CHAPTER 10

ELECTRONIC SUPPLEMENT TO CHAPTER 10

Chapters 1 through 11 of this book discuss accounting and reporting procedures for consolidating the separate operations of parent companies and their subsidiaries. The objective of consolidation is to report the financial position and results of operations of separate legal entities as if there were only one economic entity. By contrast, branches are identifiable locations within a business entity that maintain separate accounting records. Branches are separate accounting entities, but they are not separate legal entities, and their financial statements are used only for internal reporting purposes. Financial statements for the business entity are prepared by combining the financial statements of the branches with those of the central reporting unit of the business.

This supplement distinguishes between sales agency and branch operations, describes accounting procedures for branch operations, and illustrates procedures for combining home office and branch financial statements in the preparation of financial statements for the business entity as a whole.

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SALES AGENCIES AND BRANCHES

Technically, there is a distinction between *sales agencies* and *branches.* **Sales agencies** display merchandise and take customers' orders, but they do not stock merchandise to fill customers' orders or pass on customer credit. The sales agency is not a separate accounting or business entity. Ordinarily, the only accounting records required for sales agencies are for cash receipts and disbursements, which are handled in essentially the same manner as petty cash systems. The central accounting system of the business maintains records of sales made through agency operations and related cost of sales and other expenses.

By contrast, a **branch operation** stocks merchandise, makes sales to customers, passes on customer credit, collects receivables, incurs expenses, and performs other functions normally associated with the operations of a separate business enterprise. Such activities are accounted for through separate branch accounting systems that parallel the systems of independent businesses except in the manner of accounting for ownership equities and in recording transactions between branches and the main office of the enterprise.

Many of the larger branch operations are the result of business combinations in which the surviving corporations establish branch entities to account for the operations of the dissolved combining corporations. In such cases, we can convert the existing information systems of the combining companies into home office and branch accounting systems with only minor adjustments. This method of combining accounting systems is often economical in that it avoids major changes in existing information systems and minimizes disruptions in normal business operations. This method also makes it easy to dispose of the new branch if operations prove unprofitable.

Although the technical distinctions for classifying sales agencies and branches may be important for marketing, advertising, and other business purposes, they are not particularly helpful for accounting purposes. Some sales agencies do carry stock in trade, and some branch operations have limited responsibility for maintaining customer records and approving credit. Many firms with branch operations have centralized customer credit and billing services on a regional or even a companywide basis. The accounting system for a remote business location, whether a branch or an agency, should be designed to accumulate information needed as economically as possible.

SALES AGENCY ACCOUNTS

Sales agencies do not require complete accounting systems to account for their limited activities. Ordinarily, cash receipts and disbursement records are sufficient for accounting at agency locations. Records for sales agency operations must be maintained in the central accounting system of the controlling enterprise. The amount of data accumulated by the enterprise for agency operations may be limited to records of cash and display merchandise at agency offices, on the one hand, or comprise relatively complete asset and income data, on the other.

If detailed information for a sales agency is not deemed necessary, the following entries may suffice to account for agency operations.

1. Creation of an agency working capital fund:

Agency working capital (+A)	5,000	
Cash (−A)		5,000
To record transfer of cash to sales agency.		

2. Transfer of sample inventory to sales agency:

Sample inventory—agency (+A)	9,000	
Merchandise inventory (or purchases) (−A)		9,000
To transfer display merchandise to sales agency.		

3. Replenishment of agency working capital at month or year end:

Salaries expense (E, −SE)	2,200	
Utilities expense (E, −SE)	700	
Advertising expense (E, −SE)	1,200	
Miscellaneous expense (E, −SE)	300	
Cash (−A)		4,400
To record expenses incurred by sales agency and replenishment of agency working capital.		

4. Adjustment of agency sample inventory at month or year end:

Advertising expense (E, −SE)	3,000	
Sample inventory—agency (−A)		3,000
To adjust agency sample inventory to net realizable value and to charge the write-down to advertising expense.		

These entries serve to account for agency expense transactions and cash and merchandise in possession of agency personnel. However, the system illustrated is not adequate for effective control over agency expenses or for measuring the contribution of agency operations to enterprise income, nor does it provide a basis for determining the efficiency of agency operations.

An expansion of the system to accumulate agency sales and expense information provides a basis for comparing agency expenses over time and with expenses of similar sales agencies, and enables profit evaluation of agency operations. The extent of detail accumulated for each sales agency depends upon the information needs of management.

Journal entries for an expanded agency recordkeeping system follow. The entries identify plant assets of the Newport sales agency separately. They also show sales, cost of sales, and expense information on an agency basis.

1. Purchase of Newport sales agency land and buildings:

Land—Newport sales agency (+A)	2,000	
Buildings—Newport sales agency (+A)	18,000	
Cash (−A)		20,000
Purchase of facilities for sales agency.		

2. Creation of a sales agency working capital fund:

Newport sales agency working capital (+A)	4,000	
Cash (−A)		4,000
To record transfer of cash to Newport sales agency.		

3. Transfer of display merchandise to sales agency:

Newport sales agency sample inventory (+A)	8,000	
Merchandise inventory (−A)		8,000
To record transfer of sample merchandise to sales agency.		

4. Payment of salaries to employees of sales agency:

Salaries expense—Newport sales agency (E, −SE)	3,000	
Cash (−A)		3,000
To record payment of salaries to sales agency employees.		

5. Sales orders from sales agency are filled and customers are billed:

Accounts receivable (+A)	12,000	
Sales—Newport sales agency (R, +SE)		12,000
To record credit sales made through Newport sales agency.		
Cost of sales—Newport sales agency (E, −SE)	6,000	
Merchandise inventory (−A)		6,000
Cost of merchandise delivered to customers of sales agency.		

6. Replenishment of agency's working capital fund at year end:

Advertising expense—Newport sales agency (E, −SE)	1,800	
Utilities expense—Newport sales agency (E, −SE)	400	
Other expenses—Newport sales agency (E, −SE)	300	
Cash (−A)		2,500
To record replenishment of sales agency working capital.		

7. Depreciation recorded on sales agency buildings:

Depreciation expense—Newport sales agency (E, −SE)	900	
Accumulated depreciation—Newport sales agency (−A)		900
To record depreciation on sales agency buildings.		

8. Sample merchandise at sales agency adjusted to reflect shopwear:

Advertising expense—Newport sales agency (E, −SE)	1,000	
Newport sales agency sample inventory (−A)		1,000
To record adjustment of sample inventory to realizable value.		

The entries illustrated are examples of how an accounting system can provide separate information for agency operations. Accumulation of such information is both practical and inexpensive even when an enterprise has a large number of sales agency operations.

BRANCH ACCOUNTING SYSTEMS

Branch accounting involves segmenting the accounting system of an enterprise into separate accounting systems for home office and branch operations. The home office records constitute the central accounting unit for the enterprise, and branch records constitute adjunct accounting systems for each branch operation. Firms use separate home office and branch systems for accounting and internal reporting purposes, but the separate financial statements of the home office and branches combine into a single set of financial statements for the enterprise to meet external reporting requirements.

The process of combining home office and branch financial statements is similar to the process of consolidating parent and subsidiary statements. Reciprocity is established between home office and branch records by eliminating reciprocal accounts and combining nonreciprocal accounts. We eliminate unrealized profits from internal transfers between the home office and the branches in preparing combined financial statements for the enterprise.

Transactions Between the Home Office and the Branch

The home office records transactions of the home office with external entities in its accounting records in the usual fashion. Similarly, the branch records transactions with unrelated entities on the branch books in accordance with established accounting procedures. Thus, the unique feature of home office and branch accounting lies in the manner of recording transactions between the home office and its branches.

The creation of a new branch requires entries on the books of both the home office and the branch. Assume that Expando Corporation creates a branch in Splinter, Montana, by transferring cash of $5,000 and equipment with a cost of $10,000 to the branch manager. Entries on the books of the home office and the branch are as follows:

Home Office Books		
Splinter branch (+A)	15,000	
Cash (−A)		5,000
Equipment (−A)		10,000
To record transfer of cash and equipment to Splinter branch.		
Branch Books		
Cash (+A)	5,000	
Equipment (+A)	10,000	
Home office (+SE)		15,000
To record receipt of cash and equipment from home office.		

The branch account on the home office books is an asset account representing the investment of the home office in branch net assets. The home office account on the branch books is an equity account that represents the equity of the home office in branch net assets. Thus, the branch and home office accounts are reciprocal, each representing the net assets of the branch. This reciprocal relationship between home office and branch accounts is a continuous relationship. Whenever the home office increases (debits) its branch account, the branch should increase (credit) its home office account. Similarly, any decrease (debit) in the home office account on the branch books should be accompanied by a decrease (credit) in the branch account on the home office books. The only reasons that differences between home office and branch accounts occur are time lags in recording information on the two sets of books and errors.

A second type of transaction between home office and branches is for merchandise transfers. Typically, branches sell merchandise that is manufactured or purchased through home office operations. A branch manager may or may not have authority to purchase from outside suppliers. If Expando Corporation ships merchandise to the Splinter branch at its $8,000 home office cost, the two entities make the following journal entries:

Home Office Books		
Splinter branch (+A)	8,000	
Shipments to Splinter branch (−E, +SE)		8,000
To record shipments at cost to Splinter branch.		

(Continued)

Branch Books		
Shipments from home office (E, −SE)	8,000	
Home office (+SE)		8,000
To record shipments received from home office.		

Two additional reciprocal accounts result from recording the merchandise transfer from home office to branch. The home office's shipments to branch account is a "contra purchases" account on the home office books, and the shipments from home office account on the branch books is essentially a "branch purchases" or an "inventory" account. These accounts determine the separate cost of sales for home office and branch operations, but, because they are reciprocal, we eliminate them in preparing combined financial statements for the enterprise.

