invoice price). This is done primarily to have an effective control over stock with branches & kept the margin of profit secret from the branch manager. The invoice price may be equal to sales price or nearer to sales price. In such a situation all entries relating to goods are made in Branch account at Invoice Price and necessary adjustments for loading) Differences between I.P. & C.P.) are recorded at the end by passing the following additional journal entries.

1) Adjustment of Loading on opening stock

Stock Reserve A/c	Dr.	X	
To Branch A/c			X (with loading Amt)

2) Adjustment of loading on Goods Sent to Branch A/C

Goods sent to Branch A/c	Dr.	X	
To Branch A/c			X (with loading Amt)

3) Adjustment of loading on Goods Returned to H.O.

Branch A/c	Dr.	X	
To Goods Sent to Branch A/C			X (with loading Amt)

4) Adjustment of Loading on closing stock

Branch A/c	Dr.	X	
To Stock Reserve A/c			X (with loading Amt)

At the time of doing adjustment of loading proper care should be taken.

Normally percentage of loading is given on cost price & in the question invoice price is given & not the cost price. Sometime percentage is given on invoice price which information is given on cost price.

The following procedure is given to calculate the amount of loading easily.

A) If the percentage is to be calculated on cost price & I.P. is given.

% or fraction on C.P.	=% or fraction on I.P.
20% = 20/100 = 1/5	=20/100+20 =1/6
25% = 25/100 = 1/4	=25/100+25 =1/5
33.33% = 33.33/100 = 1/3	=33.33/100+33.33 =1/4
50% = 50/100 = 1/2	=50/100+50 =1/3

B) If the percentage is to be calculated on I.P. & C.P. is given

% or fraction on I.P.	=% or fraction on C.P.
20% = 20/100 = 1/5	=20/100-20 =1/4
25% = 25/100 = 1/4	=25/100-25 =1/3
33.33% = 33.33/100 = 1/3	=33.33/100-33.33 =1/2
50% = 50/100 = 1/2	=50/100-50 =1 or 100 %

Note: The method of preparing of Branch A/C is the same as in the case of cost price method excepting that all entries relating to the Goods are made at invoice price & proper adjustments for loading are made at the end for accounting period by additional entries.

Illustration: 1) Hira Co. Ltd. Invoices goods to Kolhapur Branch at cost. Branch sells goods on credit as well cash basis. Prepare Branch Account Branch Debtors Account and Branch Petty Cash Account for the year ended 31-03-2023.

Particulars	1-4-22	31-3-23
Stock	62,500	72,500
Debtors	1,22,500	----
Petty Cash	750	----
Goods supplied to Branch		2,27,000
Goods returned by Branch		3,000
Cash remitted to branch for Rent		6,000

Salary		22,500
Petty Cash		5,000
Cash Sales		1,64,000
Total Sales		4,06,500
Petty Cash expenses at Branch		4,150
Bad debts		2,000
Goods returned from Customer		11,500
Discount allowed to Customer		7,500
Cash received form Customer		1,63,000

Solution:

In the books of H.O.

Dr		Branch A/c		Cr	
Particulars	₹	Particulars		₹	
To Op Bal. on asset		By Goods return to H.O		3,000	
Stock	62,500	By Bank A/c			
Debtors	1,22,500	Cash Sales	1,64,000		
Petty Cash	750				
To goods sent to (branch)	2,27,000	Cash received From debtors	1,63,000	3,27,000	
To Bank A/c (exp)		By Cl. Bal. On. asset			
Rent – 6,000		Stock		72,500	
Salary- 22,500		Debtors		1,81,000	
Petty Cash – 5,000	33,500	Petty Cash		1,600	
To Net Profit (Balancing figures)	1,38,850				
Total	5,85,100	Total		5,85,100	

Dr	Debtors A/c		Cr
Particulars	₹	Particulars	₹
To Balance b/d	1,22,500	By Cash received from Debtors	1,63,000
To Credit Sales (4,06,500-1,64,000)	2,42,500	By Bad Debts	2,000
		By Goods return from Customer (R. I.)	11,500
		By Discount allowed	7,500
		By Balance c/d (Balancing figure)	1,81,000
Total	3,65,000	Total	3,65,000

Dr	Petty Cah A/c		Cr
Particulars	₹	Particulars	₹
To Balance b/d	750	By Exp.	4,150
To Remit	5,000	By Balance c/d	1,600
Total	5,750	Total	5,750

2) From the following particulars relating to Bangalore Branch of M/s. Akash Traders, Poona, Prepare the branch account in the books of head office to ascertain profit.

Particulars	1-4-21 Rs.	31-3-22 Rs.
Debtors	12,000	16,000
Stock	10,000	9,000
Petty Cash	100	200
Transaction during the year were :		
Goods sent to branch during 2021-22		30,000
Cash Sent to branch During 2021-22		
For Salary and Wages		6,000
For Rent, Rent, Rates etc.		2,000
For Petty Cash		900
Goods returned by branch during 2021-22		1,800
Cash remitted by branch during 2021-22		
Received for Cash Sales		16,000

Received from Debtors		28,000
Credit Sales during 2021-22		34,000
Discount Allowed to Debtors		800
Bad Debts written off		500
Goods returned by Debtors		700

Solution :**In the books of H.O.**

Dr	Branch A/c	Cr	
Particular	₹	Particular	₹
To op. bal – on asset		By Goods return branch	1,800
Debtors	12,000	By Bank A/c	
Stock	10,000	Cash Sales	16,000
Petty cash	100	Received from	
To goods sent to branch	30,000	Debtors	<u>28,000</u>
<u>To Bank A/c</u>		By Closing balance on asset	
Salary & wages	6,000	Debtors	16,000
Rent, Rates	2,000	Stock	9,000
Petty Cash	900	Petty cash	200
To Net profit (Balancing figures)	10,000		
Total	71,000	Total	71,000

Illustration : 3) K. Ltd. Pune has a Branch at Belgaum. Goods are invoiced to branch at 20% on sales. Prepare the Branch Account, Branch Debtors Account and give the journal entries necessary for head Office to adjust the Branch Account for arriving at the net profit or loss made by Belgaum Branch. The following is the summary of transactions at this branch for the year 2024-25

Particulars	₹	Rs.
Stock on 1.4.2024 (invoice price)		30,000
Branch Debtors on 1.4.2024		18,000
Petty Cash on 1.4.2024		800
Goods Sent to Branch (at invoice price)		60,000
Goods Returned By Branch		2,000
Goods Returned by Customers		480
Cash Sales		1,00,000

Credit Sales		60,000
Cash received from debtors		60,000
Discount allowed to customers		60
Petty expenses incurred by branch		1,400
Expenses paid by Head Office		
Rent	2,400	
Salary	4,800	
Printing & Stationery	600	
Petty Cash	<u>1,200</u>	9,000
Balance on 31.3.2025 :		
Stock (Invoice Price)		28,000
Provision for Doubtful Debts		200

Solution :

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To balance	18,000	By discount allowed	60		
To credit sales	60,000	By Return inward	480		
		By Cash received debts	60,000		
		By balance c/d	17,460		
Total	78,000	Total	78,000		

Dr		Branch A/c		Cr	
Particular	₹	Particular	₹		
To opening Balance		By Goods return branch	2,000		
Stock	30,000	By Bank A/C			
Debtors	18,000	Cash sales - 1,00,000 Cash received – 60,000 Debtors	1,60,000		
Petty cash	800				
To goods sent to branch	1,60,000				
To bank A/c					
Rent	2,400				
Salary	4,800				
Printing & Stationery	600				
Petty Cash	1,200	By closing balance of assets			
R.D.D	200	Stock	28,000		
To. Stock Reserve (loading)	5,600	Debtors	17,460		
To goods return to branch (loading)	400	Petty cash	600		
To net profit	22,060	By stock reserve (loading Opening assets)	6,000		
balancing figures		By goods sent to branch (loading)	32,000		
Total	2,46,060	Total	2,46,060		

Journal Entries

Dr.		Cr.		
	Particular	L.F	Debit	Credit
1	Branch A/C Dr.		48,800	
	To Stock			30,000
	To Debtors			18,000
	To Petty cash			800
	(Being opening asset transfer to branch a/c)			

2	Branch A/c To Goods sent to branch (Being goods sent to branch)	Dr.	1,60,000	1,60,000
3	Branch A/c To Bank A/C (Being expenses paid by offices)	Dr.	9,200	9,200
4	Bank A/c To Branch A/c (Being cash sales & collection from debtor)	Dr.	1,60,000	1,60,000
5	Goods return to branch A/c To Branch A/c (Being goods return to H.O.)	Dr.	2,000	2,000
6	Asset A/c To Branch A/c (Being asset transfer on branch a/c)	Dr.	46,060	46,060
7	Stock Reserve A/c To Branch A/c (Being Loading on. op. Stock transfer on branch a/c)	Dr.	6,000	6,000
8	Goods sent on branch To Branch A/c (Being loading on good sent to branch transfer)	Dr.	32,000	32,000
9	Branch A/c To Stock Reserve (Being loading on cl. Stock transfer to branch A/c)	Dr.	5,600	5,600

10	Branch A/c To Good return H.O. A/c (Being Loading on goods return to H.O transfer to branch A/c)	Dr.		400	400
11	Branch A/c To Profit & loss A/c (Being Net Profit transfer to P & L A/c)	Dr.		22,060	22,060

Illustration : 4) India Traders of Nasik has a branch at Pune. To which goods are supplied by Head Office at 25% on cost price. Branch remits all cash received to the Head Office and all expenses, except petty cash expenses of the Branch are paid by the Head Office by cheques. Prepare Pune Branch Account in the books of India Traders at Nasik, taking into consideration the following information for the year ended 31st March, 2023

Particulars	₹	₹
Stock at Branch on 1.4.2022		1,00,00
Branch Debtors on 1.4.2022		10,000
Petty Cash at Branch on 1.4.2022		100
Goods sent to Branch		2,00,000
Cash Sales		50,000
Credit Sales		2,50,000
Cash received from debtors		1,90,000
Goods returned by debtors		2,000
Discount allowed to customers		6,000
Bad Debts written off		4,000
Cheques sent to Branch for expenses :		
Salaries	8,000	
Rent	2,400	
Advertisement	1,200	11,600
Bills receivable from debtors		4,000
Petty Expenses incurred by the Branch		950
Cash sent to Branch for petty expenses		1,000
Stock at Branch on 31.3.2023		57,600

Also prepare Memorandum Debtor Account and Petty Cash Account

Solution :

In the books of India Traders Nashik

Dr		Branch Petty Cash A/c		Cr	
Particular	₹	Particular	₹		
To balance b/d	100	By petty expenses (in)	950		
To Cash sent to branch	1,000	By balance c/d (balancing figure)	150		
Total	1,100	Total	1,100		

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	10,000	By Cash received debtor	1,90,000		
To Credit sales	2,50,000	By Return inward	2,000		
		By Discount allowed	6,000		
		By Bad debts	4,000		
		By Bills Receivable From debtors	4,000		
		By Balance c/d	54,000		
Total	2,60,000	Total	2,60,000		

Dr		Pune Branch A/c		Cr	
Particular	₹	Particular	₹		
To Opening balance on asset		By bank A/c			
Stock	1,00,000	Cash sales 50,000			
Debtors	10,000	Cash received from Debtors <u>1,90,000</u>	2,40,000		

Petty cash	100	By Closing balance on	
To Goods sent to branch	2,00,000	Stock	57,600
To Bank A/c		Debtors	54,000
Salaries	8,000	Petty cash	150
Rent	2,400	By Stock Reserve	20,000
Advertisement	1,200	(loading op. stock)	
To Cash sent to branch	1,000	By Goods sent to branch	40,000
For petty expenses		(loading)	
To Stock reserve	11,520		
(loading cl. stock)			
To net profit			
(Balancing figures)	77,530		
Total	4,11,750	Total	4,11,750

Illustration : 5) Shetkari Sangh, Kolhapur invoices goods to its branch at Solapur at cost plus 60% of the cost. Following are the particulars regarding Solapur Branch transactions during the year ended 31st December 2024.

Particular	₹	₹
Stock at Branch at invoice price (1-1-2024)		16,000
Branch Debtors (1-1-2024)		8,000
Petty cash at branch (1-1-2024)		125
Goods sent to Branch at invoice price		1,60,000
Goods returned by the branch		16,000
Goods returned by customers		2,000
Total sales at Branch		1,10,000
Cash sales		40,000
Cash remitted to Head – Office		1,00,000
Discount allowed to Debtors		4,000
Cash sent to Branch for		

Salary Rs.	2,800	
Rent	2,200	
Insurance (Up to 31-3-24)	1,200	
Petty Cash	500	6,700
Stock at Branch at invoice price (31-12-23)		20,000
Petty Cash at Branch		50

Ascertain the Profit or loss made by the Solapur Branch by preparing Branch A/c and Branch Debtors A/c.

Solution :

Dr		Branch Petty Cash A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	125	By Petty cash at branch	50		
To Cash sent to branch	500	By Balance c/d	575		
Total	625	Total	625		

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	8,000	By Return Inward	2,000		
To Credit sales	70,000	By Cash received form Debtors	60,000		
		By Discount Allowed	4,000		
		By Balance c/d (balancing figure)	12,000		
Total	78,000	Total	78,000		

Dr

Solapur Branch A/c

Cr

Particular	₹	Particular	₹
To Opening Balance assets		By Goods return by lorar	16,000
Stock	16,000	By Bank A/c	
Debtors	8,000	Cash sales	40,000
Petty cash	125	Cash received	<u>60,000</u>
To goods sent to branch	1,60,000	Debtors	1,00,000
To bank A/c (exp)		By cl. stock assets	
Salary	2,800	Stock	20,000
Rent	2,200	Debtors	12,000
Insurance	1,200	Petty cash	575
Petty cash	500	By stock reserve	
To stock reserve		(Loading op. stock)	6,000
(Loading cl. stock)	7,500	By goods sent to branch	
To goods relearn to bran		(Loading)	60,000
(loading)	6,000	By prepaid insurance	300
To net profit			
(Balancing figure)	10,550		
Total	2,14,875	Total	2,14,875

Illustration : 6) Vishal Enterprises Pune has its branch at Sangli, goods are consigned to the Sangli branch at cost. The branch is given a standing instruction to send all cash daily to H.O. All expenses are paid by Head office petty expenses which are met by the Branch Manager. From the following particulars, prepare Sangli Branch Account in the books of Vishal Enterprises, Pune.

Particulars	₹
Stock on (1-4-2024)	10,000
Sundry Debtors on (1-4-2024)	20,000
Cash in hand (1-4-2024)	1,000
Office furniture (1-4-2024)	12,000
Prepaid Expenses (1-4-2024)	500
Outstanding electricity charges (1-4-2024)	2,680
Goods sent to Branch	60,000
Goods returned to H.O	3,600
Goods returned by Debtors	2,400
Cash received from Debtors	34,000
Cash sales	36,000
Credit sales	42,000
Discount allowed to debtors	2,000
Expenses paid by H. O.	11,400
Petty expenses incurred	800
Stock on 31-3-2025	12,000
Prepaid expenses on 31-03-2025	300
Outstanding electricity charges on 31-3-2025	2,880
Depreciation is to be provided on Branch Furniture at 15% p.a.	

Solution :

In the Books of Vishal Enterprises Pune

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	20,000	By Return inward	2,400		
To Credit Sales	42,000	By Cash received from Debtors	34,000		
		By Discount allowed	2,000		
		By Balance c/d	23,600		
Total	62,000	Total	62,000		

Dr		Branch Petty Cash A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	1,000	By Petty expenses	800		
		By Balance c/d	200		
Total	1,000	Total	1,000		

Dr		Sangli Branch A/c		Cr	
Particular	₹	Particular	₹		
To Opening Balance of asset		By O/S electricity charges	2,680		
Stock	10,000				
Sundry debtors	20,000	By bank A/c			
Cash in hand	1,000	Cash Sales	36,000		
Furniture	12,000	Cash received	<u>34,000</u>		70,000

To Goods sent to branch	60,000	By Goods return to H.O	3,600
To Bank A/c (exp)		By Closing balance of	
Expenses paid by H.O	11,400	asset	
To outstanding electricity		Stock	12,000
Charges 31-3-2005	2,880	Prepaid expresses	300
To prepaid exp 1-4-2004	500	Petty cash	200
To net profit		Debtors	23,600
(Balancing figures)	4,800	Furniture (12000-1800)	10,200
	1,22,580		1,22,580

Illustration : 7) India Traders of Nasik has a branch at Pune. Goods are invoiced to the branch at 25% on cost. Branch has been instructed to all cash daily to the H.O. All expenses are paid by the H.O. except petty expenses which are met by branch manager. From the following particulars prepare Branch Account and Branch Debtors Account in the books of India Traders ltd. The details of transactions for the year ended 31st March 2023 were as under.

Particulars	₹	₹
Stock on 1-4-22 (Invoice price)		42,000
Sundry debtors as on 1-4-22		18,000
Cash in hand as on 1-4-22		800
Office furniture on 1-4-22		4,000
Goods invoiced to branch (Invoice price)		1,00,000
Goods returned to Head office		2,400
Goods returned by debtors		1,000
Cash received from debtors		62,000
Cash sales		1,00,000
Credit sales		64,000
Discount allowed to debtors		1,200
Expenses paid by the H.O.		
Rent	2,400	
Salary	4,800	
Printing and stationery	8,000	
Petty expenses paid by Branch Manager		15,200
		600

Depreciation is to be provided on branch furniture at 10% p.a. Stock on 31-3-2023 at invoice price Rs. 30,000.

Solution:

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	18,000	By Return inward	1,000		
To Credit sale	64,000	By cash received from Debtors	62,000		
		By Discount allowed	1,200		
		By Balance c/d	17,800		
Total	82,000	Total	82,000		

Dr		Branch Petty Cash		Cr	
Particular	₹	Particular	₹		
To Balance b/d	800	By Petty exp to branch	600		
		By Balance c/d	200		
Total	800	Total	800		

Dr		Branch A/c		Cr	
Particular	₹	Particular	₹		
To Opening balance on asset Stock	42,000	By Goods returned H.O	2,400		
		By Bank A/C			

Debtors	18,000	Cash sales	100000	
Cash in hand	800	Cash received	62000	
Office furniture	4,000	From debtors		1,62,000
To Goods In voiced branch	1,00,000	By Cl. Bal on asset		
To Bank A/C (exp)		Stock		30,000
Rent	2,400	Debtors		17,800
Salary	4,800	Petty Cash		200
Printing & Stationery	8,000	Furniture		
To stock Reserve		(4,000-400)		3,600
(Loading cl. stock)	6,000	By Stock Reserve		
To goods return H.O.		(Loading op stock)		8,400
(Loading)	480	By Goods sent to branch		
To Net profit	69,920	(Loading)		32,000
(balancing figure)				
Total	2,56,400	Total		2,56,400

3.8 Final Account System

The profit or loss of a dependent branch can also be worked out by preparing a Memorandum Branch Trading & Profit & Loss Account. This account is prepared on the basis of cost of goods sent to branch (Not the Invoice Price) Apart from the Branch Trading & Profit & Loss Account, the H.O. also maintain the Branch Account. (In the nature of personal account) which shows only the mutual transactions between the H.O. & the Branch. The balance of Branch Account represent the net assets of the branch.