Illustration of Home Office and Branch Accounting

Assume that Jiffy-Stop Corporation created a new branch outlet in Bee, Nebraska, at the beginning of 2003 and that the transactions of the Bee branch during 2003 are as follows:

1. Received cash of $20,000 from the home office.
2. Purchased equipment with a five-year life for $10,000 cash.
3. Received merchandise shipments from home office at the $16,000 home office cost.
4. Purchased merchandise from outside suppliers for $4,000 cash.
5. Sold merchandise for $30,000 cash.
6. Returned $1,000 of the merchandise acquired from the home office.
7. Paid expenses as follows:

Salaries	$6,000
Utilities	1,000
Rent expense	3,000
Other expenses	2,000

8. Remitted $15,000 to the home office.
9. Salaries payable at year end were $1,000, and depreciation for the year was $2,000.
10. Branch inventory at year end consisted of $1,000 merchandise acquired from outside suppliers and $5,000 acquired from home office.

JOURNAL ENTRIES Exhibit 10-1 illustrates journal entries to record these transactions and related year-end events on the books of Bee branch. The exhibit also shows journal entries on the home office books to reflect reciprocal home office items.

The closing entry of Bee branch contains a $2,000 credit to the home office account. This $2,000 is equal to branch income for the period and reflects the net asset increase from branch operations. A related adjusting entry on the home office books debits the Bee branch account for $2,000 and credits Bee branch profit for the period. This home office adjusting entry is roughly equivalent to a parent company entry to record its share of subsidiary income for a period under the equity method of accounting.

COST OF SALES COMPUTATIONS The journal entries illustrated in Exhibit 10-1 are based on periodic inventory procedures that provide detailed information about merchandise transfers between home office and branch locations. Although this detailed information can be used in the working papers to combine the home office and branch accounts for external reporting, it is convenient to group the separate inventory, purchases, and shipment data into individual cost of sales categories for efficient preparation of working papers. Separate cost of sales computations for the home office and branch of Jiffy-Stop follow:

	Home Office	Bee Branch
Inventory January 1, 2003	$ 85,000	$ —
Purchases	150,000	4,000
Shipments to branch	(15,000)	—
Shipments from home office	—	15,000
Goods available for sale	220,000	19,000
Inventory December 31, 2003	(80,000)	(6,000)
Cost of sales	$140,000	$13,000

EXHIBIT 10-1 Jiffy-Stop Corporation: Home Office and Branch Journal Entries

Transaction	Home Office Books			Bee Branch Books		
1	Bee branch (+A)	20,000		Cash (+A)	20,000	
	Cash (−A)		20,000	Home office (+SE)		20,000
	To transfer cash to Bee branch.			Receipt of cash from home office.		
2				Equipment (+A)	10,000	
				Cash (−A)		10,000
				To record purchase of equipment.		
3	Bee branch (+A)	16,000		Shipments from home office (E, −SE)	16,000	
	Shipments to Bee branch (−E, +SE)		16,000	Home office (+SE)		16,000
	To transfer merchandise to Bee branch at cost.			Receipt of merchandise from home office.		
4				Purchases (E, −SE)	4,000	
				Cash (−A)		4,000
				To record cash purchases.		
5				Cash (+A)	30,000	
				Sales (R, +SE)		30,000
				To record cash sales.		
6	Shipments to Bee branch (E, −SE)	1,000		Home office (−SE)	1,000	
	Bee branch (−A)		1,000	Shipments from home office (−E, +SE)		1,000
	Merchandise returned from Bee branch.			Merchandise returned to home office.		
7				Salaries expense (E, −SE)	6,000	
				Utilities expense (E, −SE)	1,000	
				Rent expense (E, −SE)	3,000	
				Other expenses (E, −SE)	2,000	
				Cash (−A)		12,000
				To record payment of expenses.		
8	Cash (+A)	15,000		Home office (−SE)	15,000	
	Bee branch (−A)		15,000	Cash (−A)		15,000
	Cash received from Bee branch.			To record cash remittance to home office.		
9				*Adjusting Entries*		
				Salaries expense (E, −SE)	1,000	
				Salaries payable (+L)		1,000
				Accrued salaries.		
				Depreciation expense—equipment (E, −SE)	2,000	
				Accumulated depreciation—equipment (−A)		2,000
				Depreciation expense $10,000 ÷ 5 years.		
10	*Adjusting Entry*			*Closing Entry*		
	Bee branch (+A)	2,000		Sales (−R, −SE)	30,000	
	Bee branch profit (R, +SE)		2,000	Inventory (+A)	6,000	
	To record Bee branch profit for the period.			Shipments from home office (−E, +SE)		15,000
				Purchases (−E, +SE)		4,000
				Salaries expense (−E, +SE)		7,000
				Depreciation expense (−E, +SE)		2,000
				Utilities expense (−E, +SE)		1,000
				Rent expense (−E, +SE)		3,000
				Other expenses (−E, +SE)		2,000
				Home office (+SE)		2,000
				To close income accounts to home office.		

EXHIBIT 10-2 Combining Working Papers—Trial Balance Approach

JIFFY-STOP CORPORATION
HOME OFFICE AND BRANCH WORKING PAPERS
FOR THE YEAR ENDED DECEMBER 31, 2003
(IN THOUSANDS)

	Home Office	Bee Branch	Adjustments and Eliminations	Income Statement	Retained Earnings	Balance Sheet
Debits Cash	$ 41	$ 9				$ 50
Accounts receivable	60					60
Inventories—ending	80	6				86
Land	20					20
Buildings—net	100					100
Equipment—net	52	8				60
Bee branch	22		a 2 b 20			
Cost of sales	140	13		$(153)		
Salaries expense	43	7		(50)		
Depreciation expense—buildings	5			(5)		
Depreciation expense—equipment	8	2		(10)		
Utilities expense	6	1		(7)		
Rent expense		3		(3)		
Other expenses	8	2		(10)		
Dividends	10				$(10)	
	$595	$51				$376
Credits Accounts payable	$ 50					$ 50
Salaries payable	4	$ 1				5
Capital stock	200					200
Retained earnings	110				110	
Home office		20	b 20			
Sales	229	30		259		
Bee branch profit	2		a 2			
	$595	$51				
Net income				$ 21	21	
Retained earnings December 31, 2003					$121	121
						$376

EXHIBIT 10-3

Combining Working Papers—Financial Statement Approach

JIFFY-STOP CORPORATION
HOME OFFICE AND BRANCH WORKING PAPERS
FOR THE YEAR ENDED DECEMBER 31, 2003
(IN THOUSANDS)

	Home Office	Bee Branch	Adjustments and Eliminations		Combined Statement
Income Statement Sales	$229	$30			$259
Bee branch profit	2		a 2		
Cost of sales	(140)	(13)			(153)
Salaries expense	(43)	(7)			(50)
Depreciation expense—buildings	(5)				(5)
Depreciation expense—equipment	(8)	(2)			(10)
Utilities expense	(6)	(1)			(7)
Rent expense		(3)			(3)
Other expenses	(8)	(2)			(10)
Net income	$ 21	$ 2			$ 21
Retained Earnings/Home Office Retained earnings January 1	$110				$110
Home office (preclosing)		$20	b 20		
Net income	21	2			21
Dividends	(10)				(10)
Retained earnings/home office	$121	$22			$121
Balance Sheet Cash	$ 41	$ 9			$ 50
Accounts receivable—net	60				60
Inventory	80	6			86
Land	20				20
Buildings—net	100				100
Equipment—net	52	8			60
Bee branch	22			a 2 b 20	
	$375	$23			$376
Accounts payable	$ 50				$ 50
Salaries payable	4	$ 1			5
Capital stock	200				200
Retained earnings	121				121
Home office		22			
	$375	$23			$376

We include data for home office purchases and inventories in the cost of sales computations without prior explanation.

WORKING PAPERS Home office and branch accounting records may be combined using either the trial balance or the financial statement working paper format. Exhibits 10-2 and 10-3 illustrate these approaches for the Jiffy-Shop Corporation. We include data for the home office in the working papers to complete the illustrations.

Adjusted trial balances for Jiffy-Stop's home office and its Bee branch are shown in the first two columns of the trial balance working papers in Exhibit 10-2. The working paper procedures are comparable to those for the trial balance working papers used in preparing consolidated financial statements. Only two working paper entries are needed: one to establish reciprocity between the branch and home office accounts by eliminating the Bee branch profit and reducing the branch account to its preadjusted balance, and a second entry to eliminate reciprocal home office and branch account balances. These entries are similar to consolidation working paper entries to eliminate income from subsidiaries against the parent company's investment in subsidiary account and, subsequently, to eliminate reciprocal investment and equity balances.

The same working paper entries are used in combining the home office and branch accounts in Exhibit 10-3 when the financial statement format is used. Under the financial statement format, however, the absence of a retained earnings account in the ledger of the branch necessitates a change in the retained earnings section of the working papers. The equity account of a branch is its home office account, so the branch column of the working papers shows changes in the home office account from current operations. Observe that working paper entry a of Exhibit 10-3 returns the Bee branch account on the home office books to its $20,000 preadjusted balance to establish reciprocity with the $20,000 preclosing balance of the home office account. Subsequently, entry b eliminates these reciprocal balances. Other aspects of the home office and branch working papers are the same as those for working papers of parent and subsidiary operations. Normally, only the combined financial statements that reflect the financial position and results of operations for the entity as a whole are used for external reporting purposes.

MERCHANDISE SHIPMENTS IN EXCESS OF COST

The procedures illustrated for Jiffy-Stop base merchandise shipments between the home office and Bee branch at home office cost. Many corporations, however, use transfer prices in excess of cost for internal shipments to their branches. Some corporations set transfer prices at normal sales prices, whereas others use standard markups. Still other corporations develop complex formulas for determining transfer prices. Reasons commonly cited for internal transfers of merchandise above cost include equitable allocation of income between the various units of the enterprise, efficiency in pricing inventories, and concealment of the true profit margins from branch personnel.

Shipments to Branch Recorded at Cost

When a home office ships merchandise to its branches at transfer prices in excess of cost, the accounting records of the home office reflect measurement of actual cost of merchandise transferred. This is usually done through an inventory "loading" or unrealized profit account. For example, if Southern Fashion Mart's home office ships merchandise that costs $100,000 to its Tampa branch at a 20% markup based on cost, the home office and branch entries are as follows:

Home Office Books		
Tampa branch (+A)	120,000	
Shipments to Tampa branch (−A)		100,000
Loading in Tampa branch inventory (−A)		20,000
To record shipments to Tampa branch at 120% of cost.		
Tampa Branch Books		
Shipments from home office (E, −SE)	120,000	
Home office (+SE)		120,000
To record receipt of merchandise from home office.		

Entries to record transfers of merchandise at prices in excess of cost do not change the reciprocal relationship between the home office and branch accounts, but they do affect the relationship between home office and branch shipment accounts, because the "shipments to branch" account is credited at cost and the "shipments from home office" account is debited at the transfer price. The difference between the shipment accounts lies in the markup reflected in the loading in branch inventories account, which is frequently designated as "unrealized profit in branch inventories."

When a branch receives merchandise at transfer prices that include a loading factor and sells that merchandise, it overstates its cost of goods sold and understates its income. The home office increases its branch account and records branch profit or loss on the basis of income reported by the branch, so any branch profit recorded by the home office is similarly understated. This understatement of branch profit on home office books is corrected by a year-end adjusting entry that reduces the loading account to reflect amounts realized during the period through branch sales to outside entities.

Assume that the following account balances appear on the books of Southern Fashion Mart's home office and branch at December 31, 2003, before adjusting entries:

Home Office Books	
Tampa branch	$200,000 debit
Shipments to Tampa branch	100,000 credit
Loading in Tampa branch inventory	20,000 credit
Tampa Branch Books	
Sales	$160,000 credit
Shipments from home office	120,000 debit
Expenses	30,000 debit
Home office	200,000 credit

If the Tampa branch has $12,000 inventory at transfer prices on December 31, 2003, it reports income for the period of $22,000 (sales of $160,000, less cost of sales of $108,000 and other expenses of $30,000). The branch closing entry for the period is:

Sales (−R, −SE)	160,000	
Inventory December 31, 2003 (+A)	12,000	
Shipments from home office (−E, +SE)		120,000
Expenses (−E, +SE)		30,000
Home office (+SE)		22,000
To close nominal accounts and transfer the balance to the home office account.		

The home office uses this information to record branch profit for the period:

Tampa branch (+A)	22,000	
Tampa branch profit (R, +SE)		22,000
To take up branch profit and to update the branch account.		

The home office also adjusts its loading account to reflect the $2,000 unrealized profit in branch ending inventory [$12,000 − ($12,000 ÷ 120%)]:

Loading in Tampa branch inventory (+A)	18,000	
Tampa branch profit (R, +SE)		18,000
To adjust branch loading account ($20,000 − $2,000) and branch profit for the period.		

After posting this entry, the loading account will have a $2,000 balance equal to the $2,000 unrealized profit in the Tampa branch ending inventory, and the Tampa branch profit account will show a balance of $40,000. This $40,000 is the income of the branch on a cost basis, an amount subject to independent confirmation as follows:

Sales		$160,000
Shipments to branch (at cost)	$100,000	
Less: Inventory (at cost)	10,000	90,000
Gross profit		70,000
Other expenses		30,000
Branch income		$ 40,000

When we add the $40,000 branch profit to separate home office income for the period, the total equals combined net income for the enterprise. Although year-end entries for subsequent years are substantially the same as those illustrated, there will be a difference because the branch will have a beginning inventory stated at transfer prices, and the home office will have a beginning balance in its loading account equal to the unrealized profit in the branch beginning inventory. An example of branch accounting for Dasher Corporation at the end of this supplement illustrates accounting procedures for unrealized profits in both beginning and ending branch inventories.

Shipments to Branch Recorded at Billing Prices

Some firms enter merchandise shipments to their branches at billing prices and adjust the loading account at the end of the accounting period. When using this approach, the balance of the loading account during an accounting period will reflect unrealized profit in branch beginning inventories, and the shipments to branch account will include the loading factor on shipments for the current period. The shipments to branch account (home office books) and the shipments from home office account (branch books) are reciprocals under this method.

To illustrate, Southern Fashion Mart's shipments to the Tampa branch could have been recorded at billing prices as follows:

Home Office Books		
Tampa branch (+A)	120,000	
Shipments to Tampa branch (−E, +SE)		120,000

With this entry, the home office and branch shipment accounts have equal balances, but two year-end adjusting entries are needed:

Home Office Books		
Shipments to Tampa branch (E, −SE)	20,000	
Loading in Tampa branch inventory (−A)		20,000
To adjust shipments to a cost basis.		
Loading in Tampa branch inventory (+A)	18,000	
Tampa branch profit (R, +SE)		18,000
To adjust branch profit for realization of markup on branch shipments.		

The first entry adjusts the shipments to branch and loading in branch inventory accounts to create balances of $100,000 and $20,000, respectively. The second entry to adjust branch profit for the loading factor is the same as the one shown earlier.

FREIGHT COSTS ON SHIPMENTS

The cost of transporting merchandise to its final sale location can be an important element of the cost of merchandise inventoried and sold. Accordingly, freight costs on merchandise shipped between home office and branch locations should be included in branch inventory and cost of goods sold measurements. Assume that a home office ships merchandise to its branch at 125% of the $10,000 home office cost and that the home office pays $500 freight costs. The home office and branch journal entries are as follows:

Home Office Books		
Branch (+A)	13,000	
Shipments to branch (−E, +SE)		10,000
Loading in branch inventory (−A)		2,500
Cash (−A)		500
To record shipments to branch.		

Branch Books		
Shipments from home office (E, −SE)	12,500	
Freight-in on home office shipments (E, −SE)	500	
Home office (+SE)		13,000
To record receipt of merchandise from home office.		

If half the merchandise remains unsold at year end, the branch reports cost of branch sales at $6,500, and prices the branch inventory at its $6,250 home office cost, plus $250 freight-in. Branch inventory and cost of goods sold are reported in the same amount if the branch pays the transportation costs, but the freight transaction is not recorded on the home office books.

Merchandise cost should not include excessive freight charges from the transfer of merchandise between a home office and its branches or between branch locations. If the branch returns half the merchandise received from the home office because it is defective or because of a shortage of inventory at the home office location, the home office cost of the merchandise should not include the freight charges to or from the branch. Assuming that the branch pays $250 to return half the merchandise to the home office, the branch and home office entries are as follows:

Branch Books		
Home office (−SE)	6,750	
Shipments from home office (−E, +SE)		6,250
Freight-in on home office shipments (−E, +SE)		250
Cash (−A)		250
To record return of merchandise to the home office.		

Home Office Books		
Shipments to branch (E, +SE)	5,000	
Loading in branch inventory (+A)	1,250	
Loss on excessive freight charges (E, −SE)	500	
Branch (−A)		6,750
To record merchandise returned from branch location.		

The home office charges total freight charges on the merchandise to its "loss on excessive freight charges" account because the freight charges represent management mistakes or inefficiencies. Therefore, they are not considered normal operating or freight expenses.

A second example of excessive freight charges involves shipments between branches. Assume that the home office of Maxwell Industries ships merchandise at its $50,000 cost from Chicago to its St. Louis branch and pays $2,000 freight charges on the merchandise. A few days later, the Omaha branch experiences a merchandise shortage and transfers the merchandise from St. Louis to Omaha at a $1,200 cost paid by the St. Louis branch. The cost of shipping the merchandise from Chicago to Omaha would have been $1,800. Exhibit 10-4 shows the entries to record the initial shipment to the St. Louis branch and the subsequent transfer to the Omaha branch.

In addition to adjusting shipment accounts and home office and branch accounts, the freight accounts must be adjusted. Total freight charges incurred were $3,200 ($2,000 + $1,200), but the cost of shipping merchandise from the home office directly to the Omaha branch would have been $1,800. Only $1,800 is recorded as an inventoriable cost on the books of the Omaha branch. The duplicate shipments are assumed to have resulted from home office management errors, so the $1,400 excessive freight is recorded as a home office loss. This accounting treatment is consistent

EXHIBIT 10-4

Maxwell Industries Excessive Freight Charges

ENTRIES TO RECORD SHIPMENT TO ST. LOUIS BRANCH		
Home Office Books		
St. Louis branch (+A)	52,000	
Shipments to St. Louis branch (−E, +SE)		50,000
Cash (−A)		2,000
To record shipment to St. Louis branch.		
St. Louis Branch Books		
Shipments from home office (E, −SE)	50,000	
Freight-in on home office shipments (E, −SE)	2,000	
Home office (+SE)		52,000
To record merchandise received from home office.		
ENTRIES TO RECORD TRANSFER FROM ST. LOUIS TO OMAHA		
Home Office Books		
Omaha branch (+A)	51,800	
Loss on excessive freight charges (E, −SE)	1,400	
Shipments to St. Louis branch (E, −SE)	50,000	
St. Louis branch (−A)		53,200
Shipments to Omaha branch (−E, +SE)		50,000
To record transfer of merchandise from St. Louis branch to Omaha branch.		
St. Louis Branch Books		
Home office (−SE)	53,200	
Shipments from home office (−E, +SE)		50,000
Freight-in on home office shipments (−E, +SE)		2,000
Cash (−A)		1,200
To record transfer of merchandise to Omaha branch.		
Omaha Branch Books		
Shipments from home office (E, −SE)	50,000	
Freight-in on home office shipments (E, −SE)	1,800	
Home office (+SE)		51,800
To record receipt of merchandise from home office via the St. Louis branch.		

with the accounting principle that inventory costs include only those costs necessary to get merchandise ready for final sale to customers.