Important Note : At the time of preparing Branch Trading & Profit & Loss A/c, items relating to Debtors like credit sales, sales return, Bad debts are given then

Debtors Account must be prepared. If credit side of debtors A/C shorts the difference should be treated as discount allowed to debtors & this must be shown in the debit side of P/L A/c.

Illustration : 8) From the following particulars relating to Patna Branch for the year ending 31st March, 2021 prepare Branch Account and also the Trading and Profit & Loss Account.

Particulars	₹
Stock at Branch 1 st April, 2020	58,900
Branch Debtors 1 st April, 2020	14,700
Petty Cash at Branch 1 st April, 2020	720
Goods sent to Branch during the year	3,29,400
Cash sales during the year	3,15,800
Credit sales during the year	1,40,400
Cash received from debtors	1,37,900
Cash sent to Branch for expenses	
Rent	12,000
Salaries	36,000
Petty Cash	7,000
Stock at branch 31 st March, 2021	55,400
Petty cash at Branch 31 st March, 2021	730
Goods returned by Branch	1,800

Solution :

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	14,700	By Cash received from			
To Credit sales	1,40,400	Debtors	1,37,900		
		By Balance c/d	17,200		

Total	1,55,100	Total	1,55,100
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Dr		Branch Petty Cash		Cr	
Particular	₹	Particular		₹	
To Balance b/d	720	By Branch exp		6,990	
To H.O. sent petty cash	7,000	(Balancing figure)			
		By Balance C/d		730	
Total	7,720	Total		7,720	

Dr		Branch A/c		Cr	
Particular	₹	Particular		₹	
To Opening balance on asset		By Bank A/C			
Stock	58,900	Cash Sales 3,15,800			
Debtors	14,700	Cash received <u>1,37,900</u>		4,53,700	
Petty cash	720	By goods return from			
To goods sent to branch	3,29,400	branch		1,800	
To bank A/C (exp.)		By cl. Bal. on asset			
Rent	12,000	Stock		55,400	
Salaries	36,000	Petty cash		730	
Petty Cash	7,000	Debtors		17,200	
To Net Profit	70,110				
Total	5,28,830	Total		5,28,830	

Dr		Branch Trading Profit and Loss A/c		Cr	
Particular	₹	Particular	₹		
To Opening stock	58,900	By Sales cash	3,15,800		
To Goods sent to branch	3,29,400	Credit	1,40,400	4,56,200	
To Gross profit	1,25,100	By Goods return to H.O		1,800	
		By Closing stock		55,400	
Total	5,13,400	Total		5,13,400	
To Salary	36,000	By Gross profit		1,25,100	
To Rent	12,000				
To Petty cash exp	6,990				
To Net profit	70,110				
Total	1,25,100	Total		1,25,100	

Illustration : 9) Jackson Co. Ltd. Sholapur invoices goods to its Nagpur Branch at 20% above cost. The branch sells the goods on cash as well as on credit and remits all cash received to the branch. All the expenses of branch are met by Head office. From the following information relating to branch prepare the Branch Account and Branch Trading & Profit and Loss Account and ascertain the branch profit.

Stock on 1-1-2025 (At invoice price)		24,000
Stock on 31-12-2025 (At invoice price)		36,000
Debtors on 1-1-2025		10,000
Debtors on 31-12-2025		12,000
Cash Sales remitted to Head Office		43,000
Cash Collected from Debtors and remitted to Head office		80,000
Expenses paid by Head Office for :		1,20,000
Salary	18,000	
Rent & Rates	4,000	
Stationery	600	
Petty Cash	200	
Goods returned by Branch to Head Office (at invoice price)		22,800
Petty Cash on 1-1-2025		4,800
Petty Cash on 31-12-2025		600
Credit Sales		200
Discount Allowed to Customers		84,000
Bad Debts		1,500
		500

Solution:

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balancing b/d	10,000	By Cash Collected	80,000		
To Credit sales	84,000	debtors			
		By Discount allowed	1,500		
		By Bad debts	500		
		By Balancing c/d	12,000		
Total	94,000	Total	94,000		

Dr		Branch Petty Cash A/c		Cr	
Particular	₹	Particular	₹		
To Balancing b/d	600	By Petty exp on branch	600		
To Petty exp to H.O	200	(balancing figure)			
		By Balancing c/d	200		
Total	800	Total	800		

Dr		Branch A/c		Cr	
Particular	₹	Particular			₹
To Opening balance on asset		By Bank A/c			
Stock	24,000	Cash sales	43,000		
Debtors	10,000	Cash Collected	<u>80,000</u>		1,23,000
Petty cash	600	By Goods return by branch			4,800
To Goods sent to branch a/c	1,20,000	By Cl. bal on			
To Bank A/c (exp)		Stock			36,000
Salary	18,000	Debtors			12,000
Rent & Rates	4,000	Petty cash			200
Stationery	600	By Stock Reserve			4,000
Petty Cash	200	(Loading op stock)			
To Stock Reserve	6,000	By Goods sent to branch			
(Loading cl. stock)		(Loading)			20,000
To Goods return to branch	800				
To Net profit	15,800				
Total	2,00,000	Total			2,00,000

Dr		Branch Trading A/c and profit & Loss A/c		Cr	
Particular	₹	Particular			₹
To Openings stock	20,000	By goods return H.O.			4,000
To Goods sent to branch	1,00,000	By Cash Sales	43,000		
		By Credit sale	<u>84,000</u>		1,27,000
To Gross profit	41,000	By Closing stock			30,000
Total	1,61,000	Total			1,61,000
To Discount allowed	1,500	By Gross profit			41,000
To Bad debts	500				
To Salary	18,000				
To Rent & Rates	4,000				
To Stationary	600				
To Petty exp on branch	600				
To Net profit	15,800				
Total	41,000	Total			41,000

Illustration : 10) Anderson Bros. Madras, has a branch at Calcutta. All goods required for sale at Calcutta are supplied form Madras at cost plus 25% and all cash received at the Branch is banked daily in the Head office Account opened in a Bank at Calcutta.

From the following particulars give the Branch Account, Branch Debtors Account, Branch Trading & Profit & Loss Account.

Particulars	₹
Stock (1-1-2020)	7,900
Debtors (1-1-2020)	11,300
Petty Cash (1-1-2020)	90
Returns Inward	400
Goods Invoiced to Branch	25,000
Returns Goods to Head Office	1,000
Bad Debts	100
Cash Sales	1,400
Branch expenses paid by Head Office	
Rent	1,400
Salary	1,500
Sundries	700
Allowances Given	450
Petty Cash Expenses at Branch	240
Total Sales	34,900
Remittance to Branch for Petty Cash	280
Stock (31-12-2020)	8,400
Debtors (31-12-2020)	19,510

Solution :

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	11,300	By Return Inwards	400		
To Credit sale	33,500	By Bad debts	100		
		By Allowance given	450		
		By Balancing c/d	19,510		
		By Cash received form Debtors (balancing figures)	24,340		
Total	44,800	Total	44,800		

Dr		Branch Petty Cash A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	90	By Petty Cash exp. at branch	240		
To Petty exp to H.O.	280	By Balance c/d (balancing figure)	130		
Total	370	Total	370		

Dr		Branch A/c		Cr	
Particular	₹	Particular	₹		
To Opening balance on assets		By Goods relearn H.O	1000		
Stock	7,900	By Bank A/C			
Debtors	11,300	Cash sales	1,400		
Petty Cash	90	Cash received from			
To Goods sent to branch	25,000	Debtors	24,340	25,740	
To Bank A/C (exp)		By Closing balance on			
Sundry exp	700	assets			
To Petty exp for branch H.O	280	Stock	8,400		
To Stock Reserve	1,680	Debtors	19,510		
(Loading cl. stock)		Petty cash	130		
To Goods return H.O	200	By stock reserve	1,580		
(Loading)		(Loading op stock)			
To Net profit	11,310	By goods sent to bra	5,000		
(balancing figure)		(Loading)			
Total	61,360	Total	61,360		

Dr		Trading A/c and profit & loss A/c		Cr	
Particular	₹	Particular	₹		
To Opening Stock	6,320	By Goods return H.O	800		
To Goods Sent to Branch	20,000	By Cash Sales	1,400		
		Credit Sale	<u>33,500</u>		
To Gross profit	15,700		34,900		
(Balancing figure)		Less: Returns	<u>400</u>	34,500	
		By Closing Stock		6,720	
Total	42020	Total	42020		
To Bad debts	100	By Gross Profit	15,700		

To Rent Salary sundry exp.	3,600		
To Allowances given	450		
To Petty Cash exp at branch	240		
To Net Profit	11,310		
(Balancing Figure)			
Total	15,700	Total	15,700

Illustration : 11) A trading firm in Kolhapur has a Branch at Solapur to which goods are sent at cost plus 25% Solapur Branch keeps its own sales ledger and transmits all cash received to H.O. All expenses are paid form the Head Office. The transactions for the Branch were as follows.

Particulars	Amount (₹)
Stock on 01-04-2021	22,000
Debtors on 01-04-2021	2,200
Petty cash on 01-04-2021	200
Cash sales	5,300
Goods sent to Branch	40,000
Collections from Debtors	42,000
Goods returned to H.O.	600
Bad – debts	600
Allowances	500
Returns Inwards	1,000
Cheques sent to Branch:-	3,400
Rent 1,200	
Wages 400	

Salary	1,800	
Stock on 31-03-2022		26,000
Debtors on 31-03-2022		2,000

Prepare Branch Account and Branch trading and Profit & Loss Account for the Year ended 31-03-2022.

Solution :

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	2,200	By Collection debtors	42,000		
To Credit sales		By Bad-debts	600		
(balancing figure)	43,900	By Allowances	500		
		By Return Inward	1,000		
		By Balance c/d	2,000		
Total	46,100	Total	46,100		

Dr		Branch A/c		Cr	
Particular	₹	Particular	₹		
To. Opening asset		By bank A/C			
Stock	22,000	Cash sales			
Debtors	2,200	5,300			
Petty cash	200	Collection de			
		<u>42,000</u>		47,300	
		By goods return		600	
		H.O.			
To good as sent to branch	40,000	By Cl. asses			
To bank A/C (exp)		Stock		26,000	
Rent	1,200	Debtors		2,000	
Wages	400	Petty cash		200	
Salary	1,800	By Stock Reserve		4,400	
		(op stock loading)			
By stock reserve (Loading Cl. Stock)	5,200	By Goods sent to branch (Loading)		8,000	
By Goods return H.O	120				

Net profit (Balancing figure)	15,380		
Total	88,500	Total	88,500

Branch Trading A/c and profit & loss A/c

Dr		Cr	
Particular	₹	Particular	₹
To Opening stock	17,600	By Cash Sales	5,300
To Goods sent to branch	32,000	Credit sale	43,900
To wages	400	(-) Return inward	
		<u>1,000</u>	48,200
		By Goods return H.O	480
To Gross profit c/d (Balancing figures)	19,480	By Closing stock	20,800
Total	69,480	Total	69,480
To Bad debts	600	By Gross profit	19,480
To Allowances	500		
To Rent	1,200		
To Salary	1,800		
To Net profit (Balancing figure)	15,380		
Total	19,480		19,480

Illustration : 12) The Head Office has a branch at Nagpur. Goods are sent by the H.O. to the Branch at selling price which is cost plus 25%. All the expenses of the Branch are paid by the Head Office. All cash collected by the branch is remitted to the Head Office.

From the following prepare Branch Trading and Profit & Loss A/c in the books of the Head Office. Also give a Branch A/c as it would appear in the Head Office.

Head Office	₹
Debtors on 1 st Jan. 2021	12,000
Debtors on 31 st Dec. 2021	14,000
Inventory at invoice Price on 1-1-2021	16,000
Inventory at invoice Price 31-12-2021	17,000
Cash Sales during the year	60,000
Total cash remitted to Head Office	1,27,000
Goods sent to Branch at invoice Price	1,40,000
Goods returned to Head Office	5,000
Cash Sent to Branch for –	
Rent 4,000	
Salaries 6,000	10,000
Discount allowed to debtors	1,500
Bad Debts written off	1,000
Spoilage of Goods	2,000
Returned Goods by Debtors to Branch	500

Solution :

Dr	Branch Debtors A/c		Cr
Particular	₹	Particular	₹
To Balance b/d	12,000	By Cash received from debtors	67,000
To Credit sales	72,000	By Discount allowed	1,500
		By Bad debtors	1,000
		By Return inward	500
		By Balance c/d	14,000
Total	84,000	Total	84,000

Dr	Branch A/c		Cr
Particular	₹	Particular	₹
To Op. bal. on asset		By Bank a/c	
Stock	16,000	Cash sales	60,000
Debtors	12,000	Cash received	<u>67,000</u>
To Goods sent to branch	1,40,000	From debtor	1,27,000
To Bank a/c (exp) paid		By Goods return to H.O.	5,000
Rent	4,000	By Cl. bal. on asset	
Salaries	6,000	Stock	17,000
		Debtors	14,000
To Goods stock reserve		By Stock reserve	
(Loading)	3,400	(Op. loading)	3,200
To Goods return H.O.		By Goods return H.O.	
Loading	1,000	(Loading)	28,000
To Net Profit	11,800		
Total	1,94,200	Total	1,94,200

Dr		Branch Trading A/c		Cr	
Particular	₹	Particular	₹		
To Op. stock	12,800	By sales			
To Goods sent to branch	1,12,000	Cash	60,000		
To Gross profit c/d	25,900	Credit	<u>72,000</u>		
			1,32,000		
		(-) Return	<u>500</u>		1,31,500
		By Closing stock			13,600
		By Goods return H.O. By			
		Spoilage goods (2000-400)			4,000
		(loading)			1,600
		Total			
Total	1,50,700				1,50,700

Dr.		Profit and Loss A/c		Cr.	
Particular	₹	Particular	₹		
To Rent	4,000	By Gross profit b/d			25,900
To Salaries	6,000				
To Discount allowed	1,500				
To Bad debts	1,000				
To Spoilage of goods	1,600				
To Net profit c/d	11,800				
Total	25,900	Total			25,900

3.9 Stock and Debtors Method:

Stock and Debtors System is generally used when the goods are sent to the branch at an "Invoice Price" & the size of the branch is large. Under this system, the H.O. does not open and Branch A/c in its book. It maintain a few control accounts for recording various branch transactions. These accounts usually are

- 1) Branch stock A/c
- 2) Goods sent to Branch A/c
- 3) Branch Debtors A/c

- 4) Branch Adjustment A/c
- 5) Branch Expenses A/c
- 6) Branch Profit & Loss A/c

Note: This system is used only when goods are invoiced at selling price / invoice price.

1) Branch Stock A/C: This is most important account which helps the H.O. in controlling the branch stock. It shows all branch transactions relating to goods. It is a real account. The transactions which increase the Branch Stock balance are recorded on the debit side of Branch A/C. the transactions which decrease the branch stock balance are recorded on credit side of Branch Stock account. This account is always prepared at Invoice Price. The closing balance of stock will be recorded on the credit side of the account. Normally this should be tally both the side. However, after recording the closing balance of stock, if Branch Stock A/C does not tally, it may mean some unnoticed shortage or leakage or even it may be surplus in stock. Thus, the invoice price of such shortage or surplus will have to be recorded in Branch Stock Account (Shortage on the Credit Side & if Surplus on the debit side of Branch Stock A/c). The loading in shortage or surpluses will be transferred to Branch Adjustment Account & cost price will be transferred to P/L A/c. If there is no P/L A/c, then the full amt of shortage or Surplus (IP) will be transferred to Branch Adjustment A/c.

Note: While preparing Branch Stock Account, you will show the actual stock with the Branch, as the balance in this account. And then the total of both side do not tally, you will show the difference as shortage or surplus as the case may be.

2) Goods Sent to Branch Account: This Account prepared in the same manner as in the case of branches to which the goods are sent at Invoice Price.

3) Branch Debtors A/C: This is a personal account. It shows all transactions relating to branch debtors. The opening balance & credit sales are shown on its debit side & cash received from debtors, sales returns, bad debts, discount allowed on the credit side. The balance of this account represents the closing debtors of the

branch.

4) Branch Adjustment Account: This account is like a trading account of the branch. It is prepared to ascertain the gross profit or gross loss made at the branch. In this account the difference between the invoice price & cost price will be adjusted.

In other words, the loading on branch opening stock, goods sent to branch, returns by the branch, closing stock & shortage or surplus. The balance of this account reflect the gross profit or gross loss which is transferred to Branch P/L A/c.

If there is no separate P/L A/C, the expenses of branch will be transferred (Debited) to this account only & the profit or loss shown by this account will be transferred to General P/L A/C.

5) Branch Expenses A/C: This account will be debited for all expenses relating to the branch. For example Discount allowed, bad debts, depreciation on branch assets, salaries, rent, rates, advertisement, petty expenses etc. The balance of this account will be transferred to the branch P/L A/C or Branch adjustment account, if Branch P/L A/C is not opened.

6) Branch P/L A/C: This account is prepared to ascertain the net profit or net loss made at the branch. It is debited with the branch expenses account & loss on account of shortage (cost of such shortage). In the case of branch stock account reveals some surplus, the amount equal to the cost of such surplus will be shown on credit side of this account. After transferring the balance from Branch Adjustment Account, it will reveal either or loss which will be transferred to the General P/L A/c.

Journal Entries

The following journal entries are passed in the Head Office books for opening the above accounts relating to the various branch transactions.

1. When goods are sent to branch (At IP)

Branch Stock A/c	Dr.	X	
	To Goods sent to Branch A/c		X

2. When goods are returned by the branch to H.O. (at IP)

Goods sent to Branch A/c	Dr.	X	
	To Branch Stock A/c		X

3. For Cash sent to Branch for Expenses

Branch Expenses A/c	Dr.	X	
	To Cash / Bank A/c		X

4. For Cash sent to Branch for Petty Expenses

Branch Petty Cash A/c	Dr.	X	
	To Cash / Bank A/c		X

5. For Cash Sales made by the Branch

Cash/Bank A/c	Dr.	X	
	To Branch Stock A/c		X

6. For Credit Sales made by the Branch

Branch Debtors A/c	Dr.	X	
	To Branch Stock A/c		X

7. For Cash received from Debtors

Bank A/c	Dr.	X	
	To Branch Debtors A/c		X

8. For Sales Return

Branch Expenses A/c	Dr.	X	
	To Branch Debtors A/c		X

9. For Discount Allowed, Bad debts etc

Branch Expenses A/c	Dr.	X	
	To Branch Debtors A/c		X

10. For Shortage of stock

Branch Adjustment A/c	Dr.	X (With Amt of Loading CP)	
Branch P/L A/c	Dr.	X	
To Branch Stock A/c			X (Total IP)

11. For Surplus of Stock

Branch Stock A/c	Dr.	X (At IP)	
To Branch Adjustment A/c			X (At Loading)
To Branch P/L A/c			X (At cost)

OR (If P/L A/C is not opened)

Branch Stock A/c	Dr.	X (IP)	
To Branch Adjustment A/c			X (IP)

12. For Closing Branch Expenses account

Branch P/L A/c	Dr.	X	
To Branch Expenses A/c			X

13. For Adjusting loading on opening stock

Branch P/L A/c	Dr.	X	
To Branch Expenses A/c			X

14. For Adjusting loading on opening stock

Stock Reserve A/c	Dr.	X	
To Branch Adjustment A/c			X

15. For adjusting of loading on closing stock

Branch Adjustment A/c	Dr.	X	
To Stock Reserve A/c			X

16. For Adjustment of Loading on Goods sent to branch

Goods sent to Branch A/c	Dr.	X	
To Branch Adjustment A/c			X

17. For adjusting of loading on Goods Return by Branch

Branch Adjustment A/c	Dr.	X	
To Goods sent to Branch A/C			X

18. For Balance in Goods sent to Branch A/c

Goods sent to Branch A/c	Dr.	X	
To Trading A/c			X

19. For Transfer of balance of Branch Adjustment A/C to

Branch P/L A/c

a) For Gross Profit

Branch Adjustment A/c	Dr.	X	
To Branch P/L A/c			X

b) For Gross Loss

Branch P/L A/c Dr.		X	
To Branch Adjustment A/c			X

19. For Transfer of Bal of Branch P/L A/C

a) For Net Profit

Branch P/L A/c Dr.		X	
To General P/L A/c			X

b) For Net loss

General P/L A/c Dr.		X	
To Branch P/L A/c			X

Note: The opening balance of branch debtors, branch stock & Branch Petty Cash will be recorded first in respective account as “To balance b/d”.