HOME OFFICE AND BRANCH EXPENSE ALLOCATION

The allocation of expenses among home office and branch operations is frequently necessary to provide an accurate measurement of income for the separate units of the enterprise. Advertising expense, for example, may relate to sales efforts of the home office and one or more branches. If such advertising is paid by the home office, that part related to branch sales should be allocated to the branches. Pension costs paid by the home office and home office general and administrative expenses may also be allocated to branch operations in order to provide complete profit information for each business unit. Another situation that requires expense allocation for complete profit information arises when plant asset records are centralized in the home office accounting system.

Some examples of accounting for these expense allocations follow. If a branch pays $5,000 for advertising that relates equally to branch and home office sales efforts, the $5,000 could be allocated as follows:

Branch Books		
Advertising expense (E, −SE)	2,500	
Home office (−SE)	2,500	
Cash (−A)		5,000
To allocate advertising expense 50% to home office.		

(Continued)

Home Office Books

Advertising expense (E, −SE)	2,500	
Branch (−A)		2,500

To record advertising expense paid by branch.

Pension and general home office expenses of $50,000 and $120,000, respectively, that are incurred by the home office and allocated 25% each to the Denver and Cheyenne branches would be recorded as follows:

Home Office Books

Denver branch (+A)	42,500	
Cheyenne branch (+A)	42,500	
Pension expense (−E, +SE)		25,000
General expenses (−E, +SE)		60,000

To allocate pension and general expenses to branch operations.

Denver Branch Books

Pension expense (E, −SE)	12,500	
General expenses (E, −SE)	30,000	
Home office (+SE)		42,500

To record expense allocations from home office.

Cheyenne Branch Books

Pension expense (E, −SE)	12,500	
General expenses (E, −SE)	30,000	
Home office (+SE)		42,500

To record expense allocations from home office.

These examples illustrate the basic approach to expense allocations among home office and branch operations. Other expense items are allocated in similar fashion.

RECONCILIATION OF HOME OFFICE AND BRANCH ACCOUNTS

Reciprocity between home office and branch accounts will not exist at year end if errors have been made in recording reciprocal transactions either on the home office or the branch books, or if transactions have been recorded on one set of books but not on the other. The approach for reconciling home office and branch accounts at year end is similar to the approach used for bank reconciliations. A home office/branch reconciliation is illustrated in Exhibit 10-5 for Empire Corporation's home office and its Rochester branch at December 2003 according to the following assumptions:

1. Balances on December 31, 2003: Home office account (branch books), $452,300; Rochester branch account (home office books), $492,000.
2. The Rochester branch sent a check for $12,000 cash to the home office on December 31, 2003. The home office did not receive the check until January 4, 2004.

EXHIBIT 10-5

Reconciliation of Home Office and Branch Accounts

EMPIRE CORPORATION
HOME OFFICE AND ROCHESTER BRANCH RECONCILIATION
AT DECEMBER 31, 2003

	Home Office Account (Branch Books)	Rochester Branch Account (Home Office Books)
Balance per books, December 31, 2003	$452,300	$492,000
Cash in transit—Rochester branch to home office	—	(12,000)
Shipments in transit to Rochester branch	25,000	—
Error correction: Advertising expenses of $8,500 were recorded as $5,800	2,700	—
Adjusted balances, December 31, 2003	$480,000	$480,000

3. The home office shipped merchandise costing $20,000 to its Rochester branch on December 28, 2003, at a transfer price of $25,000. The merchandise was not received by the Rochester branch until January 8, 2004.
4. Advertising expenses of $8,500 were allocated by the home office to the Rochester branch. The expenses were recorded at $5,800 by the branch.

The following entry is made on the home office books to reflect cash in transit at December 31, 2003:

Cash in transit (+A)	12,000	
Rochester branch (−A)		12,000
To record cash in transit on December 31, 2003.		

Although it is convenient to use the title "cash in transit" to ensure proper recording of the actual cash receipt, the cash is not in transit from the viewpoint of the combined entity, and it must be reported as cash and not cash in transit in the combined financial statements of the enterprise.

Correcting entries on the books of the Rochester branch to reflect the items in the reconciliation are as follows:

Shipments from home office—in transit (E, −SE)	25,000	
Home office (+SE)		25,000
To record merchandise in transit from the home office.		
Advertising expense (E, −SE)	2,700	
Home office (+SE)		2,700
To correct an error in recording an advertising expense allocation from home office as $5,800 rather than $8,500.		

After updating the accounts to reflect these correcting entries, the home office and branch accounts have reciprocal balances.

ILLUSTRATION OF HOME OFFICE AND BRANCH ACCOUNTING

Dasher Corporation of Philadelphia has operated a sales branch in Dot, Rhode Island, for a number of years. All merchandise shipped to the Dot branch is transferred at normal sales prices, which are 125% of home office cost. The Dot branch also purchases merchandise from outside suppliers. This merchandise is sold by Dot at a 25% markup based on invoice cost. Balance sheets for Dasher Corporation's home office and its Dot branch at December 31, 2003, are as follows:

Dasher Corporation Home Office and Branch Balance Sheets at December 31, 2003

	Home Office	Dot Branch
Assets		
Cash	$ 25,000	$11,000
Accounts receivable—net	42,000	23,000
Inventory	20,000	16,000
Plant assets—net	70,000	—
Dot branch	43,000	—
Total assets	$200,000	$50,000
Liabilities and Equity		
Accounts payable	$ 14,000	$ 5,000
Other liabilities	10,000	2,000
Loading—branch inventory	1,600	—
Home office	—	43,000
Capital stock	150,000	—
Retained earnings	24,400	—
Total liabilities and equity	$200,000	$50,000

EXHIBIT 10-6 Comparative Journal Entries for Home Office and Branch

DASHER CORPORATION
HOME OFFICE AND DOT BRANCH JOURNAL ENTRIES
FOR THE YEAR 2004

Item Number	Home Office Books			Dot Branch Books		
1	Accounts receivable (+A)	200,000		Accounts receivable (+A)	81,750	
	Sales (R, +SE)		200,000	Sales (R, +SE)		81,750
	To record sales on account.			To record sales on account.		
2	Purchases (E, −SE)	205,000		Purchases (E, −SE)	20,000	
	Accounts payable (+L)		205,000	Accounts payable (+L)		20,000
	To record purchases on account.			To record purchases on account.		
	Dot branch (+A)	50,000		Shipments from home office (E, −SE)	50,000	
	Shipments to Dot branch (−E, +SE)		40,000	Home office (+SE)		50,000
	Loading—branch inventory (−A)		10,000	To record receipt of merchandise from home office.		
	To transfer merchandise to Dot branch at 125% of cost.					
3	Cash (+A)	195,000		Cash (+A)	79,750	
	Accounts receivable (−A)		195,000	Accounts receivable (−A)		79,750
	To record collections on accounts receivable.			To record collections on accounts receivable.		
4	Cash (+A)	55,000		Home office (−SE)	55,000	
	Dot branch (−A)		55,000	Cash (−A)		55,000
	To record receipt of cash from Dot branch.			To record cash remittance to home office.		
5	Accounts payable (−L)	210,000		Accounts payable (−L)	21,000	
	Cash (−A)		210,000	Cash (−A)		21,000
	To record payments on account.			To record payments on account.		
6	Operating expenses (E, −SE)	20,000		Operating expenses (E, −SE)	2,000	
	Cash (−A)		20,000	Cash (−A)		2,000
	To record payment of expenses.			To record payment of expenses.		
	Dot branch (+A)	1,000		Operating expenses (E, −SE)	1,000	
	Operating expenses (−E, +SE)		1,000	Home office (+SE)		1,000
	To record allocation of expenses to Dot branch.			To record expenses allocated from home office.		
7	Dot branch (+A)	1,500		Operating expenses (E, −SE)	1,500	
	Operating expenses (E, −SE)	6,500		Home office (+SE)		1,500
	Accumulated depreciation (−A)		8,000	To record allocation of depreciation from home office.		
	To record depreciation allocated to Dot branch.					

The home office maintains all plant asset records for Dasher's home office and Dot branch on its books. Half of the $16,000 branch inventory at December 31, 2003, was received from local suppliers, and the remaining $8,000 was received from the home office at established transfer prices. Exhibit 10-6 presents a summary of the transactions of Dasher's home office and Dot branch for 2004 and journal entries to record the transactions.

1. Dasher's sales for 2004 were $281,750, of which $200,000 were home office sales and $81,750 were sales made by the Dot branch. All sales were on account.
2. Home office and branch purchases on account for 2004 were $205,000 and $20,000, respectively. The home office shipped $40,000 of merchandise to the Dot branch at a transfer price of $50,000.

3. The home office collected $195,000 on account during 2004, and the Dot branch collected $79,750.
4. The Dot branch transferred $55,000 cash to the home office during 2004.
5. Payments on account were home office, $210,000; Dot branch, $21,000.
6. During 2004, the home office paid operating expenses of $20,000, and the Dot branch paid operating expenses of $2,000. Of the operating expenses paid by the home office, $1,000 was allocated to the Dot branch.
7. Total depreciation for the year was $8,000, of which $1,500 was allocated to branch operations.

Year-end inventories are $25,000 for the home office and $10,000 for the Dot branch, with half of the branch inventory consisting of merchandise acquired from the home office. Thus, total inventories for Dasher corporation on a cost basis are $34,000, computed as follows:

Home office inventory	$25,000
Branch inventory acquired through purchases	5,000
Branch inventory transferred from home office: $5,000 ÷ 1.25	4,000
Total inventories	$34,000

Separate cost of sales calculations for inclusion in the combined working papers for the home office and the Dot branch are as follows:

	Home Office	**Dot Branch**
Inventory January 1, 2004	$ 20,000	$16,000
Purchases	205,000	20,000
Shipments to branch	(40,000)	—
Shipments from home office	—	50,000
Goods available for sale	185,000	86,000
Inventory December 31, 2004	(25,000)	(10,000)
Cost of sales	$160,000	$76,000

Trial balances prepared at December 31, 2004, after the transactions summarized in Exhibit 10-6 were recorded, and inventory items grouped into cost of sales categories are shown in the first two columns of Exhibit 10-7. These trial balances were taken before the home office recorded income from the Dot branch for the year, so the home office and branch accounts have reciprocal balances.

The working paper entries needed to combine the accounts of the home office and branch in general journal form follow:

a	**Loading in branch inventory (+A)**	**1,600**	
	Cost of sales (−E, +SE)		**1,600**
	To eliminate loading in beginning branch inventory now included in cost of sales.		
b	**Loading in branch inventory (+A)**	**10,000**	
	Cost of sales (−E, +SE)		**10,000**
	To eliminate loading in current-year shipments to branch.		
c	**Cost of sales (E, −SE)**	**1,000**	
	Inventories (−A)		**1,000**
	To eliminate loading in ending branch inventory.		
d	**Home office (−SE)**	**40,500**	
	Dot branch (−A)		**40,500**
	To eliminate reciprocal home office and branch balances.		

The home office and branch working papers in Exhibit 10-7 do not contain a retained earnings column. Dasher's net income for the period is the only item affecting the ending retained earnings

EXHIBIT 10-7
Combining Working Papers

DASHER CORPORATION
HOME OFFICE AND BRANCH WORKING PAPERS
FOR THE YEAR ENDED DECEMBER 31, 2004
(IN THOUSANDS)

	Home Office	Dot Branch	Adjustments and Eliminations		Income Statement	Balance Sheet
Debits Cash	$ 45	$ 12.75				$ 57.75
Accounts receivable—net	47	25				72
Inventories	25	10		c 1		34
Plant assets—net	62					62
Dot branch	40.5			d 40.5		
Cost of sales	160	76	c 1	a 1.6 b 10	$(225.4)	
Operating expenses	25.5	4.5			(30)	
	$405	$128.25				$225.75
Credits Accounts payable	$ 9	$ 4				$ 13
Other liabilities	10	2				12
Loading in branch inventory	11.6		a 1.6 b 10			
Home office		40.5	d 40.5			
Capital stock	150					150
Retained earnings January 1, 2004	24.4					24.4
Sales	200	81.75			281.75	
	$405	$128.25				
Net income					$ 26.35	26.35
						$225.75

balance, so it is convenient to omit the separate retained earnings column and to carry net income for the period directly to the balance sheet column.

Adjusting and closing entries for the Dot branch and home office are as follows:

Dot Branch Closing Entry		
Sales (−R, −SE)	81,750	
Inventory December 31, 2004 (+A)	10,000	
Inventory January 1, 2004 (−A)		16,000
Purchases (−E, +SE)		20,000
Shipments from home office (−E, +SE)		50,000
Operating expenses (−E, +SE)		4,500
Home office (+SE)		1,250

(Continued)

Home Office Adjusting and Closing Entries

Dot branch (+A)	1,250	
Dot branch profit (R, +SE)		1,250
Loading in branch inventory (E, −SE)	10,600	
Dot branch profit (R, +SE)		10,600

Unrealized profit per books of $11,600, less $1,000 unrealized profit in branch ending inventory = $10,600 adjustment.

Sales (−R, −SE)	200,000	
Inventory December 31, 2004 (+A)	25,000	
Shipments to Dot branch (E, −SE)	40,000	
Dot branch profit (−R, −SE)	11,850	
Inventory January 1, 2004 (−A)		20,000
Purchases (−E, +SE)		205,000
Operating expenses (−E, +SE)		25,500
Retained earnings (+SE)		26,350

The $1,250 income reported by the branch does not include any margin on goods received from the home office. This element of branch profit is recorded by the home office when it adjusts its loading account at year end. Branch income for the year on a cost basis to the business entity is $11,850, an amount that appears in the separate home office income statement for 2004.

Comparative balance sheets and income statements for Dasher Corporation's home office, its Dot branch, and its home office and branch combined appear in Exhibit 10-8. These statements are presented to highlight differences between separate home office and branch statements and combined statements for the enterprise. Note that the cost of sales on the home office books is equal to 80% of home office sales ($160,000 ÷ $200,000), and that combined cost of sales is equal to 80% of combined sales ($225,400 ÷ $281,750), reflecting the companywide policy of setting sales prices at 25% above cost. This relationship does not exist between branch cost of sales and sales

EXHIBIT 10-8

Separate Home Office and Branch and Combined Financial Statements

DASHER CORPORATION
COMPARATIVE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED DECEMBER 31, 2004

	Home Office	Dot Branch	Combined
Balance Sheets—December 31, 2004			
Assets			
Cash	$ 45,000	$12,750	$ 57,750
Accounts receivable—net	47,000	25,000	72,000
Inventories December 31, 2004	25,000	10,000	34,000
Dot branch	41,750	—	—
Plant assets—net	62,000	—	62,000
Total assets	$220,750	$47,750	$225,750
Liabilities and Equity			
Accounts payable	$ 9,000	$ 4,000	13,000
Other liabilities	10,000	2,000	12,000
Loading—branch inventory	1,000	—	—
Home office	—	41,750	—
Capital stock	150,000	—	150,000
Retained earnings	50,750	—	50,750
Total liabilities and equity	$220,750	$47,750	$225,750
Income Statements for 2004			
Sales	$200,000	$81,750	$281,750
Dot branch income	11,850	—	—
	211,850	81,750	281,750
Cost of sales	(160,000)	(76,000)	(225,400)
Operating expenses	(25,500)	(4,500)	(30,000)
Net income	$ 26,350	$ 1,250	$ 26,350

because branch shipments from the home office are recorded on the branch books at selling prices. All the items in the comparative statements have been covered individually, so we do not provide additional discussion.

SUMMARY

Enterprises frequently conduct activities at diverse business locations by means of branches and sales agencies. Separate accounting systems are not required for sales agency operations, but the accounting system of the business entity may be expanded in order to provide information about agency operations for purposes of planning, control, and evaluation. By contrast, home office and branch operations are accounted for through separate home office and branch accounting systems. The home office accounts for its investment in the net assets of its branches by means of "branch" accounts that are reciprocal to "home office" accounts on the books of the branches. Reciprocal home office and branch accounts are eliminated when home office and branch financial statements are combined into financial statements for the enterprise.

Transactions between a home office and its branches require journal entries that are unique to home office and branch accounting systems. Entries to account for other transactions are recorded in the usual manner. Merchandise shipments to branches and related transfer pricing strategies require special attention in order to avoid recognition of unrealized profits. Other areas of concern in home office and branch accounting include expense allocation, account reconciliation, and year-end accounting procedures. Separate home office and branch financial statements are used only for internal purposes. Financial statements for the enterprise as a whole are developed by combining the separate statements of the home office and its branches.

ASSIGNMENT MATERIAL

W 10-1 How does branch accounting differ from accounting for sales agencies?

W 10-2 Should a company maintain separate accounts for subsidiary records in order to identify the revenues and expenses associated with operations of each of its sale agencies? Discuss.

W 10-3 When are expenses paid by a sales agency recorded on the books of the central accounting unit of the enterprise?

W 10-4 Alternative account titles for the branch account on the books of the home office include "Tampa branch," "investment in Tampa branch," and "Tampa branch—current." Describe the nature and function of this account.

W 10-5 Explain the nature of the "shipments to branch" account on the home office books and the "shipments from home office" account on the branch books.

W 10-6 The accounts "shipments to branch" and "shipments from home office" may or may not have reciprocal balances. When should the account balances be reciprocal and when would they be different?

W 10-7 What advantage can you see for a firm to set transfer prices to its branches at normal sales prices?

W 10-8 Telestar Company ships merchandise to its Denver branch at 30% above cost. If the Denver branch has a beginning inventory of $39,000 and records shipments from home office of $780,000, what should be the year-end balance of the "loading" account on the books of the home office before adjusting entries? What should the balance be after adjusting entries, assuming that the ending inventory of the Denver branch is $58,500?

W 10-9 Topper Corporation's home office shipped merchandise to its Pine branch at a cost of $20,000 and also paid $1,000 shipping costs. Pine branch shipped this merchandise to Spruce branch a few days later and paid $500 shipping costs. If Topper's home office had shipped the merchandise directly to Spruce branch, the shipping cost would have been $900. Prepare journal entries on the books of the home office to record these transactions.

W 10-10 Does the allocation of home office expenses to branch operations affect the income of an enterprise? If not, what is the advantage of such allocation? Discuss.

W 10-11 Does the income of a home office plus the income of its branches equal the combined net income of the enterprise? Explain.

W 10-12 In preparing working papers to combine the adjusted trial balances of a home office and its branches, what is the advantage of combining the home office adjusted trial balance before recording the entry for branch profit or loss for the period?

W 10-13 Arnimal Corporation is located in Dallas, Texas, and its branch is located in Fort Worth, Texas. Transactions and events affecting the Fort Worth branch during 2009 are summarized as follows:

1. Received shipments from the home office, billed at $10,000 home office cost.
2. Purchased merchandise from Alta Wholesalers, $4,000.
3. Sold merchandise to customers on account in the amount of $20,000.
4. Paid operating expenses, $3,000.
5. Returned 20% of the merchandise received in item 1 to the home office.
6. Paid $2,000 for advertising, 50% of which is a home office expense.
7. Received a debit memo from the home office for the following expenses allocated by the home office to the branch: depreciation expense, $500; other operating expenses, $200.
8. Remitted $5,000 to the home office.
9. Collected $14,000 on accounts receivable.
10. Collected a note for the home office in the amount of $3,000 plus $150 interest.
11. Received notice that the home office had collected $1,000 from a branch customer (assume that it was a customer included in item 3).
12. Closed the nominal accounts to the revenue and expense summary account. Branch beginning and ending inventories were $1,900 and $2,000, respectively.
13. Closed the balance of the revenue and expense summary account.

REQUIRED: Prepare journal entries to reflect the transactions and events in the accounts of the branch and the home office.

W 10-14 Yak Corporation's home office ships merchandise to its Vinton branch at a billing price of 120% of cost. During 2004, the home office makes the following entry:

Vinton branch (+A)	60,000	
Shipments to Vinton branch (−E, +SE)		60,000

At year-end 2004, $12,000 of this merchandise remains in the Vinton branch inventory.