Illustration : 13) Bhagawan Traders of Poona has a branch at Kolhapur. Goods are sent by head office to Branch at cost +20%. All expenses of the branch are paid through Head office Cash collected by branch are daily deposited to the credit of the Head office account in local bank.

From the following particulars for the year ended 31st Dec. 2024 show Branch profit using stock & debtors system.

Stock on 1-1-2024 at invoice price	12,000
Debtors as on 1-1-2024	6,000
Stock on 31-12-2024 at invoice price	11,400
Debtors on 31-12-2024	7,200
Goods sent to branch at invoice price	78,000
Goods Return to Head office at invoice price	6,000
Cash Sales during the year	54,000
Credit Sales during the year	20,000
Goods Returned by customer	2,000

Cash Received from customers	16,000
Salaries	6,000
Rent	2,000
Discount Allowed	500
Bad debts	300
(Pilferage) on 31-12-24	600

Solution :

Dr	Branch Stock A/c		Cr
Particular	₹	Particular	₹
To Opening balance stock	12,000	By Goods return to H.O.	6,000
To Goods sent to branch	78,000	By Bank A/c	
To Branch debtors A/C		(Cash Sales)	54,000
(Return Inward)	2,000	By Branch debtors A/C	
		(Credit Sales)	20,000
		By Pilferage	600
		By Closing stock	11,400
Total	92,000	Total	92,000

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To balance b/d	6,000	By Return inward	2,000		
To credit sales	20,000	By Cash received from Debtors	16,000		
		By Discount allowed	500		
		By Bad debts	300		
		By Balance c/d	7,200		
Total	26,000	Total	26,000		

Dr		Branch Adjustment A/c		Cr	
Particular	₹	Particular	₹		
To Stock reserve (Loading cl. stock)	1,900	By Stock Reserve (Loading op Stock)	2,000		
To Goods return to H.O. (Loading)	1,000	By Goods sent to branch (Loading)	13,000		
To Pilferage (Loading)	100				
To Gross profit (balancing figure)	12,000				
Total	15,000	Total	15,000		

Dr		Branch expenses A/c		Cr	
Particular	₹	Particular	₹		
To Branch exp on H.O		By Profit & Loss A/c	8,800		
Salaries 6,000					
Rent <u>2,000</u>	8,000				
To Branch debtors A/c					
Discount allowed 500					
Bad debts <u>300</u>	800				
	8,800				8,800

Dr		Branch P & L A/c		Cr	
Particular	₹	Particular	₹		
To Pilferage (600-100) (less - loading)	500	By Gross profit	12,000		
To Branch exp A/C (Profit & Loss)	8,800				
To Net profit (balancing figure)	2,700				
Total	12,000	Total	12,000		

Illustration : 14) Shri Tushar has a retail branch at Kolhapur, goods are sent by Tushar (H.O.) to the branch marked at selling price which is cost plus 25%. All the expenses of the branch are paid by H.O. All cash collected by the branch is deposited to the credit of H.O.

From the following particulars of the branch, prepare Branch Stock Account, Br. Adjustment A/c, Br. Debtors A/c Br. Expenses A/c, Br. P&L A/c, and goods sent to Br. A/c in the books of Head office.

Particular	₹
Debtors on 1-1-2022	12,000
Debtors on 31-12-2022	14,000
Inventory with branch at (I.P.) on 1 -1-2022	16,000
31-12-2022	17,000
Cash sales during the year	60,000
Total amount deposited in H.O. A/c during the year	1,27,000
Return of goods to H.O. at I.P.	5,000
Salaries paid	6,000
Rent paid	4,000
Discount allowed to customers	2,000
Bad debts written off	1,000
Goods sent to branch at I.P.	1,40,000

Solution :

Dr		Branch Stock A/c		Cr	
Particular	₹	Particular	₹		
To Op. stock at branch	16,000	By Bank A/C			
To Goods sent to branch	1,40,000	(cash sales)		60,000	
		By Goods return to H.O.		5,000	
		By Branch debtor A/C			
		(balancing figure)		72,000	
		By Shortage		2,000	
		(balancing figure)			
		By Closing stock		17,000	
Total	1,56,000	Total		1,56,000	

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	12,000	By Cash received from			
		Debtors		67,000	
To Credit sales	72,000	By Discount allowed		2,000	
(balancing figures)		By Bad debts		1,000	
		By Balance c/d		14,000	
Total	84,000	Total		84,000	

Dr		Branch Adjustment A/c		Cr	
Particular	₹	Particular	₹		
To Stock reserve		By Stock reserve			
(loading cl. stock)	3,400	(Loading op stock)		3,200	
To Goods return to H.O.		By Goods sent to branch			
(Loading)	1,000	(Loading)		28,000	
To Shortage	400				
To Gross profit	26,400				
Total	31,200	Total		31,200	

Dr		Branch Expenses A/c		Cr	
Particular	₹	Particular	₹		
To Branch exp on H.O.		By Profit & loss A/C	13,000		
Salaries 6,000					
Rent <u>4,000</u>	10,000				
To Branch debtors A/C					
Discount all 2,000					
Bad debts <u>1,000</u>	3,000				
Total	13,000	Total	13,000		

Dr		Branch Profit & Loss A/c		Cr	
Particular	₹	Particular	₹		
To Shortage	1,600	By Gross profit	26,400		
To Branch exp A/C	13,000				
To Net profit	11,800				
(balancing figure)					
Total	26,400	Total	26,400		

Dr		Goods Sent to. Branch A/c		Cr	
Particular	₹	Particular	₹		
To Goods return to H.O. To	5,000	By Goods sent to branch	1,40,000		
Trading A/c	1,35,000				
	1,40,000				

Illustration : 15) Arvind agencies opened a branch in Bangalore on 1st April, 2004. Goods were invoiced at selling price which was at cost plus 25%. From the following particulars relating to the year ended on 31st March 2025, prepare various accounts under “Stock and Debtors System.”

Particulars	₹
Goods sent to Branch	3,00,000
Sales – Cash	1,00,000

Credit		1,40,000
Goods returned by customers		3,000
Cash received from customers		80,000
Discount allowed		1,000
Cash remitted to Branch for :		
	Rent and Rates	1,500
	Salaries	6,000
	Sundry expenses	<u>1,000</u>
		8,500
Defective goods written off		1,000
Goods returned by branch		12,000
Stock on 31 st March, 2025		50,000
All Cash received by branch is remitted to Head Office.		

Solution:

Dr		Branch Stock A/c		Cr	
Particular	₹	Particular	₹		
To Goods sent to branch	3,00,000	By Bank A/c			
To Branch debtors A/c (Return Inward)	3,000	Cash Sales & By Branch debtors A/c (Credit Sales)		1,00,000	
		By Goods return by H.O.			12,000
		By Defective goods			1,000
		By Closing stock			50,000
Total	3,03,000	Total		3,03,000	

Dr		Branch Debtor A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d		By Branch stock A/c (Return Inward)		3,000	
To Credit sales	1,40,000	By Cash received form Debtors			80,000
		By Discount allowed			1,000

		By Balance c/d (balancing figure)	56,000
Total	1,40,000	Total	1,40,000

Dr		Branch Adjustment A/c		Cr	
Particular	₹	Particular	₹		
To Defective goods (loading)	200	By Goods sent to branch (Loading)	60,000		
To Goods return cn. H.O. (Loading)	2,400				
To Stock Reserve (Loading cl. Stock)	10,000				
To Gross profit	47,400				
Total	60,000	Total	60,000		

Dr		Branch Expenses A/c		Cr	
Particular	₹	Particular	₹		
To Branch debtors A/C (discount allowed)	1,000	By P & L A/c (transfer)	9,500		
To Branch exp. on H.O. Rent & Rates 1,500 Salaries 6,000 S. expenses 1,000	8,500				
Total	9,500	Total	9,500		

Illustration : 16) M/s Kolhapur Traders has a branch at Poona. The goods are invoiced to the branch at cost plus 50%. From the following particulars prepare Branch Stock A/c, Branch Debtors A/c, Branch Expenses A/c, Branch Adjustment A/c and Branch Profit and Loss A/c in the books of Head Office.

Particular	₹
Stock on 1-1-2024 (at invoice price)	12,000
Debtors on -2024	6,000
Goods sent to branch (at invoice price)	60,000

Cash sales	21,400
Credit sales	34,000
Cash received from debtors	29,200
Discount allowed to debtors	600
Bad debts	200
Goods returned from debtors	2,000
Goods returned by branch to Head office (invoice price)	3,000
Cheques sent to branch for	
Salary - 4,000	
Rent - 2,000	
Sundry Expenses - <u>600</u>	6,600
Stock on 31-12-2024 (at invoice price)	15,000
The difference in stock represents shortage.	

Solution :

Dr		Branch Stock A/c		Cr	
Particular	₹	Particular	₹		
To Opening bala. Stock	12,000	By Bank A/c	21,400		
To Goods sent to branch	60,000	(Cash sales)			
To Branch Debtors A/C (Return Inward)	2,000	By Branch Debtors A/c	34,000		
		(Credit sales)			
		By Goods related by H.O.	3,000		
		By Closing Stock.	15,000		
		By Shortage	600		
Total	74,000	Total	74,000		

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	6,000	By Cash received from	29,200		
To Credit sales	34,000	Debtors			
		By Discount allowed	600		
		By Bad debts	200		
		By Branch Stock A/c	2,000		
		(return inward)			
		By Balance c/d	8,000		
		(balancing figure)			

Total	40,000	Total	40,000
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Dr		Branch Adjustment A/c		Cr	
Particular	₹	Particular	₹		
To Goods return to H.O. (loading)	1,000	By Stock Reserve (Loading op stock)	4,000		
To Stock Reserve (Loading cl stock)	5,000	By Goods sent branch	20,000		
To Shortage (Loading)	200				
To Gross profit	17,800				
Total	24,000	Total	24,000		

Dr		Branch Expenses A/c		Cr	
Particular	₹	Particular	₹		
To Branch debtor A/c Discount all 600 Bad debt 200	800	By P & L A/c (balance transfer)	7,400		
To Branch exp. on H.O. Salary 4,000 Rent 2,000 Exp. 600	6,600				
Total	7,400	Total	7,400		

Dr		Branch Profit & loss A/c		Cr	
Particular	₹	Particular	₹		
To Shortage	400	By Branch adj. A/c By Gross profit	17,800		
To Branch exp A/v	7,400				
To Net profit	10,000				
	17,800		17,800		

Illustration: 17) M/s Ganesh Traders. Sangli has a branch at Miraj. The goods are invoiced to the branch so as to show a profit of 30% on Invoice price and selling

goods only at invoice price. Following are the transaction relating to the branch.

Particular	₹
Stock on 1 – 4 – 2025 (Invoice Price)	6,000
Debtors on 1 – 4 – 2025	3,100
Goods sent to branch (at Invoice Price)	17,500
Goods returned by branch (Invoice Price)	500
Credit sales made	10,500
Cash sales	10,000
Goods returned by Customers	300
Cash form debtors	9,500
Discount allowed to debtors	150
Allowances to debtors	100
Bad debts	300
Cheques sent to Branch for :	
Salaries	1,650
Rent and rates	1,000
Shortage of goods at the Branch	200
You are requested to prepare :	
1) Branch Stock A/c	
2) Branch Debtors A/c	
3) Branch Expenses A/c	
4) Branch Adjustment A/c	

Solution :

Dr	Branch Stock A/c		Cr.
Particular	₹	Particular	₹
To. Op. stock of branch	6,000	By Goods return by. H.O.	500
To Goods sent to branch	17,500	By Shortage of goods	200
To Branch debtors A/C		By Branch debtors A/C	10,500
(Return Inward)	300	(Credits sales)	
		By Bank A/C	10,000

		(Cash sales)	
		By Closing Stock	2,600
Total	23,800	Total	23,800

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	3,100	By Return Inward	300		
To Credit sales	10,500	By Cash received			
		Debtors	9,500		
		By Discount allowed	150		
		By Allowances	100		
		By Bad debts	300		
		By Balance c/d	3,250		
Total	13,600	Total	13,600		

Dr		Branch Adjustment A/c		Cr	
Particular	₹	Particular	₹		
To Goods return H.O.	150	By Stock reserve	1,800		
To Shortage	60	(loading op stock)			
To Stock reserve	780	By Goods sent to branch	5,250		
(loading cl. stock)					
To Gross profit	6,060				
Total	7,050	Total	7,050		

Dr		Branch Expenses A/c		Cr	
Particular	₹	Particular	₹		
To Branch debtors A/c		By P & L A/c (transfer)		3,200	
Discount allowed	150				
allowance	100				
bad debts	<u>300</u>				
	550				
To Branch exp. on H.O.					
Salaries	1,650				
Rent	1,000				
Total	3,200	Total		3,200	

Dr		Branch Profit & loss A/c		Cr	
Particular	₹	Particular	₹		
To Shortage	140	By Branch Adj. A/c		6,060	
To Branch exp A/c	3,200	Gross profit			
To Net profit	2,720				
(balancing figure)					
Total	6,060	Total		6,060	

Illustration : 18) India Stores Ltd. Bombay has a branch at Kolhapur. Goods are invoiced to the branch so as to show a profit of 20% on Invoice price under the instructions of selling goods only at invoice price following are the particulars relating to the Branch.

Particulars	Amount
1. Balance on 1 st April 2022	
Stock (at invoice price)	30,000
Branch Debtors.	10,000
Petty Cash at the Branch	50

2. Transactions during the year, 2022-23	
Goods invoiced to Branch	3,25,000
Cash Sales at the Branch	10,000
Credit Sales at the Branch	1,00,000
Credit Sales at the Branch	1,75,000
Goods pilfered (Stolen in small quantities) at Invoice Price	2,000
Goods lost in fire at invoice price	5,000
Received from Insurance Company Against loss by fire	3,000
Discount & Allowances made to Customers	2,000
Bad Debts	500
Goods Returned by Debtors	2,000
Goods transferred to Sangli Branch on H.O. advice	15,000
Cash sent to branch for: ₹	
Rent & Taxes 4,000	
Salaries & Wages 6,000	
Petty Cash 400	
Insurance <u>2,600</u>	13,000
3. Balances on 31 st March, 2023	
Stock at the Branch	
Debtors	14,000
Petty Cash	35

Goods worth Rs. 15,000 (included above) sent by Kolhapur branch to Sangli branch were in transit on 31st March, 2023

Find out branch Profit or Loss by Preparing:

(i) Branch Stock Account, (ii) Branch Debtors Account, (iii) Branch Expenses Account, (iv) Branch Petty Cash Account (v) Branch Adjustment Account and (vi) Branch Profit & Loss A/c

Solution :

Dr		Branch Stock A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	30,000	By Goods return by branch	1,000		
To Goods sent to branch	3,25,000	By Bank A/c	10,000		
To Branch debtors A/c (Return Inward)	2,000	(Cash sales)			
		By Branch debtors A/c (Credit Sales)	17,500		
		By Goods pilfered	2,000		
		By Goods lose in fire			
		By Received 5,000			
		Insurance From company <u>3,000</u>	2,000		
		By Goods transferred	15,000		
		By Sangli branch H.O.	3,000		
		By Received from Insurance Company			
		By Closing Stock (Balancing in figure)	50,000		
	3,57,000			3,57,000	

Dr		Branch Debtors A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	10,000	By Discount allowed	2,000		
To Credit sales	1,75,000	By Bad debts	500		
		By Return inward	2,000		
		By Cash received			

		From debtors	16,650
		(bal in figure)	
		By Balancing c/d	14,000
Total	1,85,000	Total	1,85,000

Dr		Branch Adjustment A/c		Cr	
Particular	₹	Particular	₹		
To Goods return by branch	2,000	By Stock reserve	6,000		
To Pilfered (loading)	400	(loading op stock)			
To Loss by fire	400	By Goods sent to Branch	65,000		
(loading)					
To Goods transfer	3,000				
(Loading)					
To Stock reserve	10,000				
(Loading cl. Stock)					
To Grass profit	55,200				
Total	71,000	Total	71,000		

Dr		Branch Petty Cash A/c		Cr	
Particular	₹	Particular	₹		
To Balance b/d	50	By Petty exp for			
To Petty cash exp	400	Branch A/c	415		
On. H.O.		(balancing figure)			
		By Balance c/d	35		
Total	450	Total	450		

Dr		Branch Expenses A/c		Cr	
Particular	₹	Particular	₹		
To branch debtors A/c		By Profit & loss A/c		15,915	
Discount allowed 2,000		(transfer)			
Bad debt <u>500</u>	2,500				
To petty exp at branch	415				
To branch exp H.O.					
Rent tax 4,000					
Salary & wag 6,000					
Petty Cash 400					
Insurance <u>2,600</u>	13,000				
Total	15,915	Total		15,915	

Dr		Profit & Loss A/c		Cr	
Particular	₹	Particular	₹		
To Pilfered (2,000 - 400)	1,600	By Gross profit		55,200	
To Loss by fire	1,600				
To Branch exp A/c	15,915				
To Net profit	36,085				
(balancing figure)					
Total	55,200	Total		55,200	

Check Your Progress

A) Fill in the blanks

- 1) The branch expenses paid by the H.O. are.....to the Branch A/c
- 2) The balance in Goods sent to Branch A/C is transferred toA/c
- 3) Loading is thebetween cost price & invoice price
- 4) If the cost price is Rs. 100 & the invoice price is cost plus 20% on invoice price, the invoice price is Rs.....
- 5) The closing balance of Branch Account under the Final Account System represent at the branch
- 6) Under stock and Debtor System, all figure in Branch Stock Account are recorded at Price.
- 7) Under the stock and Debtor System, Bad debts are credited to Branch Debtors A/C & Debited to Account.
- 8) Branch receives the goods form H.O., also purchases the goods from out side parties
- 9) Under Independent Branch, the H.O. A/c in the books of Branch is With cash sent to the H.O. & goods returned to the H.O.
- 10) Under Independent Branch, the H.O. A/c maintained by the branch is the nature of Account.