REQUIRED: Prepare the entry or entries necessary on Yak's home office books at year-end 2004 to adjust the branch inventory and branch profit to a cost basis.

W 10-15 Medina Corporation has operations in two locations—a main plant and a branch plant. The branch receives most of its inventory from the main plant, but it also purchases some items from local suppliers. The main plant transfers merchandise to the branch at 120% of cost, and this merchandise is inventoried by the branch at billed prices. The following data for the year 2003 are available:

	Main Plant Books	Branch Plant Books
Inventory January 1	$ 126,000	$ 24,000
Purchases	1,400,000	48,000
Shipments to branch	300,000	
Shipments from home office		360,000
Inventory December 31	120,000	26,000

One-fourth of the beginning branch inventory was acquired from outside suppliers. The branch ending inventory includes $5,000 from outside suppliers.

REQUIRED: Determine the cost of goods sold amount to be included in the published income statement of Medina Corporation for the year 2003.

W 10-16 Liberty Company operates two stores—the home office store and the Maywood branch. On December 31, 2003, the Maywood branch account on the home office books has a balance of $340,000. On this same date, the Maywood branch books show a home office account balance of $319,000.

Both stores use a standard 120% markup on cost. However, Liberty's home office ships merchandise to the Maywood branch at cost. Maywood's ending inventory includes $20,000 of merchandise received from the home office.

Maywood remitted $15,000 to the home office on December 30, 2003. However, the check was not delivered until January 5, 2004. The home office allocated $5,000 general expenses to the Maywood branch, but this expense allocation had not been recorded by the Maywood branch at year end.

Maywood paid $2,000 for advertising "after Christmas" sales that were to be allocated equally between the two stores. The home office has not recorded its share of this expense.

REQUIRED: Prepare a reconciliation of the home office and branch accounts.

W 10-17 Diazo Corporation operates a main store at its home office and a branch store in another state. The branch purchases most of its merchandise from the home office at 10% above home office cost. All merchandise acquired from other suppliers is accounted for by the branch at original cost. At September 30, 2007, the records of the branch indicated the following:

September sales	$70,000	
Inventory September 1	17,600*	(50% from outside suppliers)
Shipments from home office	27,500	(at billed prices)
Purchases from outsiders	12,000	
Expenses	20,000	
Inventory September 30	15,000*	($4,000 from outside suppliers)

*Merchandise acquired from the home office is inventoried at billed prices.

REQUIRED:

1. Prepare all necessary adjusting and closing entries on the branch books at September 30, 2007.
2. Prepare all necessary adjusting entries on the home office books at September 30, 2007, to adjust the home office records for the branch operations for September.

W 10-18 Eastland Corporation has two branches to which merchandise is transferred at cost plus 20%, plus freight charges. On November 30, 2006, Eastland shipped merchandise that cost $5,500 to its Charlotte branch, and the $200 shipping charge was paid by Eastland. On December 15, 2006, the Raleigh branch encountered an inventory shortage, and the Charlotte branch shipped the merchandise to the Raleigh branch at a freight cost of $160 paid by the Charlotte branch. Shipping charges from the home office to the Raleigh branch would have been $175.

1. Eastland will record the $5,500 shipment to the Charlotte branch, together with the $200 shipping charge, in a journal entry that includes the following:
   a. Shipments from home office, $6,600
   b. Shipments to Charlotte branch, $5,700
   c. Unrealized profit—branch inventory, $1,100
   d. Investment in Charlotte branch, $5,700
2. The Charlotte branch should record the transfer of merchandise to the Raleigh branch by either a debit or a credit entry that includes the following:
   a. Shipments from home office, $5,500
   b. Raleigh branch, $6,975
   c. Home office, $6,960
   d. Inventory, $5,660
3. If the merchandise is unsold at year end, the Raleigh branch will inventory the merchandise at:
   a. $6,000
   b. $6,975
   c. $6,760
   d. $6,775

4. If the merchandise is unsold at year end, Eastland Corporation will include it as an asset in its annual report to stockholders in the amount of:
   a. $5,500
   b. $5,660
   c. $5,675
   d. $5,875

W 10-19 On December 3, 2003, the home office of Bristol Office Supply Company recorded a shipment of merchandise to its South Fork branch as follows:

South Fork branch (+A)	30,000	
Shipments to South Fork branch (−E, +SE)		25,000
Unrealized profit in South Fork branch inventory (−A)		4,000
Cash (for freight charges) (−A)		1,000

The South Fork branch sells 40% of the merchandise to outside entities during the rest of December 2003. The books of the home office and Bristol branches are closed on December 31 of each year.

On January 5, 2004, the South Fork branch transfers half of the original shipment to the Sandy branch, and the South Fork branch pays $500 freight on the shipment.

REQUIRED:

1. Prepare the journal entry on the books of the South Fork branch to record receipt of the shipment from the home office on December 3, 2003.
2. At what amounts should the 60% of the merchandise remaining unsold at December 31, 2003, be included in (a) the inventory of the South Fork branch at December 31, 2003, and (b) the published balance sheet of Bristol Office Supply Company at December 31, 2003?
3. Prepare journal entries on the books of (a) the home office, (b) the South Fork branch, and (c) the Sandy branch for the January 3, 2004, transfer, assuming that the freight cost of the merchandise from the home office to the Sandy branch would have been $600.

W 10-20 Summarized data taken from the trial balances of Manning Corporation's home office and branch at December 31, 2005, are as follows:

	Home Office	Branch
Other assets	$340,000	$ 61,200
Branch	50,000	—
Inventory, January 1	10,000	4,800
Purchases	80,000	—
Shipments from home office	—	24,000
Expenses	20,000	10,000
	$500,000	$100,000
Liabilities	$ 25,200	$ 10,000
Loading in beginning branch inventory	800	—
Home office	—	50,000
Capital stock	200,000	—
Retained earnings, January 1	130,000	—
Sales	120,000	40,000
Shipments to branch	24,000	—
	$500,000	$100,000

The home office ships merchandise to its branch at 120% of home office cost. At December 31, 2005, the home office inventory at cost was $15,000 and the branch inventory at transfer prices was $6,000.

REQUIRED

1. Prepare a schedule of cost of sales.
2. Prepare comparative home office, branch, and combined income statements for Manning Corporation for the year ended December 31, 2005.

W 10-21 Naylor Corporation sells merchandise to independent retailers as well as to its own branch retail outlet for resale to customers. Sales to the branch outlet are made at 130% of Naylor's cost. Selected items from the trial balances of Naylor's home office and the branch outlet are as follows:

	Home Office Books	Branch Books
Debits		
Inventory January 1	$120,000	$ 97,500
Purchases	630,000	—
Shipments from Naylor	—	312,000
Expenses	200,000	120,000
Credits		
Shipments to branch	240,000	—
Sales	830,000	540,000
Unrealized profit in branch inventory	94,500	—

The December 31, 2003, home office inventory is $90,000. Branch ending inventory at the transfer price is $39,000.

REQUIRED

1. Prepare a closing entry for the branch and adjusting and closing entries for the home office.
2. Prepare a combined income statement for Naylor Corporation using a cost of goods sold summary caption.

W 10-22 Home office and branch accounts for Michael Company showing activities for the month of July 2007 follow:

HOME OFFICE ACCOUNT (BRANCH BOOKS)

Cash remitted to home office	$42,000	June 30, 2007, balance	$15,000
Merchandise returned to home office	3,000	Shipment from home office (cost)	32,000
Machine charged to home office	5,000	Expenses allocated from home office	14,500
		Home office note collected with $100 interest	2,100

INVESTMENT IN BRANCH ACCOUNT (HOME OFFICE BOOKS)

June 30, 2007, balance	$15,000	Cash received from branch	$36,000
Shipments to branch (cost)	37,000	Machine purchased by branch	5,000
Expenses allowed to branch	15,400		
Note collected by branch	2,000		

Except for a branch error in recording expense allocations and a home office error in not recording interest, all differences in the accounts are due to timing differences in recording reciprocal information.

REQUIRED

1. Prepare a reconciliation of the home office account (branch books) and the investment in branch account (home office books) as of July 31, 2007.
2. Prepare a single correcting journal entry to bring the home office account on the branch books up to date on July 31, 2007.
3. Prepare a single correcting journal entry to bring the investment in branch account on the home office books up to date on July 31, 2007.

W 10-23 Summary adjusted trial balances for the home office and branch of Tanker Corporation at December 31, 2003, are as follows:

	Home Office	Branch
Debits		
Other assets	$ 530,000	$165,000
Inventories January 1, 2003	50,000	45,000
Branch	200,000	—
Purchases	500,000	—
Shipments from home office	—	240,000
Expenses	120,000	50,000
Dividends	100,000	—
Total debits	$1,500,000	$500,000
Credits		
Other liabilities	$ 90,000	$ 25,000
Capital stock	500,000	—
Retained earnings	100,000	—
Home office	—	175,000
Unrealized profit in branch inventory	10,000	—
Sales	537,500	300,000
Shipments to branch	200,000	—
Branch profit	62,500	—
Total credits	$1,500,000	$500,000

ADDITIONAL INFORMATION

1. The home office ships merchandise to its branch at 120% of home office cost.
2. Inventories at December 31, 2003, are $70,000 for the home office and $60,000 for the branch. The branch inventory is at transfer prices.

REQUIRED

1. Journalize the closing entries for the branch at December 31, 2003.
2. Journalize the closing entries for the home office at December 31, 2003.
3. Prepare a combined balance sheet for Tanker Corporation at December 31, 2003.
4. Prepare a combined income statement for Tanker Corporation for the year ended December 31, 2003.

W 10-24 Comparative data for Dalton Corporation's home office and its branches are summarized as follows:

	Home Office	Salina Branch	Wichita Branch
Cash	$ 67,000	$ 43,000	$ 46,000
Inventory January 1	83,000	22,000	33,000
Other current assets	50,000	20,000	25,000
Salina branch	90,000	—	—
Wichita branch	60,000	—	—
Shipments from home office	—	55,000	66,000
Purchases	150,000	—	—
Expenses	100,000	40,000	30,000
	$600,000	$180,000	$200,000
Current liabilities	$ 34,000	$ 10,000	$ 20,000
Capital stock	200,000	—	—
Retained earnings	40,000	—	—
Home office	—	90,000	60,000
Loading—Salina branch	7,000	—	—
Loading—Wichita branch	9,000	—	—
Sales	200,000	80,000	120,000
Shipments to Salina branch	50,000	—	—
Shipments to Wichita branch	60,000	—	—
	$600,000	$180,000	$200,000

Ending inventories are $40,000 for the home office, $27,500 for the Salina branch, and $28,600 for the Wichita branch.

REQUIRED: Prepare an income statement for the home office of Dalton Corporation for the year (*not* a combined income statement).

W 10-25 Isaac Corporation retails merchandise through its home office store and through a branch store in a distant city. Separate ledgers are maintained by the home office and the branch. The branch store purchases merchandise from the home office (at 120% of home office cost) as well as from outside suppliers. Selected information from the December 31, 2007, trial balances of the home office and branch is as follows:

	Home Office	Branch
Sales	$120,000	$60,000
Shipments to branch	16,000	—
Purchases	70,000	11,000
Inventory, January 1, 2007	40,000	30,000
Shipments from home office	—	19,200
Expenses	28,000	12,000
Unrealized profit in branch inventory	7,200	—

ADDITIONAL INFORMATION

1. The entire difference between the shipment accounts is due to the practice of billing the branch at cost plus 20%.
2. December 31, 2007, inventories are $40,000 and $20,000 for the home office and the branch, respectively. (*Note:* The branch purchased 16% of its ending inventory from outside suppliers.)
3. Branch beginning and ending inventories include merchandise acquired from the home office as well as from outside suppliers. Merchandise acquired from the home office is inventoried at 120% of home office cost.

REQUIRED

1. Prepare a single closing journal entry for the branch books at December 21, 2007.
2. Prepare journal entries to adjust the home office books for branch activities for 2007. (*Hint:* Two entries are required.)
3. Prepare a single closing journal entry for the home office books at December 31, 2007.
4. Prepare a combined income statement for Isaac Corporation for the year ended December 31, 2007.

W 10-26 Fast-Stop has three all-night grocery stores located in western Virginia. Each store has a branch manager with authority to accept inventory items at home office cost plus 10% or to purchase from outside wholesalers, at his or her discretion.

Inventories at December 31, 2003, were as follows:

Home office	$110,900 cost
Dublin branch	26,400 transfer price
Radford branch	29,700 transfer price
Blacksburg branch	46,200 transfer price

Summary information for Fast-Stop and its branches at December 31, 2003, includes the following accounts and amounts.

	Home Office	Dublin Branch	Radford Branch	Blacksburg Branch
Cash	$ 42,000	$ 6,000	$ 44,000	$ 8,000
Inventories	60,900	$ 37,400	$ 33,000	18,700
Other current assets	45,100	26,600	40,000	53,300
Plant assets—net	200,000	—	—	—
Dublin branch	40,000	—	—	—
Radford branch	92,000	—	—	—
Blacksburg branch	50,000	—	—	—
Purchases	1,000,000	—	—	—
Shipments from home office	—	330,000	275,000	440,000
Expenses	20,000	50,000	48,000	80,000
	$1,550,000	$450,000	$440,000	$600,000
Liabilities	$ 46,900	$ —	—	—
Capital stock	400,000	—	—	—
Retained earnings	50,000	—	—	—

(Continued)

	Home Office	Dublin Branch	Radford Branch	Blacksburg Branch
Home office	—	40,000	92,000	50,000
Unrealized profit in branch inventories	103,100	—	—	—
Shipments to Dublin branch	300,000	—	—	—
Shipments to Radford branch	250,000	—	—	—
Shipments to Blacksburg branch	400,000	—	—	—
Sales	—	410,000	348,000	550,000
	$1,550,000	$450,000	$440,000	$600,000

REQUIRED

1. Prepare adjusting and closing entries for the home office of Fast-Stop.
2. Prepare a combined income statement for Fast-Stop for 2003.
3. Prepare a combined balance sheet for Fast-Stop at December 31, 2003.

W 10-27 Separate financial statements of Tiller Company's home office and branch for 2003 are summarized as follows:

	Home Office	Branch
Income Statements for the Year Ended December 31, 2003		
Sales	$1,650,000	$800,000
Income from branch	218,000	—
Total revenue	1,868,000	800,000
Less Cost of goods sold		
Beginning inventory	$ 250,000	$104,000*
Purchases	800,000	120,000
Shipments to branch	(200,000)	—
Shipments from home office	—	240,000
Goods available for sale	850,000	464,000
Inventory, December 31	(200,000)	(114,000)†
Cost of goods sold	650,000	350,000
Gross profit	1,218,000	450,000
Expenses	(700,000)	(270,000)
Net income	$ 518,000	$180,000
Retained Earnings Statement for the Year Ended December 31, 2003		
Retained earnings—beginning	$ 132,000	—
Home office—preclosing balance	—	$250,000
Add: Net income	518,000	180,000
Less: Dividends	(400,000)	—
Retained earnings/home office balance—ending	$ 250,000	$430,000
Balance Sheet at December 31, 2003		
Cash	$ 64,000	$ 56,000
Accounts receivable—net	320,000	180,000
Inventories	200,000	114,000
Unrealized profit in branch inventory	(14,000)	—
Plant assets—net	800,000	200,000
Branch	430,000	—
Total assets	$1,800,000	$550,000
Accounts payable	$ 400,000	$ 80,000
Other liabilities	150,000	40,000
Capital stock	1,000,000	—
Retained earnings	250,000	—
Home office	—	430,000
Total equities	$1,800,000	$550,000

*Includes $72,000 acquired from home office at 120% of home office cost plus $32,000 acquired through purchases.

†Includes $84,000 acquired from home office at 120% of home office cost plus $30,000 acquired through purchases.

REQUIRED: Prepare working papers to combine the operations of Tiller's home office and branch using the cost of goods sold summary approach with supporting schedules.

W 10-28 The after-closing balances of Carler Corporation's home office and its branch at January 1, 2003, were as follows:

	Home Office	Branch
Cash	$ 7,000	$ 2,000
Accounts receivable—net	10,000	3,500
Inventory	15,000	5,500
Plant assets—net	45,000	20,000
Branch	28,000	—
Total assets	$105,000	$31,000
Accounts payable	$ 4,500	$ 2,500
Other liabilities	3,000	500
Unrealized profit—branch inventory	500	—
Home office	—	28,000
Capital stock	80,000	—
Retained earnings	17,000	—
Total equities	$105,000	$31,000

A summary of the operations of the home office and branch for 2003 follows:

1. Home office sales: $100,000, including $33,000 to the branch. A standard 10% markup on cost applies to all sales to the branch. Branch sales to its customers totaled $50,000.
2. Purchases from outside entities: home office, $50,000; branch, $7,000.
3. Collections from sales: home office, $98,000 (including $30,000 from branch); branch collections, $51,000.
4. Payments on account: home office, $51,500; branch, $4,000.
5. Operating expenses paid: home office, $20,000; branch, $6,000.
6. Depreciation on plant assets: home office, $4,000; branch, $1,000.
7. Home office operating expenses allocated to the branch, $2,000.
8. At December 31, 2003, the home office inventory is $11,000 and the branch inventory is $6,000, of which $1,050 was acquired from outside suppliers.

REQUIRED

1. Prepare journal entries to reflect the foregoing information in the accounts of the home office and the branch.
2. Post the journal entries to ledge accounts.
3. Prepare trial balances for the home office and branch.
4. Construct working papers to combine the activities of the home office and branch into financial statements.
5. Prepare closing entries for the branch and adjusting and closing entries for the home office.

W 10-29 Anselmo Company operates retail hobby shops from the main store and a branch store. Merchandise is shipped from the main store to the branch and billed to the branch at an arbitrary 10% markup. Trial balances of the main store and branch as of December 31, 2006, are as follows:

	Main Store	Branch
Debits		
Cash	$ 1,500	$ 1,000
Accounts receivable—net	200	—
Inventory December 31, 2005	3,500	2,500
Building—net	60,000	18,000
Equipment—net	30,000	12,000
Branch store	32,300	—
Purchases	240,000	11,000
Shipments from home office	—	99,000
Other expenses	15,000	7,000
	$382,500	$150,500

(Continued)

	Main Store	Branch
Credits		
Accounts payable	$ 15,000	$ 500
Unrealized inventory profit	9,200	—
Main store	—	30,000
Capital stock	50,000	—
Retained earnings	16,000	—
Sales	200,000	120,000
Shipments to branch	90,000	—
Profit from branch	2,300	—
	$382,500	$150,500

Inventories on hand at December 31, 2006, at the main store and branch are $3,000 and $1,800, respectively. The December 31, 2005, branch inventory includes merchandise purchased from outsiders of $300, and the December 31, 2006, branch inventory includes $150 of merchandise purchased from outsiders.

REQUIRED

1. Prepare a schedule of cost of goods sold.
2. Prepare working papers to combine the main store and the branch accounts for the year 2006.