3.10 Summary:

The branches are classified in three types-

1. **Dependent Branches**
2. **Independent Branches**

The policies and administration of a branch are totally controlled by the Head office (H.O) and who maintains it's books of accounts these branches are called as dependent branches.

The accounting system of dependent branches based on size of a branch and degree of control to be exercised by the H.O. There are three main methods of accounting under Dependent branches.

1. **Debtors system** – This system of accounting is suitable for the small size branches.
2. **Final account system** – Under this system the H.O. prepares a trading and profit and loss account.
3. **Stock and Debtors system** – This system of accounting is applied by those branches whose turnover is sufficiently large. Instead of preparing only branch account in the books of Head Office, The head office prepare branch stock Account, Branch adjustment Account, Branch Debtors Account, Branch expenses Account, Branch Petty cash account, Goods sent to branch Account and branch profit and loss Account etc.

3.11 Terms to remember:

Debtors System: A system of accounting for transactions of branch by opening Branch Account which also helps to ascertain branch profit or loss.

Final Account System: A system of accounting for transaction of a branch under which branch profit or loss is ascertained by preparing Memorandum Branch Trading & P/L A/C

Branch Adjustment Account: An Account prepared under stock & debtor system for ascertaining the gross profit or gross loss made by a branch.

Stock & Debtors System: A system of accounting for transactions of a branch without opening a Branch Account. Under the system, branch profit or loss is ascertained through Branch Adjustment A/C

General Profit & Loss A/Profit or loss A/C of H.O. which shows profit or loss of the business unit as whole

Cash in Transit: Cash remitted by branch to H.O. but not received by H.O. by the end of accounting year or vice-versa.

Goods in transit: Goods send by H.O. to branch but not received by branch by the end of the accounting year or vice-versa.

Inter – branch transactions: The transactions between two or more branches under the same H.O.

Abridged Incorporation: A short cut method of incorporating the branch balances in H.O. Books

Loading: Difference between the cost price & price at which goods are invoiced to the branch.

3.12 Answers to Check Your Progress:

- 1) Debited 2) Trading
- 3) Difference 4) Rs. 120
- 5) Net Asset 6) Invoice Price
- 7) Branch Expenses A/C 8) Independent
- 9) Debited 10) Personal

3.13 Exercises:

A) Short Answer Question:

- 1) What do you mean by a branch
- 2) What are the objectives of keeping branch account?
- 3) What object is served in invoicing goods to branch at invoice price?
- 4) What is Stock & Debtors System?
- 5) What do you mean by dependent branch?
- 6) What do you mean by cash in transit?

B) Practical Problems:

1. Neha Co. Ltd. invoices goods to Kolhapur Branch at cost. Branch sells goods on credit as well as cash basis. Prepare Branch Account in the Books of Head Office 31.03.2021

Particulars	₹
Stock 01.04.2020	62,500
Debtors 01.04.2020	1,22,500
Petty Cash 01.04.2020	750
Stock 31.03.2021	72,500
Goods supplied to Branch	2,27,000

Goods returned by Branch	3,000
<u>Cash remitted to Branch for</u>	
Rent	6,000
Salary	22,500
Petty Cash	5,000
Cash sales	1,64,000
Total sales	4,06,500
Petty Cash expenses at Branch	4,150
Bad debts	2,000
Goods returned from customer	11,500
Discount allowed to customer	7,500
Cash received from customer	1,63,000

(Branch A/C Profit ₹ 1,38,850)

2. The Modern Trading Company of Solapur, has a branch at Kolhapur. Goods are sent to branch at cost plus 20%. All cash received is deposited in to the Head Office account in local branch & the necessary advice is sent to H. O. The H. O. sends cheques for branch expenses.

From the following particulars draw up the Branch Account in the H. O. books.

Particulars	₹
Stock at branch on 01.01.2022	36,000
Stock at branch on 31.12.2022	45,600
Goods sent to branch	1,44,000
Goods return to H. O.	8,400
Cash sales for the year	78,000
Credit sales for the year	50,400

Return from customers	2,400
Cash received from customers	40,000
Discount to customers	1,000
Bad debts	1,000
Sundry debtors on 01.01.2022	12,000
Sundry debtors on 31.12.2022	18,000
Salaries & wages	8,000
Rent & rates	3,000

(Branch A/C Profit Rs. 8,000)

3. Mr. Chitale Trading Co. Sangli has a branch at Pune. The goods are invoiced to the branch at cost plus 50%. From the following prepare Pune branch account in the books of Chitale Trading Co.

Particulars	₹
Stock on 01.04.2022 (at invoice price)	1,50,000
Debtors on 01.04.2022	75,000
Goods sent to branch (at invoice price)	7,50,000
Cash sales	2,67,500
Credit sales	4,25,000
Cash received from debtors	3,65,000
Discount allowed to debtors & bad debts	10,000
Goods returned from debtors	25,000
Goods returned by branch to H. O.	37,500
Cheques sent to branch for Salary	50,000
Rent	25,000
Other expenses	7,500

Stock on 31.03.2023 (at invoice price)	1,87,500
Debtors on 31.03.2023	1,00,000
Shortage of stock	7,500

(Branch A/C Profit Rs. 1,20,000)

4. Hira Stores Ltd. with its Head Office at Sangli invoiced goods to its branch at Poona at 20% less than the list price. The list price is cost plus 100% (Profit). Following are the particulars relating to the branch for the year ended 31st December 2022.

Particulars		₹
Stock at branch (on 01.01.2022 at invoice price)		32,000
Branch Debtors (on 01.01.2022)		16,000
Petty cash at branch (on 01.01.2022)		250
Goods sent to branch at invoice price		3,20,000
Goods returned by the branch		32,000
Goods returned by Debtors		4,000
Total sales made by the branch		2,20,000
Cash sale made by the branch		80,000
Total cash remitted to H. O.		2,00,000
Discount & allowances made to Debtors		8,000
<u>Cash sent by the H. O. for:</u>		
Salaries	5,600	
Rent	4,400	
Insurance (for 12 months upto 31.03.2023)	2,400	
Petty cash	<u>1,000</u>	13,400
Stock at branch (on 31 st December 2022 at invoice price)		40,000

Petty expenses at the branch		1,150
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Ascertain the profit or loss made by the branch by preparing the branch account in the books of H. O.

(Branch A/C Profit ₹ 20,050)

5. A Head Office in Mumbai supplies goods to its branch at Nagpur at 20% profit on sales. Branch remits all cash daily to H. O. all expenses at branch except petty expenses are paid by H. O. Charge depreciation on furniture 10%.

Particulars	₹
Stock on 01.01.2021	45,000
Sundry debtors on 01.01.2021	27,000
Petty cash on 01.01.2021	1,200
Furniture on 01.01.2021	3,600
Goods invoiced to branch	2,40,000
Goods returned by branch	3,000
Goods returned by customers	1,440
Cash received from debtors	90,000
Total sales (including cash Rs. 1,50,000)	2,40,000
Discount allowed	600
Bad debts	300
<u>Cash sent to branch for:</u>	
Rent	3,000
Salary	7,800
Advertisement	900
Petty expenses paid by branch	8,400
Pilferage of goods at branch at invoice price	3,000

Stock on 31.12.2021 at invoice price	39,000
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From the above information prepare Branch A/c in the Books of H. O.

(Branch A/C Profit Rs. 25,200)

6. Anil Enterprises, Nagpur has its branch at Latur, goods are consigned to the Latur branch at cost. The branch is given a standing instruction to send all cash daily to H. O. all expenses are paid by H. O. petty expenses which are met by the branch manager. From the following particulars, prepare Latur branch account in the books of Anil Enterprises Nagpur.

Particulars	₹
Stock on 01.04.2020	15,000
Sundry Debtors on 01.04.2020	30,000
Cash in hand 01.04.2020	1,500
Office furniture 01.04.2020	18,000
Prepaid expenses 01.04.2020	750
Outstanding electricity charges 01.04.2020	4,020
Goods sent to branch	90,000
Goods returned to H. O.	5,400
Goods returned by Debtors	3,600
Cash received from Debtors	51,000
Cash sales	54,000
Credit sales	63,000
Discount allowed to Debtors	3,000
Expenses paid by H. O.	17,100
Petty expenses incurred	1,200

Stock on 31.03.2021	18,000
Prepaid expenses on 31.03.2021	450
Outstanding electricity charges on 31.03.2021	4,320

Depreciation is to be provided on branch furniture at 15% p.a.

(Branch A/C Profit ₹.9,900)

7. From the following particulars relating to Poona Branch for the year ending 31st March 2020.

Particulars	₹
Stock at Branch 1 st April 2019	58,900
Branch Debtors 1 st April 2019	14,700
Petty Cash at Branch 1 st April 2019	720
Goods sent to Branch during the year	3,29,400
Cash sales during the year	3,15,800
Credit sales during the year	1,40,400
Cash received from debtors	1,37,900
Cash sent to Branch for expenses	
Rent	12,000
Salaries	36,000
Petty Cash	7,000
Stock at Branch 31 st March 2020	55,400
Petty Cash at Branch 31 st March 2020	730
Goods returned by Branch	1,800

From the above information prepare

- A) Branch Trading and Profit and Loss Account (**Net Profit ₹.70,110**)
- B) Branch A/c in the books of Head Office. (**Profit ₹.70,110**)

8. From the following particulars relating to Sangli Branch of M/s. Vijay Traders, Satara.

Particulars	₹
Debtors 01.04.2021	60,000
Stock 01.04.2021	50,000
Petty Cash 01.04.2021	500
Debtors 31.03.2022	80,000
Stock 31.03.2022	45,000
Petty Cash 31.03.2022	1,000
<u>Transactions during the year were:</u>	
Goods sent to branch during 2021.22	1,50,000
<u>Cash sent to branch during 2021.22</u>	
For salary & Wages	30,000
For Rent, Rates etc.	10,000
For Petty Cash	4,500
Goods returned by branch during 2021.22	9,000
<u>Cash remitted by branch during 2021.22</u>	
Received for cash sales	80,000
Received from Debtors	1,40,000
Credit sales during 2021.22	17,000
Discount allowed to Debtors	4,000
Bad debts written off	2,500
Goods returned by Debtors	3,500

From the above information prepare

C) Branch Trading and Profit and Loss Account (**Net profit ₹.50,000**)

D) Branch A/c in the books of Head Office. (**Profit ₹.50,000**)

9. Bharat Co. Ltd. invoices goods to Delhi Branch at cost. The branch sells goods on credit as well as for cash. From the following information relation to the Branch for the year ended 31.03.2023

Particulars	₹
Stock 01.04.2022	1,25,000
Stock 31.03.2023	1,45,000
Debtors 01.04.2022	2,45,000
Petty Cash 01.04.2022	1,500
Goods supplied to branch	4,54,000
Goods returned by branch	6,000
<u>Cash remitted to branch for:</u>	
Rent	12,000
Salary	45,000
Petty cash	10,000
Cash sales	3,28,000
Total sales	8,13,000
Cash received from customers	3,26,000
Discount allowed to customers	15,000
Bad Debts	4,000
Goods returned from customers	23,000
Petty cash expenses at branch	8,300

From the above information prepare

E) Branch Trading and Profit and Loss Account (**Net Profit Rs.2,77,700**)

F) Branch A/c in the books of Head Office. **(Profit Rs.2,77,700)**

10. The Head Office has a branch at Nagpur goods are sent by the H. O. to the branch at selling price which is cost plus 25% all the expenses of the branch are paid by the Head Office. All cash collected by the branch is remitted to the H. O.

Particulars		₹
Debtors on 1 st January 2020		18,000
Debtors on 31 st December 2020		21,000
Inventory at invoice price on 01.01.2020		24,000
Inventory at invoice price on 31.12.2020		25,500
Cash sales during the year		90,000
Total cash remitted to H. O.		1,90,000
Goods sent to branch at invoice price		2,10,000
Goods returned to H. O.		7,500
<u>Cash sent to branch for:</u>		
Rent	6,000	
Salaries	<u>9,000</u>	15,000
Discount allowed to debtors		2,250
Bad debts written off		1,500
Spoilage of goods		3,000
Returned goods by debtors to branch		750

From the above information prepare

G) Branch Trading and Profit and Loss Account **(Net Profit Rs. 17,200)**

H) Branch A/c in the books of Head Office. **(Profit Rs. 17,200)**

11. Rohan Co. Ltd. Delhi invoices goods to its Mumbai branch at 20% above cost. The

branch sells the goods on cash as well as on credit & remits all cash received to the branch. All the expenses of branch are met by Head Office. From the following information relating to branch as on 31.12.2021.

Particulars		₹
Stock on 01.01.2021 (invoice price)		48,000
Stock on 31.12.2021 (invoice price)		72,000
Debtors on 01.01.2021		20,000
Debtors on 31.12.2021		24,000
Cash sales remitted to H. O.		86,000
Cash collected from debtors & remitted to H. O.		1,60,000
Goods sent to branch (invoice price)		2,40,000
<u>Expenses paid by H. O. for:</u>		
Salary	36,000	
Rent & Rates	8,000	
Stationary	1,200	
Petty cash	<u>400</u>	45,600
Goods returned by branch to H. O. (invoice price)		9,600
Petty cash on 01.01.2021		1,200
Petty cash on 31.12.2021		400
Credit sales		1,68,000
Discount allowed to customers		3,000
Bad Debts		1,000

Prepare branch account under stock and debtors system.

(Profit Rs.31,600)

12. Bajaj Traders of Poona has a branch at Mumbai to which goods are supplied by Head Office at 25% on cost price. Branch remits all cash received to the Head Office

and all expenses, except petty cash expenses of the Branch are paid by the Head Office by cheques taking into consideration the following information for the year ended 31st March 2023.

Particulars		₹
Stock at branch on 01.04.2022		75,000
Branch Debtors on 01.04.2022		7,500
Petty cash at branch on 01.04.2022		750
Goods sent to branch		1,25,000
Cash sales		40,000
Credit sales		1,75,000
Cash received from debtors		1,25,000
Goods returned by debtors		1,500
Discount allowed to customers		4,500
Bad Debts written off		2,800
<u>Cheques sent to branch for expenses:</u>		
Salaries	6,000	
Rent	1,800	
Advertisement	<u>900</u>	8,700
Bills receivable from debtors		3,000
Petty expenses incurred by the branch		6,500
Cash sent to branch for petty expenses		800
Stock at branch on 31.03.2023		42,000

Prepare branch account under stock and debtors system.

(Profit Rs. 64,600)

13. Patel Bro. Poona has a branch at Delhi all goods required for sale at Delhi are supplied from Poona at cost plus 25% and all cash received at the branch is banked daily in the Head Office account opened in a bank at Delhi.

Particulars	₹
Stock 01.01.2022	15,800
Debtors 01.01.2022	22,600
Petty cash 01.01.2022	180
Returns inward	800
Goods invoiced to branch	50,000
Returns goods to H. O.	2,000
Bad debts	200
Cash sales	2,800
<u>Branch expenses paid by H. O.</u>	
Rent	2,800
Salary	3,000
Sundries	1,400
Allowance given	900
Petty cash expenses at branch	480
Total sales	69,800
Remittance to branch for petty cash	560
Stock 31.12.2022	16,800
Debtors 31.12.2022	39,000

Prepare branch account under stock and debtors system.

(Profit Rs. 22,620)

14. Hind Ltd. Solapur has a Branch at Kolhapur. Goods are invoiced to branch at 20% on sales. The branch has been instructed to send all cash to the Head Office daily and all its expenses are paid by the Head Office. The following is the summary of transactions at this branch for the year 2021.22

Particulars		₹
Stock on 01.04.2021 (invoice price)		3,00,000
Branch Debtors on 01.04.2021		1,80,000
Petty cash on 01.04.2021		8,000
Goods sent to branch (at invoice price)		16,00,000
Goods returned by branch		20,000
Goods returned by customers		4,800
Cash received from customers		6,00,000
Cash sales		10,00,000
Credit sales		6,00,000
Discount allowed to customers		600
Petty expenses incurred by branch		14,000
<u>Expenses paid by H. O.</u>		
Rent	24,000	
Salary	48,000	
Printing & Stationary	6,000	
Petty cash	<u>12,000</u>	90,000
<u>Balance on 31.03.2022</u>		
Stock (invoice price)		2,80,000
Provision for Doubtful Debts		2,000

Prepare branch account under stock and debtors system.

(Profit Rs. 2,32,200)

3.14. Reference to Further Study:

- 1) Introduction to accounting S.N. Maeshwari, Vikas Publishing House, New Delhi.
- 2) Advanced accounts – Shukla M.C. & T. S. Garewal ‘S’ Chand and Co. Pvt. Ltd. New Delhi
- 3) Modern accountancy volume II Tata Mcgrew Hill Publishing Co. Ltd, New Delhi.
- 4) Mukherjee A, Hajif M. , Modern accountancy, New Delhi.

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Unit 4

Branch Account Part- II

Structure of Unit:

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Presentation of Subject Matter
 - 4.2.1 Definitions
 - 4.2.2 Need of Branch Accounting
 - 4.2.3 Objectives of Branch Account
 - 4.2.4 Types of Branches
 - 4.2.5 Dependent Branch Accounting:
 - 4.2.6. Branch Account Method
(Debtors system)
 - a) Cost price method
 - b) Invoice price method
 - 4.2.7 Stock & Debtors Method
- 4.3 Summary
- 4.4 Terms to Remember
- 4.5 Answers to Check Your Progress
- 4.6 Exercise
- 4.7 References for Further Study

4.0 Objectives:

Following are the main objectives of keeping the branch accounts.

- ◆ To ascertain the correct trading results and progress of each branch.
- ◆ To know the financial position of branches on a particular date.
- ◆ To estimate the cash and goods requirements of the different branches and to make necessary arrangement.
- ◆ To compute the remuneration of managers of branches; if based on branch profits.
- ◆ To take corrective measures to improve the working of the branches running in losses.
- ◆ To evaluate the performance and exercise the control over the working of various branches.

4.1 Introduction

A Branch is a part of an organization which is carrying out business activity on behalf of its parent body, i.e., Head Office. Usually, a Branch is located away from the Head Office but at the same time it controlled/managed as per the instructions from the head office. 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 term 'Branch Accounts' refer to record of transactions of branches, whether relating to deal with Head Office or with outsiders or deal between different branches in the books of Head office. In order to exercise greater control over the branches, it is necessary to ascertain profit or loss made by such branches separately. For this purpose, a proper accounting system is to be adopted for recording business transactions between Head Office and Branches. The accounting system to be adopted for the branch depends upon the size and nature of branch and the degree of control required by the Head Office. In order to increase the sales by intensive coverage of extensive markets, some business organizations open their own shops in different parts of the market. These shops are called branches and the parent office is known as head office. The branches may undertake manufacturing, trading and several other activities. In India Banks, Insurance Companies & several other business organizations have a network of their branches throughout the nation and in different parts of the country. It refers to the process of recording, classifying and reporting financial transactions of a branch or department within an organization separate from the main office or head office.

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.

4.2. Presentation of subject matter

4.2.1 Definitions:

Branch:

Some important definitions of branch are as follows:

1. William Pickles-

“Branch is a section of a business segregated physically from the main section”.

- Accountancy (1950)

2. L. C. Cropper-

“A Branch is a section of an enterprise situated away from the head office and carries out similar activities under its direction and control”.

- Higher book Keeping and Accounts

3. T. S. Grewal-

“A branch is a place of business where transactions are conducted independently or the head office but under its control.”

- Advanced Accounts (2012)

4.2.2 Need of Branch Accounting:

Some important definitions of branch accounting are as follows:

1. William Pickles-

“Branch accounts are accounts which are kept by the head office to record the transactions with its branches and to ascertain the profit or loss made by each branch.”

- Accountancy (1950).

2. Gupta and Radhaswamy-

“Branch accounting is a system of accounting that provides financial information about the performance of each branch or department”.

- Advanced Accounting (2009).

3. T. S. Grewal-

“Branch accounting is a system of keeping accounts of branches separately to know their profitability and financial position.”

- Advanced Accounts (2012)

4.2.3 Objectives of Branch Account:

Though a branch is located at some distance from the head office, it carries on all activities under the direction and control of head office which may need variety of information from time to time about the functioning of each branch. This becomes possible only if the branches keep proper books of accounts. Thus, the main objectives of keeping branch accounts can be summarized as follows:

1) Ascertain Profit or Loss of each Branch:

To determine how much profit or loss each branch has earned separately for a particular accounting period.

2) Evaluate Performance:

To compare the financial position of various branches, assess their efficiency and evaluate the progress and performance.

3) Maintain Accurate Records:

To keep the systematic records of branch transactions for legal, managerial and audit purpose and to incorporate the profit or loss made by the branch and its assets & liabilities in the firm's final account.

4) Control over Branches:

To keep a check on branch expenses, stock, debtors and cash ensuring there is no misuse of resources and to estimate requirement of stock & cash for each branch.

5) Facilitate Decision-Making:

Facilitate management with reliable information for making decisions such as expansion, relocation or closure of a branch or to assess the prospects for expansion of business in each branch.

6) Detect Fraud or Irregularities:

Identify discrepancies in stock, cash or debtors and prevent fraud to meet the audit requirement.

7) Budgeting and Forecasting:

To help in estimate future sales, expenses and profits for each branch this is useful for budgeting and forecasting.

4.2.4 Types of Branches:

4.2.4.1 Dependent Branches

Dependent branches are those branches which are not keeping their own separate set of books of accounts. The relation between head office and branch is just like agency therefore these are also known as agency branches.

Salient features of Dependent branch:

(i) These branches generally depend upon the head office for supply of goods. However, the branch may be allowed to make purchases from the local parties.

(ii) All expenses of the branch are directly paid by the head office.

(iii) In order to meet the petty expenses of the branch e.g., conveyance expenses, entertainment expenses etc., may be provided with the petty cash from the head office.

(iv) Normally branches receiving goods from head office selling for cash only but also selling on credit if it is authorized by the head office.

(v) Cash received from branch from its debtors or on account of cash sales is daily remitted to head office or deposited into a bank account opened in the name of the head office.

(vi) Such branches maintain certain memorandum records only such as cash book, debtors account and stock registers.

4.2.4.2 Independent Branch:

The branches that can keep their accounts themselves and sell goods that are sent by the head office, as well as those purchased by them, are known as independent branches. When the size of the branches is very large their function becomes complex. Independent Branch, like the Head Office, keeps all its records separately and independently on Double Entry System. In such a situation it is desirable or practicable for each branch to establish its double-entry book keeping system quite separate from those of head office under this system of branch accounting. These are the branches which can sell the goods to the head office too. It is legally and organizationally a part of the enterprise of the foreign headquarters and to its extent subject to the law of the foreign headquarters.

They can pay own expenses and can deposit their collection in own name in the bank. It prepares its own trial balance and final accounts. These branches are those which make purchases from outside, get goods from Head Office, supply goods to Head Office and fix the selling price by itself. It has to send only the trial balance and final accounts at the end of the year. These branches record separately and independently all the transactions which are even recorded by the head office. The profit and loss are found out by the branch and remitted to head office at the end of the year.

Characteristics of an Independent Branch:

- Such Branch gets goods from Head Office and from outside parties. It has own Bank Account.
- It prepares own Trial Balance, Trading and Profit, and Loss Account and Balance Sheet.
- There may be inter-branch transactions. i. e. goods transferred by one Branch to another Branch of the same Head Office.
- A combined Balance Sheet of Branch and Head Office is prepared by the branch.

4.2.4.3 Foreign branch:

A foreign branch is a branch of a business or company i. e. established in a country outside the home country of the head office. It operates under the laws

of the foreign country but remains an integral part of the parent company. When a branch is located in a foreign country it is called a foreign branch. Such branches will keep their books of account in foreign currency.

Characteristics of a Foreign Branch:

1. It is situated in a foreign country, outside the home country of the business.
2. Owned and controlled by the head office in the home country.
3. Maintains separate books of accounts in local currency. At the end of the year accounts are converted in to the head offices reporting currency.
4. Governed by the rules and regulations of the home country.
5. Foreign Branch usually has more independence compared to domestic branches because of distance, currency differences and local business conditions.

4.2.5 Accounting for Dependent Branches:

The accounting system adopted by Head Office for a branch depends upon the size of a branch & the degree of control to be exercised by the Head Office. There are three main methods of accounting for branch transactions.

- 1) **Branch Account Method (Debtors Systems):** This system of accounting is suitable for the small size branches. Under this system a Branch Account is opened for each branch in the head office Ledger. All transactions relating to that branch are recorded in this account. The branch Account is prepared in such a way that it discloses the profit or loss of the branch.
- 2) **Final Account Method:** Under this system the head office prepares Trading & Profit & Loss Account in order to find out profit or loss of each branch and a Branch account to find out the amount due to or due from that branch. In these cases, the Branch Account simply acts as a personal account.
- 3) **Stock & Debtor Method:** Under this system, the head office does not open any Branch Account for each branch it prepares a Branch Stock Account, Branch Expenses Account, Branch Adjustment Account & Goods sent to Branch Account in order to find out the profit or loss of each branch.

4.2.6 Branch Account Method (Debtors System):

As stated earlier under debtors system the head office simply opens a Branch account for each branch in which it records all transactions relating to the branch. Under this method, at the beginning of the year the Branch Account is debited with the opening balances of assets such as stock, debtors, petty cash, furniture, prepaid expenses, accrued income etc, lying with the branch.

Similarly it is credited with the opening liabilities of the Branch such as Creditors, Outstanding Expenses, Rent, Salaries etc.

The Branch Account debited with amount of goods sent to branch & amounts remitted to meet various expense such as Rent, Salaries etc. The Branch Account is credited with the returns of Goods by the branch & receipt from debtors & cash sales. At the end of the year Branch Account is debited with the closing values of sides represents profit or loss for the branch for a particular period.

Head office sends goods to a branch either at “Cost Price” or at selling price (also called Invoice Price) accordingly there are two methods of preparing the Branch Account a) Cost Price Method and b) Invoice Price Method.

a) Cost Price Method:

When goods are invoice at cost the following journal entries are passed in the books of the head office to records various transactions relating to the branch.

Journal Entries (In the Books of Head Office)

Particulars	LF	₹	₹
For opening balances of assets at the Branch			
Branch A/c X Dr.		XX	
To (Individual) Branch Assets A/c			XX
(Being the opening bal of assets)			
Note- opening stock bal. at cost.			
For Opening balances of Liabilities at the Branch			
(Individual) Branch Liabilities A/c X Dr.		XX	
To Branch A/c			XX
(Being the opening bal. of liabilities)			
For Goods sent to Branch			
Goods sent to Branch A/c Dr.		XX	
To Branch A/c			XX
(Being goods return by the Branch) X			

<p>For returns of goods by Branch to H. O. Goods sent to Branch A/c Dr. To Branch A/c (Being goods return by the branch)</p>		XX	XX
<p>For Amount sent to Branch for expenses Branch A/c Dr. To Bank A/c (Being cheque sent to branch for expenses)</p>		XX	XX
<p>For Amount received from Branch Cash/ Bank A/c Dr. To Branch A/c (Being cash/cheques received from branch)</p>		XX	XX
<p>For Closing goods sent to branch A/c Goods sent to branch A/c Dr. To Purchases/ Trading A/c (Being balance transferred to trading A/c)</p>		XX	XX
<p>For Closing balances of assets at Branch (Individual) Branch Assets A/c Dr. To Branch A/c (Being closing balance of assets b/d)</p>		XX	XX
<p>For closing balances of liabilities at the Branch Branch A/c Dr. To (Individual) Liabilities A/c (Being closing balances of liabilities b/d)</p>		XX	XX
<p>For credit sales No Entry</p>			
<p>For Normal Loss No Entry</p>			

For Abnormal Loss				
(a) Abnormal Loss A/c	Dr.		XX	(Total)
To Branch A/c				XX
(b) General P & L A/c		Dr.	XX	(Loss)
Insurance Claim A/c	Dr.		XX	Claim
To Abnormal Loss A/c				XX
				(Total)
Bad debts, Discount allowed to debtors				
No Entry				
For Depreciation on Assets				
No Entry				
Branch Expenses paid by the branch				
No Entry				
For transferring profit or loss of the Branch				
(a) If Profit				
Branch A/c	Dr.		XX	
To General P & L A/c				XX
(Being branch profit transferred to General P&L A/c)				
(b) If Loss				
General P & L A/c	Dr.		XX	
To Branch A/c				XX
(Being branch loss transferred to General P&L A/c)				

Note:

1) The closing balances of branch assets & liabilities are shown in the balance Sheet of the head office (H.O.)

2) Following items are to be ignored while preparing Branch Account under this method.

a. Credit sales, sales returns, bad debts, discount allowed etc.

(Reasons- All these items relating to Debtors A/c for calculating closing debtors balance all these items have already been taken in to account therefore

these items are to be ignored for the preparation of Branch A/c)

b. Depreciation on fixed Assets.

(Reasons- The branch account is debited with the opening balance of fixed assets & credited with the closing balances of fixed assets after deducting depreciation. Depreciation is automatically accounted for & it should not be shown in the Branch A/c separately.

c. Petty Cash Expenses paid by the Branch:

The branch account is debited with the opening petty cash balance & the amount of petty cash sent by the head office & credited with the closing petty cash balance. For calculating closing petty cash all expenses paid by the branch are taken in to considerably. Therefore, it should be ignored for preparing of Branch A/c

d. Shortage or surplus of stock:

At the time of calculating closing balance of Branch Stock Shortage/ Surplus is taken in to consideration. Therefore it should be ignored for preparing of Branch A/C

e. Profit or loss on sale of fixed asset:

If an asset is sold for cash the Branch A/C is credited with the remittance. If it is sold on credit the Branch Account will be credited with the Debtors for sale of assets. The profit or loss on sale of asset is already included in the remittance/ debtors figure. Therefore at the time of preparing Branch A/c profit or loss on sale of asset should not be shown separately.

f. Purchases by Branch:

The Branch Account is debited with the amount of remittance from head office. Therefore any direct purchases by branch should not be shown separately in the Branch A/C.

The Branch Account will appear as given below:

**In the Books of Head Office (H.O.)
Branch Account**

Dr.			Cr.		
Dt.	Particulars	Rs.	Dt.	Particulars	Rs.
	To Opening Balance			By Opening Balance	
	Stock	XX		Creditors	XX
	Debtors	XX		Outstanding Expenses	XX
	Petty Cash	XX		By Bank	XX
	Furniture	XX		Cash Sales	
	Prepaid Expenses	XX		Collection from Debtors	
	To Goods Sent to Branch A/C	XX		By Goods Sent to Branch A/C	XX
	To Bank A/C			(Return by Branch)	
	Rent Rates	XX		By closing balances	
	Salaries	XX		Stock	XX
	Petty Cash (Remittance)	XX		Debtors	
	(For Expenses Payment made by H.O.)			Petty cash	XX
	To Closing balances			Furniture	XX
	Creditors	XX		Prepaid Expenses	XX
	Outstanding Expenses	XX		By loss if any	XX
	To Profit			Transferred to General P/L A/c	
	(Transferred to General P & L A/c)				
	Total	XXX		Total	XXX

b) Invoice Price Method:

The goods may be invoiced to branches at a price higher than the cost (termed as invoice price). This is done primarily to have an effective control over stock with branches & keep the margin of profit secret from the branch manager. The invoice price may be equal to sales price or nearer to sales price. In such a situation all entries relating to goods are made in Branch account at Invoice Price and necessary adjustments for loading (Differences between I.P. & C.P.) are recorded at the end by passing the following additional journal entries.

1. Adjustment of Loading on opening stock				
Stock Reserve A/c	X	Dr.	XX	
To Branch A/c				XX (with loading Amt)
2. Adjustment of loading on Goods Sent to Branch A/c				
Goods sent to Branch A/c	X	Dr.	XX	XX (with loading Amt)
To Branch A/c				
3. Adjustment of loading on Goods Returned to H.O.				
Branch A/c	X	Dr.	XX	XX (with loading Amt)
To Goods Sent to Branch A/c				
4. Adjustment of Loading on closing stock				
Branch A/c	X	Dr.	XX	XX (with loading Amt)
To Stock Reserve A/c				

At the time of doing adjustment of loading proper care should be taken. Normally percentage of loading is given on cost price and in the question invoice price is given and not the cost price. Some time percentage is given on invoice price which information is given on cost price.

Calculation of Loading:

If the invoice price is given at certain percentage of profit on cost, cost price is to be taken as Rs. 100. It means,

$$\text{Cost Rs. 100} + \text{Profit percentage} = \text{Invoice Price.}$$

The following procedure is given to calculate the amount of loading easily.

A) If the percentage is to be calculated on cost price and invoice price is given.

% or fraction on C. P. = % or fraction on I. P.

$$20\% = 20/100 = 1/5 \quad = 20/100 + 20 = 1/6$$

$$25\% = 25/100 = 1/4 \quad = 25/100 + 25 = 1/5$$

$$33.33\% = 33.33/100 = 1/3 \quad = 33.33/100 + 33.33 = 1/4$$

$$50\% = 50/100 = 1/2 \quad = 50/100 + 50 = 1/3$$

B) If the percentage is to be calculated on invoice price and cost price is given

% or fraction on I. P. = % or fraction on C. P.

$$20\% = 20/100 = 1/5 \quad = 20/100 - 20 = 1/4$$

$$25\% = 25/100 = 1/4 \quad = 25/100 - 25 = 1/3$$

$$33.33\% = 33.33/100 = 1/3 \quad = 33.33/100 - 33.33 = 1/2$$

$$50\% = 50/100 = 1/2 \quad = 50/100 - 50 = 1 \text{ or } 100\%$$

Note:

The method of preparing of Branch A/C is the same as in the case of cost price method excepting that all entries relating to the Goods is made at invoice price & proper adjustments for loading are made at the end for accounting period by additional entries.

Practical Problems:

Illustration: 1) Sonam Co. Ltd. Invoices goods to Kolhapur Branch at cost. Branch sells goods on credit as well cash basis. Prepare Branch Account, Branch Debtors Account and Branch Petty Cash Account for the year ended 31-03-2025.

Particulars	1-4-2024	31-3-2025
Stock	62,500	72,500
Debtors	1,22,500	----
Petty Cash	750	----

Goods supplied to Branch		2,27,000
Goods returned by Branch		
Cash remitted to branch for		3,000
Rent		6,000
Salary		22,500
Petty Cash		5,000
Cash Sales		1,64,000
Total Sales		4,06,500
Petty Cash expenses at Branch		4,150
Bad debts		2,000
Goods returned from Customer		11,500
Discount allowed to Customer		7,500
Cash received form Customer		1,63,000

Solution:

**In the books of Sonam Co. Ltd.
Branch A/c**

Dr

Cr

Particular	₹	Particular	₹
To Op Bal. on asset		By Goods return to H.O	3,000
Stock	62,500	Bank A/c	
Debtors	1,22,500	Cash Sales	1,64,000
Petty Cash	750	Cash received	
To Goods sent to(branch)		From debtors	1,63,000
	2,27,000	By Cl. Bal. On asset	3,27,000
To Bank A/c (exp)		Stock Debtors Petty Cash	
Rent- 6,000			72,500
Salary - 22,500			1,81,000
			1,600

Petty Cash-	5,000	33,500	
To Net Profit			
(Balancing figure)		1,38,850	
		5,85,100	5,85,100

Branch Debtors A/c

Dr		Cr	
Particular	₹	Particular	₹
To Balance b/d	1,22,500	By Cash received from Debtors	1,63,000
To Credit Sales (4,06,500–1,64,000)	2,42,500	By Bad debts	2,000
		By Goods return from Customer (R.I.)	11,500
		By Discount allowed.	7,500
		By Balance c/d (Balancing figure)	1,81,000
	3,65,000		3,65,000

Branch Petty Cash A/c

Dr		Cr	
Particular	₹	Particular	₹
To Balance b/d	750	By Exp.	4,150
To Remit	5,000	By Balance c/d	1,600
	5,750		5,750

Illustration: 2) From the following particulars relating to Goa Branch of M/s. Omkar Traders, Kolhapur. Prepare the Branch account in the books of Omkar Traders to ascertain profit.