W 10-30 Trial balances for Bear Corporation and its two branches at December 31, 2006, are as follows:

	Home Office	Branch A	Branch B
Debits			
Cash	$ 15,000	$ 1,300	$ 6,400
Inventory January 1, 2006	34,000	5,500	8,800
Other assets	300,000	150,000	125,000
Branch A	100,000	—	—
Branch B	81,000	—	—
Purchases	350,000	—	—
Shipments from home office	—	68,200	41,800
Other expenses	120,000	35,000	38,000
	$1,000,000	$260,000	$220,000
Credits			
Liabilities	$ 60,000	$ 16,000	$ 25,000
Home office	—	94,000	75,000
Sales	500,000	150,000	120,000
Shipments to Branch A	73,700	—	—
Shipments to Branch B	46,200	—	—
Loading in December 31, 2005, inventories	1,300	—	—
Capital stock	300,000	—	—
Retained earnings	18,800	—	—
	$1,000,000	$260,000	$220,000

ADDITIONAL INFORMATION

1. Inventories on hand, excluding all goods in transit on December 31, 2006, are as follows:

Home office (cost)	$31,000
Branch A (billing prices)	7,260
Branch B (billing prices)	8,250

2. All differences between home office and branch accounts are due to cash in transit and merchandise in transit. (All cash in transit is from branch to home office.)
3. Bear consistently uses a standard markup on all goods shipped to its branches.

REQUIRED: Prepare working papers to combine the operations of Bear Corporation's home office and its branches at and for the year ended December 31, 2006.

W 10-31 Selected information from the trial balances for the home office and the branch of Certy Company at December 31, 2008, is provided. These trial balances cover the period from December 1 to December 31, 2008. The branch acquires some of its merchandise from the home office (the branch is billed at 20% above the cost to the home office) and some of it from outsiders. Differences in the shipments accounts result entirely from the home office policy of billing the branch at 20% above cost.

	Home Office	Branch
Sales	$60,000	$30,000
Shipments to branch	8,000	—
Shipments to branch—loading	3,600	—
Purchases (outsiders)	35,000	5,500
Shipments from home office	—	9,600
Merchandise inventory December 1, 2008	20,000	15,000
Expenses	14,000	6,000

ADDITIONAL INFORMATION

Merchandise inventory, December 31, 2008—home office, $20,000; branch, $10,000.

REQUIRED

1. How much of the December 1 inventory of the branch represents purchases from outsiders and how much represents goods acquired from the home office?
2. The ending inventory of the branch consists of merchandise purchased from the home office of $8,400 and from outsiders of $1,600. What entry is necessary on the home office books to adjust the "shipments to branch—loading" account at December 31, 2008?
3. Prepare the income statement to be submitted by the branch to the home office for the month of December 2008.
4. Prepare the income statement for the home office for December 2008, showing separately the results of home office and branch operations (*not* a combined or consolidated statement).

W 10-32 Eastman Corporation has three distribution centers—the main office, Buffalo branch, and Carson branch. All merchandise is purchased through the main office and billed to the branches at 20% above cost. Trial balances for the three locations at December 31, 2005, are as follows:

	Main Office	Buffalo Branch	Carson Branch
Cash	$ 26,000	$ 14,500	$ 25,000
Inventory December 31, 2004	82,000	12,000	15,600
Shipments from main office	—	48,000	55,200
Buffalo branch	62,000	—	—
Carson branch	72,000	—	—
Other assets	300,000	50,000	60,000
Purchases	220,000	—	—
Expenses	38,000	9,500	10,200
	$800,000	$134,000	$166,000
Liabilities	$ 95,400	$ 20,000	$ 27,800
Shipments to Buffalo branch	54,000	—	—
Shipments to Carson branch	66,000	—	—
Sales	160,000	60,000	80,000
Unrealized profit in beginning branch inventories	4,600	—	—
Capital stock	350,000	—	—
Retained earnings	70,000	—	—
Main office	—	54,000	58,200
	$800,000	$134,000	$166,000

ADDITIONAL INFORMATION

1. At December 31, 2005, the Buffalo branch deposited $2,000 to the account of the main office.
2. On December 30, 2005, the main office sent a $3,000 check to the Carson branch to replenish Carson's working capital.
3. Inventories at December 31, 2005, are as follows:

Home office (cost)	$86,000
Buffalo branch (billed prices)	8,400
Carson branch (billed prices)	7,200

These inventories do not include goods in transit.

REQUIRED

1. Prepare a reconciliation of the main office and branch accounts on December 31, 2005, before closing entries are made.
2. Calculate the separate and the combined inventories of the main office and the two branches on a cost basis at December 31, 2005.
3. Compute the combined income of Eastman Corporation for the year ended December 31, 2005.
4. Prepare a combined balance sheet for Eastman Corporation at December 31, 2005.

W 10-33 Control Products Corporation has two branches, A and B, to which merchandise is billed at 20% above cost. Unadjusted trial balances of the three entities at December 31, 2007, are summarized as follows:

	Home Office	Branch A	Branch B
Cash	$ 33,000	$ 22,000	$ 13,000
Inventory	80,000	18,000	24,000
Other current assets	50,000	25,000	23,000
Branch A	45,000	—	—
Branch B	42,000	—	—
Shipments from home office	—	60,000	36,000
Purchases	160,000	—	—
Expenses	90,000	25,000	20,000
	$500,000	$150,000	$116,000
Current liabilities	$ 40,000	$ 15,000	$ 11,000
Capital stock	100,000	—	—
Retained earnings	50,000	—	—
Home office	—	45,000	30,000
Loading—Branch A	13,000	—	—
Loading—Branch B	12,000	—	—
Sales	195,000	90,000	75,000
Shipments to Branch A	50,000	—	—
Shipments to Branch B	40,000	—	—
	$500,000	$150,000	$116,000

ADDITIONAL INFORMATION

1. Merchandise that cost $10,000 was in transit from the home office to Branch B at December 31, 2007.
2. Physical inventories at December 31, 2007, were as follows:

Home office	$70,000 at cost
Branch A	21,000 at billed prices
Branch B	15,000 at billed prices (does not include merchandise in transit)

REQUIRED

1. Prepare working papers to combine home office and branch accounts for the year ended December 31, 2007.
2. Prepare a reconciliation of the branch and home office accounts, starting with the balances given in the unadjusted trial balances and reconciling to the correct balances at December 31, 2007, after all adjusting and closing entries have been made.

W 10-34 Trial balances for Homer Corporation and its two branches at December 31, 2004, are as follows:

	Homer Home Office	Hampton Branch	Norfolk Branch
Debits			
Cash	$ 18,000	$ 5,000	$ 15,000
Receivables	30,000	12,000	26,000
Inventories January 1, 2004	36,000	7,200	5,400
Other assets	200,000	42,800	47,600
Hampton branch	50,000	—	—
Norfolk branch	68,000	—	—
Shipments from home office	—	30,000	27,000

(Continued)

	Homer Home Office	Hampton Branch	Norfolk Branch
Debits (cont.)			
Purchases	120,000	—	—
Expenses	78,000	35,000	40,000
	$600,000	$132,000	$161,000
Credits			
Accounts payable	$ 40,000	$ 10,000	$ 30,000
Capital stock	200,000	—	—
Retained earnings	41,900	—	—
Home office	—	42,000	61,000
Sales	250,000	80,000	70,000
Shipments to Hampton branch	36,000	—	—
Shipments to Norfolk branch	30,000	—	—
Loading—branch inventories	2,100	—	—
	$600,000	$132,000	$161,000

ADDITIONAL INFORMATION

1. All shipments are billed at 120% of cost.
2. Ending inventories are $32,000, $8,400, and $4,800 for the home office, the Hampton branch, and the Norfolk branch, respectively. Ending inventories of the branches include the standard 20% loading factor but exclude goods in transit.
3. Goods in transit at billing prices on December 31, 2004, are $6,000 to the Hampton branch and $3,000 to the Norfolk branch. Cash in transit from home office to the Hampton branch for operating expenses at December 31, 2004, is $2,000. Cash in transit from the Norfolk branch to home office amounts to $4,000.
4. "Loading—branch inventories" represents unrealized profit in beginning inventories of the Hampton and Norfolk branches.

REQUIRED

1. Prepare all journal entries necessary to adjust and close the books of the Hampton branch.
2. Prepare all journal entries necessary to adjust and close the books of the Norfolk branch.
3. Prepare all journal entries necessary to adjust and close the books of the home office.
4. Prepare an income statement for 2004 and a balance sheet on December 31, 2004, for Homer Corporation in a form that *reports revenue and expense details* rather than branch profit and loss.

W 10-35 Comparative trial balances of the home office and the two branches of Toller Corporation at December 31, 2003, were as follows:

	Home Office	Roca Branch	Lane Branch
Debits			
Cash	$ 5,000	$ 15,000	$ 22,000
Accounts receivable—net	80,000	30,000	40,000
Inventories	150,000	60,000	48,000
Roca branch	170,000	—	—
Lane branch	165,000	—	—
Plant assets (net)	730,000	250,000	200,000
Purchases	900,000	—	—
Shipments from home office	—	300,000	240,000
Expenses	300,000	75,000	50,000
Total debits	$2,500,000	$730,000	$600,000
Credits			
Accounts payable	$ 100,000	$ 45,000	$ 30,000
Other liabilities	80,000	15,000	5,000
Loading in branch inventories	108,000	—	—
Capital stock, $10 par	500,000	—	—

(Continued)

	Home Office	Roca Branch	Lane Branch
Credits (cont.)			
Retained earnings	262,000	—	—
Home office	—	170,000	165,000
Sales	1,000,000	500,000	400,000
Shipments to branches	450,000	—	—
Total credits	$2,500,000	$730,000	$600,000

ADDITIONAL INFORMATION

Home office and branch inventories at December 31, 2003, were as follows:

Home office at cost	$120,000
Roca branch at billing prices	72,000
Lane branch at billing prices	96,000

All branch shipments are billed at 120% of home office cost.

REQUIRED

1. Compute the beginning inventory of Toller Corporation dated December 31, 2002.
2. Compute the ending inventory of Toller Corporation at December 31, 2003.
3. Prepare journal entries to close the books of the Roca branch and the Lane branch at December 31, 2003.
4. Prepare journal entries to adjust and close the books of the home office at December 31, 2003.
5. Prepare an income statement for the home office of Toller Corporation for the year ended December 31, 2003 (*not* a combined income statement).
6. Prepare a combined balance sheet for Toller Corporation at December 31, 2003.