Particular	1-4-2024 (₹)	31-3-2025 (₹)
Debtors	12,000	16,000
Stock	10,000	9,000
Petty Cash	100	200
Transaction during the year were:		
Goods sent to branch during 2024-25		30,000
Cash Sent to branch During 2024-25		
For Salary and Wages		6,000
For Rent, Rates etc.		2,000
For Petty Cash		900
Goods returned by branch during 2024-25		1,800
Cash remitted by branch during 2024-25		
Received for Cash Sales		16,000
Received from Debtors		28,000
Credit Sales during 2007-08		34,000
Discount Allowed to Debtors		800
Bad Debts written off		500
Goods returned by Debtors		700

Solution:**In the books of M/s. Omkar Traders Kolhapur
Branch A/c**

Dr		Cr	
Particular	₹	Particular	₹
To Op. balance on asset		By Goods return by branch	1,800
Debtors	12,000	By Bank A/c	
Stock	10,000	Cash Sales	
Petty cash	100	16,000	
To Goods sent to branch	30,000	Received from	
<u>To Bank A/C</u>		Debtors	<u>28,000</u>
Salary & wages	6,000	By Closing balance on asset	
Rent, Rates	2,000	Debtors	16,000
Petty Cash	900	Stock	9,000
To Net profit	10,000	Petty cash	200
(Balancing figure)			
Total	71,000	Total	71,000

Illustration: 3) Komal Ltd. Pune has a Branch at Kolhapur. Goods are invoiced to Branch at 20% on sales. Prepare the Branch Account, Branch Debtors Account and give the journal entries necessary for Head Office to adjust the Branch Account for arriving at the net profit or loss made by Kolhapur Branch. The following is the summary of transactions at this branch for the year 2024-25

Particulars	Rs.
Stock on 1.4.2024 (Invoice Price)	30,000
Branch Debtors on 1.4.2024	18,000
Petty Cash on 1.4.2024	800
Goods Sent to Branch (at Invoice Price)	60,000
Goods Returned By Branch	2,000
Goods Returned by Customers	480
Cash Sales	1,00,000
Credit Sales	60,000
Cash received from debtors	60,000
Discount allowed to customers	60
Petty expenses incurred by branch	1,400
Expenses paid by Head Office	
Rent	2,400
Salary	4,800
Printing & Stationery	600
Petty Cash	<u>1,200</u>
Balance on 31.3.2008:	
Stock (Invoice Price)	28,000
Provision for Doubtful Debts	200

Solution:

**In the books of Komal Ltd. Pune
Branch Debtors A/c**

Dr		Cr	
Particular	₹	Particular	₹
To Balance	18,000	By Discount allowed	60
To Credit sales	60,000	By Return inward	480
		By Cash received debts	60,000
		By Balance c/d	17,460
Total	78,000	Total	78,000

Branch A/c

Dr		Cr	
Particular	₹	Particular	₹
To Opening Balance		By Goods return branch	2,000
Stock	30,000	By Bank A/C	
Debtors	18,000	Cash Sales - 1,00,000	
Petty cash	800	Cash received 60,000	
To Goods sent to branch	1,60,000	Debtors	
To Bank A/c		By Closing Balance of	1,60,000
Rent	2,400	Assets	
Salary	4,800	Stock	28,000
Printing & Stationery	600	Debtors	17,460
Petty Cash	1,200	Petty cash	600
R.D.D	200	By Stock Reserve	6,000
To Stock Reserve	5,600	(loading Opening assets)	
		By Goods sent to branch	32,000

(loading)		(loading)	
To Goods return to branch	400		
(loading)			
To Net profit	22,060		
(Balancing figures)			
Total	2,46,060	Total	2,46,060

Journal Entries

Sr. No.	Particular	L. F.	Debit	Credit
1	Branch A/c Dr. To Stock To debtors To Petty cash (Being opening asset transfer to branch A/c)		48,800	30,000 18,000 800
2	Branch A/c Dr. To goods sent to branch (Being goods sent to branch)		1,60,000	1,60,000
3	Branch A/c Dr. To bank A/c (Being expenses paid by offices)		9,200	9,200
4	Bank A/c Dr. To branch A/c (Being cash sales & collection from debtor)		1,60,000	1,60,000
5	Goods return to branch A/c Dr. To branch A/c (Being goods return to H.O.)		2,000	2,000

6	Asset A/c To branch A/c (Being asset transfer on branch a/c)	Dr.	46,060	46,060
7	Stock Reserve A/c To branch A/c (Being Loading on op. Stock transfer on branch A/c)	Dr.	6,000	6,000
8	Goods sent on branch To branch A/C (Being loading on good sent to branch transfer)	Dr.	32,000	32,000
9	Branch A/c To Stock Reserve (Being loading on cl. Stock transfer to branch A/c)	Dr.	5,600	5,600
10	Branch A/c To good return H.O. A/C (Being Loading on goods return to H.O transfer to branch A/c)	Dr.	400	400
11	Branch A/c To profit & loss A/c (Being Net Profit transfer to P & L A/c)	Dr.	22,060	22,060

Illustration: 4) India Traders of Satara has a branch at Kolhapur. To which goods are supplied by Head Office at 25% on cost price. Branch remits all cash received to the Head Office and all expenses except petty cash expenses of the Branch are paid by the Head Office by cheques. Prepare Kolhapur Branch Account in the books of India Traders of Satara, taking into consideration the following information for the year ended 31st March, 2025

Particulars		₹
Stock at Branch on 1.4.2024		1,00,000
Branch Debtors on 1.4.2024		10,000
Petty Cash at Branch on 1.4.2024		100
Goods sent to Branch		2,00,000
Cash Sales		50,000
Credit Sales		2,50,000
Cash received from debtors		1,90,000
Goods returned by debtors		2,000
Discount allowed to customers		6,000
Bad Debts written off		4,000
<u>Cheques sent to Branch for expenses:</u>		
Salaries	8,000	
Rent	2,400	
Advertisement	1,200	11,600
Bills receivable from debtors		4,000
Petty Expenses incurred by the Branch		950
Cash sent to Branch for petty expenses		1,000
Stock at Branch on 31.3.2025		57,600

Also prepare Memorandum Debtors Account and Petty Cash Account

Solution:

In the books of India Traders Satara

Branch Petty Cash A/c

Dr

Cr

Particular	₹	Particular	₹
To Balance b/d	100	By Petty expenses (in)	950
To Cash sent to branch	1,000	By Balance c/d	150

		(Balancing figure)	
Total	1,100	Total	1,100

Branch Debtors A/c

Dr		Cr	
Particular	Rs	Particular	Rs
To Balance b/d	10,000	By Cash received debtor	1,90,000
To Credit sales	2,50,000	By Return inward	2,000
		By Discount allowed	6,000
		By Bad debts	4,000
		By Bills Receivable	
		From debtors	4,000
		By Balance c/d	54,000
Total	2,60,000	Total	2,60,000

Kolhapur Branch A/c

Dr		Cr	
Particular	₹	Particular	₹
To Opening Balance on Asset		By Bank A/c	
Stock	1,00,000	Cash sales	50,000
Debtors	10,000	Cash received from debtors	<u>1,90,000</u>
Petty cash	100	By Closing balance on asset	
To Goods sent to branch A/c	2,00,000	Stock	57,600
To Bank A/c		Debtors	54,000
Salaries	8,000	Petty Cash	150

Rent	2,400	By Stock Reserve	20,000
Advertisement	1,200	(Loading Opening Stock)	
To Cash sent to branch	1,000	By Goods sent to Branch	40,000
For Petty Expenses		(Loading)	
To Stock Reserve	11,520		
(Loading Closing Stock)			
To Net Profit			
(Balancing figure)	77,530		
Total	4,11,750	Total	4,11,750

Illustration: 5) Amey Traders, Kolhapur invoices goods to its branch at Solapur at cost plus 60% of the cost. Following are the particulars regarding Solapur Branch transactions during the year ended 31st December 2024.

Particular	₹	₹
Stock at Branch at Invoice Price (1-1-2024)		16,000
Branch Debtors (1-1-2024)		8,000
Petty cash at branch (1-1-2024)		125
Goods sent to Branch at Invoice Price		1,60,000
Goods returned by the branch		16,000
Goods returned by customers		2,000
Total sales at Branch		1,10,000
Cash sales		40,000
Cash remitted to Head Office		1,00,000
Discount allowed to Debtors		4,000

Cash sent to Branch for		
Salary	2,800	
Rent	2,200	
Insurance	1,200	
(Upto 31-3-25)		
Petty Cash	500	6,700
Stock at Branch at Invoice Price (31-12-24)		20,000
Petty Cash at Branch		50

Ascertain the Profit or loss made by the Solapur Branch by preparing Branch A/C and Branch Debtors A/C.

Solution:

Branch Petty Cash A/c

Dr Cr

Particular	₹	Particular	₹
To Balance b/d	125	By Petty Cash at Branch	50
To Cash sent to Branch	500	By Balance c/d	575
Total	625	Total	625

Branch Debtors A/c

Dr Cr

Particular	₹	Particular	₹
To Balance b/d	8,000	By Return Inward	2,000
To Credit Sales	70,000	By Cash received form	

		Debtors	60,000
		By Discount allowed	4,000
		By Balance c/d (Balancing figure)	12,000
Total	78,000	Total	78,000

Solapur Branch A/c

Dr

Cr

Particular	₹	Particular	₹
To Opening Balance Assets		By Goods return by Branch	16,000
Stock	16,000	By Bank A/C	
Debtors	8,000	Cash sales	40,000
Petty cash	125	Cash receive <u>60,000</u>	
To Goods sent to Branch	1,60,000	Debtors	1,00,000
To Bank A/C (expenses)		By closing stock assets	
Salary	2,800	Stock	20,000
Rent	2,200	Debtors	12,000
Insurance	1,200	Petty cash	575
Petty cash	500	By Stock Reserve	
To Stock Reserve		(Loading Opening Stock)	6,000
(Loading Closing Stock)	7,500	By Goods sent to Branch	

To Goods return to Branch		(Loading)	60,000
(Loading)	6,000	By Prepaid Insurance	300
To Net Profit			
(Balancing figure)	10,550		
Total	2,14,875	Total	2,14,875

Illustration: 6) Siddhesh Enterprises, Kolhapur has its branch at Sangli, goods are consigned to the Sangli branch at cost. The branch is given a standing instruction to send all cash daily to H.O. All expenses are paid by Head office petty expenses which are met by the Branch Manager. From the following particulars, prepare Sangli Branch Account in the books of Siddhesh Enterprises, Kolhapur.

Particulars	₹
Stock on (1-4-2024)	10,000
Sundry Debtors on (1-4-2024)	20,000
Cash in hand (1-4-2024)	1,000
Office furniture (1-4-2024)	12,000
Prepaid Expenses (1-4-2024)	500
Outstanding Electricity Charges (1-4-2024)	2,680
Goods sent to Branch	60,000
Goods returned to H.O	3,600
Goods returned by Debtors	2,400
Cash received from Debtors	34,000
Cash sales	36,000
Credit sales	42,000
Discount allowed to debtors	2,000

Expenses paid by H.O.	11,400
Petty expenses incurred	800
Stock on 31-3-2025	12,000
Prepaid expenses on 31-03-2025	300
Outstanding electricity charges on 31-3-2025	2,880
Depreciation is to be provided on Branch Furniture at 15%p.a.	

Solution:

In the Books of Siddhesh Enterprises, Kolhapur

Branch Debtors A/c

Dr		Cr	
Particular	₹	Particular	₹
To Balance b/d	20,000	By Return inward	2,400
To Credit Sales	42,000	By Cash received from Debtors	34,000
		By Discount Allowed	2,000
		By Balance c/d	23,600
Total	62,000	Total	62,000

Branch Petty Cash A/c

Dr		Cr	
Particular	Rs	Particular	Rs
To Balance b/d	1,000	By Petty Expenses	800
		By Balance c/d	200
Total	1,000	Total	1,000

Sangli Branch A/c

Dr

Cr

Particular	₹	Particular	₹
To Opening Balance of Asset		By Outstanding electricity charges	2,680
Stock	10,000	By Bank A/c	
Sundry Debtors	20,000	Cash Sales	36,000
Cash in hand	1,000	Cash Received	70,000
Furniture	12,000	<u>34,000</u>	
To Goods sent to Branch	60,000	By Goods return to H.O	3,600
To Bank A/C (expenses)		By Closing balance of Asset	
Expenses paid by H.O	11,400	Stock	12,000
To Outstanding Electricity Charges 31-3-2025	2,880	Prepaid expresses	300
To Prepaid Exp. 1-4-2024	500	Petty cash	200
To Net Profit		Debtors	23,600
(Balancing figure)	4,800	Furniture	
		12000	
		- Depreciation	10,200
		1800	
Total	1,22,580	Total	1,22,580

Illustration: 7) Vidula Traders of Kolhapur has a branch at Pune. Goods are invoiced to the branch at 25% on cost. Branch has been instructed to all cash daily to the H.O. All expenses are paid by the H.O. except petty expenses

which are met by branch manager. From the following particulars prepare Branch Account and Branch Debtors Account in the books of Vidula Traders ltd. The details of transactions for the year ended 31st March 2025 were as under.

Particulars		Rs.
Stock on 1-4-2024 (Invoice Price)		42,000
Sundry debtors as on 1-4-2024		18,000
Cash in hand as on 1-4-2024		800
Office furniture on 1-4-2024		4,000
Goods invoiced to branch (Invoice Price)		1,00,000
Goods returned to Head office		2,400
Goods returned by debtors		1,000
Cash received from debtors		62,000
Cash sales		1,00,000
Credit sales		64,000
Discount allowed to debtors <u>Expenses paid by the H.O.</u>		1,200
Rent		2,400
Salary		4,800
Printing and stationery		15,200
Petty expenses paid by Branch Manager		8,000
		600

Depreciation is to be provided on branch furniture at 10% p.a. Stock on 31-3-2025 at Invoice Price Rs. 30,000.

Solution:

**In the Books of Vidula Traders, Kolhapur
Branch Debtors A/c**

Dr

Cr

Particular		₹	Particular	₹
To Balance b/d		18,000	By Return inward	1,000
To Credit sales		64,000	By Cash received from Debtors	62,000
			By Discount allowed	1,200
			By Balance c/d	17,800
Total		82,000	Total	82,000

Branch Petty Cash

Dr

Cr

Particular	₹	Particular	₹
To Balance b/d	800	By Petty exp. to Branch	600
		By Balance c/d	200
Total	800	Total	800

Pune Branch A/c

Dr

Cr

Particular	₹	Particular	₹
To Opening balance on Asset		By Goods returned H.O	2,400
Stock	42,000	By Bank A/C	
Debtors	18,000	Cash Sales 100000	
Cash in hand	800	Cash received 62000	
Office furniture	4,000	From Debtors	1,62,000
To Goods Invoiced Branch	1,00,000	By Cl. Balance on Asset	
To Bank A/C (expenses)		Stock	30,000
Rent	2,400	Debtors	17,800
Salary	4,800	Petty Cash	200
Printing & Stationery	8,000	Furniture	
To Stock Reserve		(4,000-400)	3,600
(Loading cl. stock)	6,000	By Stock Reserve	
To Goods return H.O.		(Loading op stock)	8,400
(Loading)	480	By Goods sent to branch	
		(Loading)	32,000
To Net profit	69,920		
(balancing figure)			
Total	2,56,400	Total	2,56,400

4.2.7. Stock and Debtors Method:

Stock and Debtors System is generally used when the goods are sent to the branch at an “Invoice Price” and the size of the branch is large. Under this system the head office does not open Branch A/C in its book. It maintains a few control accounts for recording various branch transactions. These accounts usually are,

- 1) Branch stock A/c
- 2) Goods sent to Branch A/c
- 3) Branch Debtors A/c
- 4) Branch Adjustment A/c
- 5) Branch Expenses A/c
- 6) Branch Profit & Loss A/c

Note: This system is used only when goods are invoiced at selling price / invoice price.

1) Branch Stock A/C: This is most important account which helps the H.O. in controlling the branch stock. It shows all branch transactions relating to goods. It is a real account. The transactions which increase the Branch Stock balance are recorded on the debit side of Branch A/c. The transactions which decrease the branch stock balance are recorded on credit side of Branch Stock account. This account is always prepared at Invoice Price. The closing balance of stock will be recorded on the credit side of the account. Normally this should be tally both the side. However, after recording the closing balance of stock if Branch Stock A/c does not tally it may mean some unnoticed shortage or leakage or even it may be surplus in stock. Thus, the invoice price of such shortage or surplus will have to be recorded in Branch Stock Account (Shortage on the Credit Side and if Surplus on the debit side of Branch Stock A/c). The loading in shortage or surpluses will be transferred to Branch Adjustment Account and cost price will be transferred to P & L A/C. If there is no P & L A/c, then the full amount of shortage or Surplus (IP) will be transferred to Branch Adjustment A/c.

Note: While preparing Branch Stock Account you will show the actual stock with the Branch as the balance in this account. If the total of both side do not tally, you will show the difference as shortage or surplus as the case may be.

2) Goods Sent to Branch Account: This Account is prepared in the same manner as in the case of branches to which the goods are sent at Invoice Price.

3) Branch Debtors A/c: This is a personal account. It shows all transactions relating to branch debtors. The opening balance and credit sales are shown on its debit side & cash received from debtors, sales returns, bad debts, discount allowed on the credit side. The balance of this account represents the closing debtors of the branch.

4) Branch Adjustment Account: This account is like a trading account of the branch. It is prepared to ascertain the gross profit or gross loss made at the branch. In this account the difference between the invoice price and cost price will be adjusted.

In other words, the loading on branch opening stock, goods sent to branch, returns by the branch, closing stock & shortage or surplus. The balance of this account reflects the gross profit or gross loss which is transferred to Branch P & L A/c.

If there is no separate P & L A/c, the expenses of branch will be transferred (Debited) to this account only & the profit or loss shown by this account will be transferred to General P & L A/c.

5) Branch Expenses A/C: This account will be debited for all expenses relating to the branch. For example Discount allowed, bad debts, depreciation on branch assets, salaries, rent, rates, advertisement, petty expenses etc. The balance of this account will be transferred to the branch P & L A/c or Branch adjustment account, if Branch P & L A/c is not opened.

6) Branch P/L A/C: This account is prepared to ascertain the net profit or net loss made at the branch. It is debited with the branch expenses account & loss on account of shortage (cost of such shortage). In the case of branch stock account reveals some surplus, the amount equal to the cost of such

surplus will be shown on credit side of this account. After transferring the balance from Branch Adjustment Account, it will reveal either or loss which will be transferred to the General P & L A/c.

Journal Entries

The following journal entries are passed in the Head Office books for opening the above accounts relating to the various branch transactions.

Particulars	LF	₹	₹
1. When goods are sent to branch (At IP) Branch Stock A/c Dr. To Goods sent to Branch A/C		XX	XX
2. When goods are returned by the branch to H.O. (at IP) Goods sent to Branch A/c Dr. To Branch Stock A/c		XX	XX
3. For Cash sent to Branch for Expenses Branch Expenses A/c Dr. To Cash/Bank A/c		XX	XX
4. For Cash sent to Branch for Petty Expenses Branch Petty Cash A/c Dr. To Cash/Bank A/c		XX	XX
5. For Cash Sales made by the Branch Cash/Bank A/c Dr. To Branch Stock A/c		XX	XX
6. For Credit Sales made by the Branch Branch Debtors A/c Dr. To Branch Stock A/c		XX	XX

7. For Cash received from Debtors Bank A/c Dr. To Branch Debtors A/c	XX	XX
8. For Sales Return Branch Expenses A/c Dr. To Branch Debtors A/c	XX	XX
9. For Discount Allowed, Bad debt set Branch Expenses A/c Dr. To Branch Debtors A/c	XX	XX
10. For Discount Allowed, Bad debt set Branch Expenses A/c Dr. To Branch Debtors A/c	XX	XX
11. For Shortage of stock Branch Adjustment A/c Dr. (With Amt of Branch P/L A/c (Loading cost price) Dr. To Branch Stock A/c (Total IP)	XX XX	XX
12. For Surplus of Stock Branch Stock A/c Dr. (At IP) Dr. To branch Adjustment A/c (At Loading) To Branch P/L A/c (At cost)	XX	XX XX
OR (If P/L A/C is not opened) Branch Stock A/c Dr. To Branch Adjustment A/c	XX	XX
13. For Closing Branch Expenses account Branch P/LA/C Dr. To Branch Expenses A/c	XX	XX
14. For Adjusting loading on opening stock Stock Reserve A/c Dr. To Branch Adjustment A/c	XX	XX

15. For adjusting of loading on closing stock Branch Adjustment A/c Dr. To Stock Reserve A/c	XX	XX
16. For Adjustment of Loading on Goods sent to branch Goods sent to Branch A/c Dr. To Branch Adjustment A/c	XX	XX
17. For adjusting of loading on Goods Return by Branch Branch Adjustment A/c Dr. To Goods sent to Branch A/c	XX	XX
18. For Balance in Goods sent to Branch A/C Goods sent to Branch A/c Dr. To Trading A/c	XX	XX
19. For Transfer of balance of Branch Adjustment A/C to Branch P&L A/c a) For Gross Profit Branch Adjustment A/c Dr. To Branch P&L A/c	XX	XX
b) For Gross Loss Branch P&L A/c Dr. To Branch Adjustment A/c	XX	XX
20. For Transfer of balance of Branch P&L A/C a) For Net Profit Branch P&L A/c Dr. To General P&L A/c	XX	XX
b) For Net loss General P&L A/c Dr. To Branch P&L A/c	XX	XX

Note: The opening balance of Branch debtors, branch stock & Branch Petty Cash will be recorded first in respective account as “To Balance b/d”.

Practical Problems:

Illustration: 1) Ajay Traders of Mumbai has a branch at Kolhapur. Goods are sent by head office to Branch at cost +20%. All expenses of the branch are paid through Head office Cash collected by branch are daily deposited

to the credit of the Head office account in local bank.

From the following particulars for the year ended 31st Dec. 2024 show Branch profit using Stock & Debtors method.

Particular	₹
Stock on 1-1-2024 at Invoice Price	12,000
Debtors as on 1-1-2024	6,000
Stock on 31-12-2024 at Invoice Price	11,400
Debtors on 31-12-2024	7,200
Goods sent to branch at Invoice Price	78,000
Goods Return to Head office at Invoice Price	6,000
Cash Sales during the year	54,000
Credit Sales during the year	20,000
Goods Returned by customer	2,000
Cash Received from customers	16,000
Salaries	6,000
Rent	2,000
Discount Allowed	500
Bad debts	300
(Pilferage) on 31-12-2024	600

Solution:

**In the Books of Ajay Traders, Mumbai
Branch Stock A/c**

Dr

Cr

Particular	₹	Particular	₹
To Opening Balance Stock	12,000	By Goods return to H.O.	6,000

To Goods sent to Branch	78,000	By Bank A/C (Cash Sales)	54,000
To Branch Debtors A/C (Return Inward)	2,000	By Branch Debtors A/C (Credit Sales)	20,000
		By Pilferage	600
		By Closing Stock	11,400
Total	92,000	Total	92,000

Branch Debtors A/c

Dr

Cr

Particular	₹	Particular	₹
To Balance b/d	6,000	By Return inward	2,000
To Credit sales	20,000	By Cash received from Debtors	16,000
		By Discount allowed	500
		By Bad debts	300
		By Balance c/d	7,200
Total	26,000	Total	26,000

Branch Adjustment A/c

Dr

Cr

Particular	₹	Particular	₹
To Stock Reserve (Loading Closing Stock)	1,900	By Stock Reserve (Loading Opening Stock)	2,000
To Goods return to H.O.	1,000	By Goods sent to	13,000

(Loading)		Branch (Loading)	
To Pilferage (Loading)	100		
To Gross Profit	12,000		
(Balancing figure)			
Total	15,000	Total	15,000

Branch Expenses A/c

Dr

Cr

Particular	₹	Particular	₹
To Branch exp on H.O		By Profit & Loss A/c	8,800
Salaries 6,000			
Rent <u>2,000</u>	8,000		
To Branch Debtors A/c			
Discount allowed 500			
Bad debts <u>300</u>	800		
Total	8,800	Total	8,800

Branch P&L A/c

Dr

Cr

Particular	₹	Particular	₹
To Pilferage (600-100)	500	By Gross profit	12,000
(less- loading)			
To Branch Exp A/C			
(Profit & Loss)	8,800		

To Net profit			
(Balancing figure)	2,700		
Total	12,000	Total	12,000

Illustration : 2) Mr. Mahesh has a retail branch at Kolhapur, goods are sent by Mahesh (H.O.) to the branch marked at selling price which is cost plus 25%. All the expenses of the branch are paid by H.O. All cash collected by the branch is deposited to the credit of H.O.

From the following particulars of the branch, prepare Branch Stock Account, Branch Adjustment A/c, Branch Debtors A/c Branch Expenses A/c, Branch P&LA/c, and goods sent to Branch A/c in the books of Head office.

Particular	₹
Debtors on 1-1-2024	12,000
Debtors on 31-12-2024	14,000
<u>Inventory with branch at (I.P.) on</u>	
1-1-2024	16,000
31-12-2024	17,000
Cash sales during the year	60,000
Total amount deposited in H.O. A/c during the year	1,27,000
Return of goods to H.O. at I.P.	5,000
Salaries paid	6,000
Rent paid	4,000
Discount allowed to customers	2,000
Bad debts written off	1,000
Goods sent to branch at I.P.	1,40,000

Solution:

In the Books of Mahesh

Branch Stock A/c

Dr

Cr

Particular	₹	Particular	₹
To Op. stock at branch	16,000	By Bank A/c	
To Goods sent to branch	1,40,000	(Cash sales)	60,000
		By Goods return to H.O.	5,000
		By Branch debtor A/c	
		(Balancing figure)	72,000
		By Shortage	2,000
		(Balancing figure)	
		By Closing Stock	17,000
Total	1,56,000	Total	1,56,000

Branch Debtors A/c

Dr

Cr

Particular	₹	Particular	₹
To Balance b/d	12,000	By Cash received from Debtors	67,000
To Credit sales	72,000	By Discount allowed	2,000
(Balancing figures)		By Bad debts	1,000
		By Balance c/d	14,000
Total	84,000	Total	84,000

Branch Adjustment A/c

Dr

Cr

Particular	₹	Particular	₹
To Stock Reserve (Loading Closing Stock)	3,400	By Stock Reserve (Loading Opening Stock)	3,200
To Goods return to H.O. (Loading)	1,000	By Goods sent to Branch (Loading)	28,000
To Shortage	400		
To Gross Profit	26,400		
Total	31,200	Total	31,200

Branch Expenses A/c

Dr

Cr

Particular	₹	Particular	₹
To Branch Exp. On H.O.		By Profit & Loss A/C	13,000
Salaries 6,000			
Rent <u>4,000</u>	10,000		
To Branch Debtors A/C			
Discount all 2,000			
Bad debts <u>1,000</u>	3,000		
	13,000		13,000

Branch Profit & Loss A/c

Dr

Cr

Particular	₹	Particular	₹
To Shortage	1,600	By Gross Profit	26,400

To Branch Expenses A/C	13,000		
To Net Profit	11,800		
(Balancing figure)			
Total	26,400	Total	26,400

Goods Sent to Branch A/c

Dr

Cr

Particular	₹	Particular	₹
To Goods return to H.O.	5,000	By Goods sent to	1,40,000
To Trading A/C	1,35,000	Branch	
	1,40,000		1,40,000

Illustration: 3) Mansing agencies opened a branch in Bangalore on 1st April, 2024. Goods were invoiced at selling price which was at cost plus 25%. From the following particulars relating to the year ended on 31st March 2025, prepare various accounts under “Stock and Debtors Method.”

Particulars	₹
Goods sent to Branch	3,00,000
Sales–Cash	1,00,000
Credit	1,40,000
Goods returned by customers	3,000
Cash received from customers	80,000
Discount allowed	1,000

Cash remitted to Branch for:		
Rent and Rates	1,500	
Salaries	6,000	
Sundry expenses	<u>1,000</u>	8,500

Defective goods written off	1,000
Goods returned by branch	12,000
Stock on 31 st March, 2005	50,000
All Cash received by branch is remitted to Head Office.	

Solution:

**In the Books of Mansing Agencies
Branch Stock A/c**

Dr

Cr

Particular	₹	Particular	₹
To Goods sent to Branch	3,00,000	By Bank A/c	
To Branch debtors A/C	3,000	(Cash Sales)	1,00,000
(Return Inward)		By Branch Debtors A/c	
		(Credit Sales)	1,40,000
		By Goods return by H.O.	12,000
		By Defective goods	1,000
		By Closing Stock	50,000
Total	3,03,000	Total	3,03,000

Branch Debtor A/c

Dr

Cr

Particular	₹	Particular	₹
To Balance b/d		By Branch Stock A/c	3,000
To Credit sales	1,40,000	(Return Inward)	
		By Cash received form	
		Debtors	80,000
		By Discount allowed	1,000
		By Balance c/d	56,000
		(Balancing figure)	
Total	1,40,000	Total	1,40,000

Branch Adjustment A/c

Dr

Cr

Particular	₹	Particular	₹
To Defective Goods (loading)	200	By Goods sent to	60,000
To Goods return to H.O.		Branch	
(Loading)	2,400	(Loading)	
To Stock Reserve			
(Loading Closing Stock)	10,000		
To Gross Profit	47,400		
Total	60,000	Total	60,000

Branch Expenses A/c

Dr

Cr

Particular	₹	Particular	₹
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Stock on 31-12-2024 (at Invoice Price)	15,000
The difference in stock represents shortage.	

Solution:

**In the books of Kedar
Branch Stock A/c**

Dr

Cr

Particular	₹	Particular	₹
To Opening Balance Stock	12,000	By Bank A/C	21,400
To Goods sent to Branch	60,000	(Cash Sales)	
To Branch Debtors A/C	2,000	By Branch Debtors A/C	34,000
(Return Inward)		(Credit Sales)	
		By Goods returned to H.O.	3,000
		By Closing Stock	15,000
		By Shortage	600
Total	74,000	Total	74,000

Branch Debtors A/c

Dr

Cr

Particular	₹	Particular	₹
To Balance b/d	6,000	By Cash received from Debtors	29,200
To Credit sales	34,000	By Discount Allowed	600
		By Bad Debts	200
		By Branch Stock A/c	2,000
		(Return Inward)	

		By Balance c/d (Balancing figure)	8,000
Total	40,000	Total	40,000

Branch Adjustment A/c

Dr

Cr

Particular	₹	Particular	₹
To Goods return to H.O. (Loading)	1,000	By Stock Reserve (Loading Opening Stock)	4,000
To Stock Reserve (Loading Closing Stock)	5,000	By Goods sent to Branch	20,000
To Shortage (Loading)	200		
To Gross Profit	17,800		
Total	24,000	Total	24,000

Branch Expenses A/c

Dr

Cr

Particular	₹	Particular	₹
To Branch Debtor A/c		By P & L A/c (Balance) transfer	7,400
Discount all 600			
Bad debt <u>200</u>	800		
To Branch Exp. On H.O.			
Salary 4,000			

Rent 2,000			
Exp. 600	6,600		
Total	7,400	Total	7,400

Branch Profit & loss A/c

Dr

Cr

Particular	₹	Particular	₹
To Shortage	400	By Branch adj. A/C By	
To Branch Exp. A/c To Net	7,400	Gross Profit	17,800
Profit	10,000		
Total	17,800	Total	17,800

Illustration: 5) M/s Guru prasad Traders Kolhapur has a branch at Poona. The goods are invoiced to the branch so as to show a profit of 30% on Invoice price and selling goods only at invoice price. Following are the transaction relating to the branch.

Particulars	₹
Stock on 1-4-2024 (Invoice Price)	6,000
Debtors on 1-4-2024	3,100
Goods sent to branch (at Invoice Price)	17,500
Goods returned by branch (Invoice Price)	500
Credit sales made	10,500
Cash sales	10,000
Goods returned by Customers	300
Cash form debtors	9,500
Discount allowed to debtors	150

Allowances to debtors	100
Bad debts	300
Cheques sent to Branch for:	
Salaries	1,650
Rent and rates	1,000
Shortage of goods at the Branch	200
You are requested to prepare:	
1) Branch Stock A/c	
2) Branch Debtors A/c	
3) Branch Expenses A/c	
4) Branch Adjustment A/c	

Solution:

**In the Books of Guruprasad Traders, Kolhapur
Branch Stock A/c**

Dr

Cr

Particular	₹	Particular	₹
To Op. Stock of Branch	6,000	By Goods return by H.O.	500
To Goods sent to Branch	17,500	By Shortage of goods	200
To Branch Debtors A/C		By Branch Debtors A/c	10,500
(Return Inward)	300	(Credits Sales)	
		By Bank A/c	10,000
		(Cash Sales)	
		By Closing Stock	2,600
Total	23,800	Total	23,800

Branch Debtors A/c

Dr

Cr

Particular	₹	Particular	₹
To Balance b/d	3,100	By Return Inward	300
To Credit Sales	10,500	By Cash received	
		Debtors	9,500
		By Discount Allowed	150
		By Allowances	100
		By Bad Debts	300
		By Balance c/d	3,250
Total	13,600	Total	13,600

Branch Adjustment A/c

Dr

Cr

Particular	₹	Particular	₹
To Goods return H.O.	150	By Stock Reserve	1,800
To Shortage	60	(Loading Op. Stock)	
To Stock Reserve	780	By Goods sent to	5,250
(Loading Cl. Stock)		Branch	
To Gross Profit	6,060		
Total	7,050	Total	7,050

Branch Expenses A/c

Dr		Cr	
Particular	₹	Particular	₹
To Branch Debtors A/c		By P & L A/c	3,200
Discount Allowed	150	(Transfer)	
Allowance	100		
Bad Debts	<u>300</u>		
To Branch Eexp. on H.O.	550		
Salaries	1,650		
Rent	1,000		
Total	3,200	Total	3,200

Branch Profit & loss A/c

Dr		Cr	
Particular	₹	Particular	₹
To Shortage	140	By Branch Adj. A/c	6,060
To Branch Exp. A/c	3,200	Gross Profit	
To Net Profit	2,720		
(Balancing figure)			
Total	6,060	Total	6,060

Illustration: 6) Pooja Stores Ltd. Kolhapur has a branch at Mumbai. Goods are invoiced to the branch so as to show a profit of 20% on Invoice price under the instructions of selling goods only at invoice price following are the particulars relating to the Branch.

Particulars	Amount
1. Balance on 1 st April 2024	
Stock (at invoice price)	30,000

Branch Debtors.		10,000
Petty Cash at the Branch		50
2. Transactions during the year 2024-25		
Goods invoiced to Branch		3,25,000
Goods returned by Branch		10,000
Cash Sales at the Branch		1,00,000
Credit Sales at the Branch		1,75,000
Goods pilfered (Stolen in small quantities) at Invoice Price		2,000
Goods lost in fire at invoice price		5,000
Received from Insurance Company Against loss by fire		3,000
Discount & Allowances made to Customers		2,000
Bad Debts		500
Goods Returned by Debtors		2,000
Goods transferred to Sangli Branch on H.O. advice		15,000
Cash sent to branch for: ₹		
Rent & Taxes	4,000	
Salaries & Wages	6,000	
Petty Cash	400	
Insurance	<u>2,600</u>	13,000
3. Balances on 31 st March, 2025		
Stock at the Branch		
Debtors		14,000
Petty Cash		35

Goods worth Rs.15,000 (included above) sent by Mumbai branch to Sangli branch were in transit on 31st March, 2025

Find out branch Profit or Loss by Preparing:

(I) Branch Stock Account, (II) Branch Debtors Account, (III) Branch Expenses Account, (IV) Branch Petty Cash Account (V) Branch Adjustment Account and (VI) Branch Profit & Loss A/c

Solution:

**In the Books of Pooja Stores Ltd. Kolhapur
Branch Stock A/c**

Dr		Cr	
Particular	₹	Particular	₹
To Balance b/d	30,000	By Goods return by Branch	10,000
To Goods sent to Branch	3,25,000	By Bank A/c	1,00,000
To Branch Debtors A/c (Return Inward)	2,000	(Cash Sales)	
		By Branch Debtors A/c	
		(Credit Sales)	1,75,000
		By Goods Pilfered	2,000
		By Goods lose in fire 5,000	
		By Received Insurance	
		From company	2,000
		<u>3,000</u>	
		By Goods Transferred	15,000
		By Sangli Branch H.O.	3,000
		By Closing Stock	50,000
		(Balancing figure)	
Total	3,57,000	Total	3,57,000

Branch Debtors A/c

Dr		Cr	
Particular	₹	Particular	₹
To Balance b/d	10,000	By Discount Allowed	2,000
To Credit Sales	1,75,000	By Bad Debts	500
		By Return Inward	2,000
		By Cash received	
		From Debtors	1,66,500
		(Balancing figure)	
		By Balancing c/d	14,000
Total	1,85,000	Total	1,85,000

Branch Adjustment A/c

Dr		Cr	
Particular	₹	Particular	₹
To Goods return by Branch	2,000	By Stock Reserve	6,000
To Pilfered (loading)	400	(Loading Opening Stock)	
To Loss by Fire	400	By Goods sent to Branch	65,000
(Loading)			
To Goods transfer	3,000		
(Loading)			
To Stock Reserve	10,000		
(Loading Closing Stock)			
To Gross Profit	55,200		
Total	71,000	Total	71,000

Branch Petty Cash A/c

Dr		Cr	
Particular	₹	Particular	₹
To Balance b/d	50	By Petty exp for Branch A/c	415
To Petty Cash exp. on H.O.	400	(Balancing figure)	
		By Balance c/d	35
Total	450	Total	450

Branch Expenses A/c

Dr		Cr	
Particular	₹	Particular	₹
<u>To Branch Debtors A/C</u>		By Profit & Loss A/c	15,915
Discount allowed 2,000		(Transfer)	
Bad debt <u>500</u>	2,500		
To Petty exp. at Branch	415		
To Branch exp. H.O.			
Rent Tax 4,000			
Salary & Wages 6,000			
Petty Cash 400			
Insurance <u>2,600</u>	13,000		
Total	15,915	Total	15,915

Profit & Loss A/c

Dr			Cr
Particular	Rs	Particular	Rs
To Pilfered (2,000 - 400)	1,600	By Gross Profit	55,200
To Loss by Fire	1,600		
To Branch Expenses A/C	15,915		
To Net Profit	36,085		
(Balancing figure)			
Total	55,200	Total	55,200

Check Your Progress

A) Fill in the blanks.

- 1) The branch expenses paid by the H.O. are.....to the Branch A/C
- 2) The balance in Goods sent to Branch A/C is transferred to.....A/C
- 3) Loading is the between cost price & invoice price.....
- 4) If the cost price is Rs. 100 & the invoice price is cost plus 20% on invoice price, the invoice price is Rs.....
- 5) The closing balance of Branch Account under the Final Account System representat the branch.....
- 6) Under stock and Debtor System, all figures in Branch Stock Account are recorded at Price.
- 7) Under the stock and Debtor System, Bad debts are credited to Branch Debtors A/C & Debited to.....Account.
- 8)Branch receives the goods from H.O., also purchases the goods from outside parties

9) Under Independent Branch, the H.O. A/C in the books of Branch is.....
With cash sent to the H.O. & goods returned to the H.O.

10) Under Independent Branch, the H.O. A/C maintained by the branch is the nature of Account.

B) 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

C) Match the Pairs:

(A) Group A

- (i) Credit Branch A/c
- (ii) Opening Stock Branch
- (iii) Debtors System
- (iv) Dependent Branch
- (v) Debit Branch A/c

Group B

- (a) Stock Reserve in Closing Stock
- (b) Non-maintenance of full records at Branch
- (c) Debit Branch A/c
- (d) Stock Reserve in Opening Stock
- (e) Dependent Branch

(B) Group A Group B

- (i) Stock Reserve
- (ii) Closing Stock
- (iii) Debtors System
- (iv) General P & L A/c—Debit
- (v) Debit Branch A/c

- (a) Dependent Branch
- (b) Profit in Closing Branch
Stock (Invoice Price)
- (c) Stock Reserve in Closing Stock
- (d) Credit Branch A/c
- (e) Abnormal Loss

(C) Group A Group B

- (i) Branch A/c
- (ii) Unloading of profit
- (iii) Debtors System
- (iv) Independent Branch

- (a) Maintenance of full records at Branch
- (b) Single Entry system approach
- (c) Abnormal Gain
- (d) Goods Sent to Branch A/c at Invoice

Price

(v) General P & L A/c- Credit (e)Nominal Account

4.3 Summary:

The branches are classified in three types-

1. Dependent Branches

2. Independent Branches

The policies and administration of a branch are totally controlled by the Head office (H.O) and who maintains its books of accounts these branches are called as dependent branches.

The accounting system of dependent branches based on size of a branch and degree of control to be exercised by the H.O. Following are the methods of accounting under Dependent branches.

1. **Debtors system** – This system of accounting is suitable for the small size branches.
2. **Stock and Debtors system** – This system of accounting is applied by those branches whose turnover is sufficiently large. Instead of preparing only branch account in the books of Head Office, The head office prepare branch stock Account, Branch adjustment Account, Branch Debtors Account, Branch expenses Account, Branch Petty cash account, Goods sent to branch Account and branch profit and loss Account etc.

4.4 Terms to remember:

Debtors System: A system of accounting for transactions of branch by opening Branch Account which also helps to ascertain branch profit or loss.

Branch Adjustment Account: An Account prepared under stock & debtor system for ascertaining the gross profit or gross loss made by a branch.

Stock & Debtors System: A system of accounting for transactions of a branch without opening a Branch Account. Under the system, branch profit or loss is ascertained through Branch Adjustment A/c

General Profit & Loss A/C: Profit or loss A/C of H.O. which shows profit or loss of the business unit as whole

Cash in Transit: Cash remitted by branch to H.O. but not received by H.O. by the end of accounting year or vice-versa.

Goods in transit: Goods send by H.O. to branch but not received by branch by the end of the accounting year or vice-versa.

Inter – branch transactions: The transactions between two or more branches under the same H.O.

Abridged Incorporation: A short cut method of incorporating the branch balances in H.O. Books

Loading: It is the difference between the cost price & price at which goods are invoiced to the branch.

4.5 Answers to Check Your Progress:

A) Fill in the blanks.

Ans:

- | | |
|------------------------|------------------|
| 1) Debited | 2) Trading |
| 3) Difference | 4) Rs.120 |
| 5) Net Asset | 6) Invoice Price |
| 7) Branch Expenses A/c | 8) Independent |
| 9) Debited | 10) Personal |

B) Multiple Choice Questions:

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

C) Match the Pairs:

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

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

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

4.6 Exercises:

Short Answer Question:

- 1) What do you mean by a branch
- 2) What are the objectives of keeping branch account?
- 3) What object is served in invoicing goods to branch at invoice price?
- 4) What is Stock & Debtors System?
- 5) What do you mean by dependent branch?
- 6) What do you mean by cash in transit?

Practical Problems:

1) Sarita Co. Ltd. invoices goods to Kolhapur Branch at cost. Branch sells goods on credit as well cash basis. Prepare Branch Account in the Books of Head Office 31.03.2025

Particulars	₹
Stock 01.04.2024	62,500
Debtors 01.04.2024	1,22,500
Petty Cash 01.04.2024	750
Stock 31.03.2025	72,500
Goods supplied to Branch	2,27,000
Goods returned by Branch	3,000

<u>Cash remitted to Branch for</u>	
Rent	6,000
Salary	22,500
Petty Cash	5,000
Cash sales	1,64,000
Total sales	4,06,500
Petty Cash expenses at Branch	4,150
Bad debts	2,000
Goods returned from customer	11,500
Discount allowed to customer	7,500
Cash received from customer	1,63,000

(Branch A/C Profit Rs.1,38,850)

2) The New Trading Company of Kolhapur, has a branch at Satara. Goods are sent to branch at cost plus 20%. All cash received is deposited in to the Head Office account in local branch & the necessary advice is sent to H. O. The H. O. sends cheques for branch expenses. From the following particulars draw up the Branch Account in the H.O. books.

Particulars	₹
Stock at branch on 01.01.2024	36,000
Stock at branch on 31.12.2024	45,600
Goods sent to branch	1,44,000
Goods return to H.O.	8,400
Cash sales for the year	78,000
Credit sales for the year	50,400

Return from customers	2,400
Cash received from customers	40,000
Discount to customers	1,000
Bad debts	1,000
Sundrydebtorson01.01.2012	12,000
Sundrydebtorson31.12.2012	18,000
Salaries& wages	8,000
Rent& rates	3,000

(Branch A/C Profit Rs.8,000)

3) Chakote Trading Co. Sangli has a branch at Solapur. The goods are invoiced to the branch at cost plus 50%. From the following prepare Solapur branch account in the books of Chakote Trading Co.

Particulars	₹
Stock on 01.04.2024 (at invoice price)	1,50,000
Debtors on 01.04.2024	75,000
Goods sent to branch (at invoice price)	7,50,000
Cash sales	2,67,500
Credit sales	4,25,000
Cash received from debtors	3,65,000
Discount allowed to debtors & bad debts	10,000
Goods returned from debtors	25,000
Goods returned by branch to H.O.	37,500
Cheques sent to branch for Salary	50,000
Rent	25,000
Other expenses	7,500
Stock on 31.03.2025(at invoice price)	1,87,500

Debtors on 31.03.2025	1,00,000
Shortage of stock	7,500

(Branch A/C Profit Rs.1,20,000)

4) Madhuri Stores Ltd. With its Head Office at Sangli invoiced goods to its branch at Satara at 20% less than the list price. The list price is cost plus 100% (Profit). Following are the particulars relating to the branch for the year ended 31st December 2024.

Particulars		₹
Stock at branch (on 01.01.2024 at invoice price)		32,000
Branch Debtors (on 01.01.2024)		16,000
Petty cash at branch (on 01.01.2024)		250
Goods sent to branch at invoice price		3,20,000
Goods returned by the branch		32,000
Goods returned by Debtors		4,000
Total sales made by the branch		2,20,000
Cash sale made by the branch		80,000
Total cash remitted to H.O.		2,00,000
Discount & allowances made to Debtors		8,000
<u>Cash sent by the H.O. for:</u>		
Salaries	5,600	
Rent	4,400	
Insurance (for 12 months up to 31.03.2025)	2,400	
Petty cash	<u>1,000</u>	13,400
Stock at branch (on 31 st December 2024 at invoice price)		40,000
Petty expenses at the branch		1,150

Ascertain the profit or loss made by the branch by preparing the branch account in the books of H. O.

(Branch A/C Profit Rs.20,050)

5) Arjun Co. Ltd., Mumbai supplies goods to its branch at Nashik at 20% profit on sales. Branch remits all cash daily to H. O. all expenses at branch except petty expenses are paid by H. O. Charge depreciation on furniture 10%.

Particulars	₹
Stock on 01.01.2024	45,000
Sundry debtors on 01.01.2024	27,000
Petty cash on 01.01.2024	1,200
Furniture on 01.01.2024	3,600
Goods invoiced to branch	2,40,000
Goods returned by branch	3,000
Goods returned by customers	1,440
Cash received from debtors	90,000
Total sales (including cash Rs. 1,50,000)	2,40,000
Discount allowed	600
Bad debts	300
<u>Cash sent to branch for:</u>	
Rent	3,000
Salary	7,800
Advertisement	900
Petty expenses paid by branch	8,400
Pilferage of goods at branch at invoice price	3,000
Stock on 31.12.2024 at invoice price	39,000

From the above information prepare Branch A/c in the Books of Arjun co. ltd.

(Branch A/C Profit Rs.25,200)

6) Raj Enterprises, Sangli has its branch at Khanapur, goods are consigned to the Khanapur branch at cost. The branch is given a standing instruction to send all cash daily to H.O. all expenses are paid by H. O. petty expenses which are met by the branch manager. From the following particulars, prepare Khanapur branch account in the books of Raj Enterprises Sangli.

Particulars	₹
Stock on 01.04.2024	15,000
Sundry Debtors on 01.04.2024	30,000
Cash in hand 01.04.2024	1,500
Office furniture 01.04.2024	18,000
Prepaid expenses 01.04.2024	750
Outstanding electricity charges 01.04.2024	4,020
Goods sent to branch	90,000
Goods returned to H. O.	5,400
Goods returned by Debtors	3,600
Cash received from Debtors	51,000
Cash sales	54,000
Credit sales	63,000
Discount allowed to Debtors	3,000
Expenses paid by H.O.	17,100
Petty expenses incurred	1,200
Stock on 31.03.2025	18,000
Prepaid expenses on 31.03.2025	450
Outstanding electricity charges on 31.03.2025	4,320

Depreciation is to be provided on branch furniture at 15% p.a.

(Branch A/C Profit Rs.9,900)

7) From the following particulars relating to Mumbai Branch for the year ending 31st March 2025.

Particulars	₹
Stock at Branch 1 st April 2024	58,900
Branch Debtors 1 st April 2024	14,700
Petty Cash at Branch 1 st April 2024	720
Goods sent to Branch during the year	3,29,400
Cash sales during the year	3,15,800
Credit sales during the year	1,40,400
Cash received from debtors	1,37,900
<u>Cash sent to Branch for expenses</u>	
Rent	12,000
Salaries	36,000
Petty Cash	7,000
Stock at Branch 31 st March 2025	55,400
Petty Cash at Branch 31 st March 2025	730
Goods returned by Branch	1,800

From the above information prepare

1) Branch Trading and Profit and Loss Account (**Net Profit Rs.70,110**)

2) Branch A/c in the books of Head Office. (**Profit Rs.70,110**)

8) From the following particulars relating to Kolhapur Branch of Salman Traders, Miraj.

Particulars	₹
Debtors 01.04.2024	60,000
Stock 01.04.2024	50,000
Petty Cash 01.04.2024	500
Debtors 31.03.2025	80,000
Stock 31.03.2025	45,000
Petty Cash 31.03.2025	1,000
<u>Transactions during the year were:</u>	
Goods sent to branch during 2024-25	1,50,000
<u>Cash sent to branch during 2024-25</u>	
For salary & Wages	30,000
For Rent, Rates etc.	10,000
For Petty Cash	4,500
Goods returned by branch during 2024-25	9,000
<u>Cash remitted by branch during 2024-25</u>	
Received for cash sales	80,000
Received from Debtors	1,40,000
Credit sales during 2024-25	17,000
Discount allowed to Debtors	4,000
Bad debts written off	2,500
Goods returned by Debtors	3,500

From the above information prepare

- 1) Branch Trading and Profit and Loss Account (**Net profit Rs.50,000**)
- 2) Branch A/c in the books of Head Office. (**Profit Rs.50,000**)

9) India Co. Ltd. invoices goods to Kolhapur Branch at cost. The branch sells goods on credit as well as for cash. From the following information relation to the Branch for the year ended 31.03.2025

Particulars	₹
Stock 01.04.2024	1,25,000
Stock 31.03.2025	1,45,000
Debtors 01.04.2024	2,45,000
Petty Cash 01.04.2024	1,500
Goods supplied to branch	4,54,000
Goods returned by branch	6,000
<u>Cash remitted to branch for:</u>	
Rent	12,000
Salary	45,000
Petty cash	10,000
Cash sales	3,28,000
Total sales	8,13,000
Cash received from customers	3,26,000
Discount allowed to customers	15,000
Bad Debts	4,000
Goods returned from customers	23,000
Petty cash expenses at branch	8,300

From the above information prepare

- 1) Branch Trading and Profit and Loss Account (**Net Profit Rs.2,77,700**)
- 2) Branch A/c in the books of Head Office. (**Profit Rs.2,77,700**)

10) Trupti Co. Ltd, has a branch at Nashik goods are sent by the H. O. to the branch at selling price which is cost plus 25% all the expenses of the branch

are paid by the Head Office. All cash collected by the branch is remitted to the H.O.

Particulars	₹	₹
Debtors on 1 st January 2024		18,000
Debtors on 31 st December 2024		21,000
Inventory at invoice price on 01.01.2024		24,000
Inventory at invoice price on 31.12.2024		25,500
Cash sales during the year		90,000
Total cash remitted to H.O.		1,90,000
Goods sent to branch at invoice price		2,10,000
Goods returned to H. O.		7,500
<u>Cash sent to branch for:</u>		
Rent	6,000	
Salaries	<u>9,000</u>	15,000
Discount allowed to debtors		2,250
Bad debts written off		1,500
Spoilage of goods		3,000
Returned goods by debtors to branch		750

From the above information prepare

1) Branch Trading, Profit and Loss Account (**Net Profit Rs.17,200**)

2) Branch A/c in the books of Trupti co. ltd. (**Profit Rs. 17,200**)

11) Shivaji Co. Ltd. Poona invoices goods to its Mumbai branch at 20% above cost. The branch sells the goods on cash as well as on credit & remits all cash received to the branch. All the expenses of branch are met by Head Office. The following information relating to the Mumbai branch is as on 31.12.2024.

Particulars	₹	₹
Stock on 01.01.2024 (invoice price)		48,000
Stock on 31.12.2024 (invoice price)		72,000
Debtors on 01.01.2024		20,000
Debtors on 31.12.2024		24,000
Cash sales remitted to H.O.		86,000
Cash collected from debtors & remitted to H.O.		1,60,000
Goods sent to branch (invoice price)		2,40,000
<u>Expenses paid by H.O. for:</u>		
Salary	36,000	
Rent & Rates	8,000	
Stationary	1,200	
Petty cash	<u>400</u>	45,600
Goods returned by branch to H.O. (invoice price)		9,600
Petty cash on 01.01.2024		1,200
Petty cash on 31.12.2024		400
Credit sales		1,68,000
Discount allowed to customers		3,000
Bad Debts		1,000

Prepare branch account under stock and debtors method.

(Profit Rs. 31,600)

12) Hero Traders of Poona has a branch at Kolhapur to which goods are supplied by Head Office at 25% on cost price. Branch remits all cash received to the Head Office and all expenses, except petty cash expenses of

the Branch are paid by the Head Office by cheques taking into consideration the following information for the year ended 31st March 2025.

Particulars	₹	₹
Stock at branch on 01.04.2024		75,000
Branch Debtors on 01.04.2024		7,500
Petty cash at branch on 01.04.2024		750
Goods sent to branch		1,25,000
Cash sales		40,000
Credit sales		1,75,000
Cash received from debtors		1,25,000
Goods returned by debtors		1,500
Discount allowed to customers		4,500
Bad Debts written off		2,800
<u>Cheques sent to branch for expenses:</u>		
Salaries	6,000	
Rent	1,800	
Advertisement	<u>900</u>	8,700
Bills receivable from debtors		3,000
Petty expenses incurred by the branch		6,500
Cash sent to branch for petty expenses		800
Stock at branch on 31.03.2025		42,000

Prepare branch account under stock and debtors method.

(Profit Rs. 64,600)

13) M/S. Patil Traders, Kolhapur has a branch at Goa. All goods required for sale at Goa are supplied from Kolhapur at cost plus 25% and all cash received at the branch is banked daily in the Head Office account opened in a bank at Goa.

Particulars	₹
Stock 01.01.2024	15,800
Debtors 01.01.2024	22,600
Petty cash 01.01.2024	180
Returns inward	800
Goods invoiced to branch	50,000
Returns goods to H.O.	2,000
Bad debts	200
Cash sales	2,800
<u>Branch expenses paid by H.O.</u>	
Rent	2,800
Salary	3,000
Sundries	1,400
Allowance given	900
Petty cash expenses at branch	480
Total sales	69,800
Remittance to branch for petty cash	560
Stock 31.12.2024	16,800
Debtors 31.12.2024	39,000

Prepare branch account under stock and debtors method.

(Profit Rs. 22,620)

14) Aadesh Ltd. Kolhapur has a Branch at Solapur. Goods are invoiced to branch at 20% on sales. The branch has been instructed to send all cash to

the Head Office daily and all its expenses are paid by the Head Office. The following is the summary of transactions at this branch for the year 2024-25.

Particulars	₹	₹
Stock on 01.04.2024 (invoice price)		3,00,000
Branch Debtors on 01.04.2024		1,80,000
Petty cash on 01.04.2024		8,000
Goods sent to branch (at invoice price)		16,00,000
Goods returned by branch		20,000
Goods returned by customers		4,800
Cash received from customers		6,00,000
Cash sales		10,00,000
Credit sales		6,00,000
Discount allowed to customers		600
Petty expenses incurred by branch		14,000
<u>Expenses paid by H.O.</u>		
Rent	24,000	
Salary	48,000	
Printing & Stationary	6,000	
Petty cash	<u>12,000</u>	90,000
<u>Balance on 31.03.2025</u>		
Stock (invoice price)		2,80,000
Provision for Doubtful Debts		2,000

Prepare branch account under stock and debtors method.

(Profit Rs. 2,32,200)

15) M/S Sharad Traders, Kolhapur started a branch in Mumbai on 1st April, 2024 to which goods were sent at 20% above cost. The branch does not

maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for year ended on 31st March, 2025.

Particulars	₹
Cost of goods sent to Branch	50,000
Goods received by Branch till 31 st March, 2025 at invoice price	54,000
Credit sales for the year	58,000
Debtors as on 31 st March, 2025	20,800
Bad Debts and Discount written off	200
Cash remitted to H.O.	43,000
Cash in hand at Branch on 31 st March, 2025	2,000
Cash remitted by H.O. to Branch during the year	3,000
Closing stock at Branch (at invoice price)	6,000
Expenses incurred at Branch	12,000

Determine the Profit or Loss of the Branch for the year ended on 31st March, 2025, according to Stock and Debtors method in the books of the Head Office.

16) Aaditya Enterprises opened a Branch at Mumbai on 1st April, 2024. The goods were sent by the Head Office to the Branch and invoiced at selling price of the Branch which was 125% of the cost price of the head office.

The following are the particulars relating to the transactions of Delhi Branch

Particulars	₹
Goods sent to branch (at cost to Head Office)	2,80,000
Sales : Cash	1,25,000
Credit	1,75,000
Cash collected from Debtors	1,56,000
Discounts allowed	4,000
Returns from Debtors	5,000
Cash sent to branch for:	

Wages	3,000	
Freight	11,000	
Other Expenses	<u>6,000</u>	20,000
Spoiled cloth in bales written off at invoice price		500
Closing Stock		55,500

Ascertain the profit or loss for the Mumbai Branch for the year ended 31st March, 2025 after preparing Branch Stock Account and Branch Debtors Account.

17) Bombay traders Ltd. Sends goods to its madras Branch at cost plus 25percent. The following particulars are available in respect of the branch for the year ended 31st March 2024

Particulars	₹
Opening stock at branch at cost to branch (I.P of H.O)	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 company against loss in transit	10,000

Show ledger Accounts in the head office books for:

- (a) Branch stock account (c) Goods sent to branch account
(b) Branch adjustment account (d) Branch profit and loss account

4.7 Reference to Further Study:

- 1) Introduction to accounting- S. N. Maeshwari, Vikas Publishing House, New Delhi.
- 2) Advanced accounts – Shukla M.C.& T. S.Garewal, ‘S’ Chand and Co. Pvt. Ltd. New Delhi
- 3) Modern accountancy volume II –Tata Mcgrew Hill Publishing Co. Ltd, New Delhi.
- 4) Mukherjee A, Hajif M., Modern accountancy, NewDelhi.

