Treatment of Foreign Exchange in Branch-office Accounting

Cecil S. Ashdown

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By Cecil S. Ashdown

In recent years, accountants have been confronted with many old problems in new forms, connected with business abroad. On referring to text-books and periodicals devoted to accounting which have appeared from time to time it will be found that, generally speaking, these touch lightly on our present-day complexities. All appreciate the difficulties which an accountant has to face in preparing a financial statement which involves profit or loss resulting from foreign trading and in the proper presentation and preparation of statements of profit and loss for taxation purposes.

Prior to the commencement of the world war, our interests in foreign business as a nation were relatively minor in character and largely confined to the disposal of our surplus foodstuffs and raw materials, and limited to a few pioneers in the foreign field who sought new outlets for specialities. Interest in foreign trade and the development of our trade relations is now, however, widely distributed throughout the country, and the accountant must be prepared to advise his clients as to the preparation of the accounts of their foreign business. Prior to the war, in this country, there were few accountants and, probably, fewer business men who could readily quote the exchange rates in the various countries; in fact, it was hard to find quotations in many of our leading papers. Today, foreign exchange rates are featured, and all of us are more or less conversant with the current rates prevalent in the principal foreign countries. I fully recognize that it is within the experience of many that the currencies of some of our neighbors to the south were depreciated to an extraordinary degree; but the volume of business conducted with these countries was small, consequently of little interest to the great majority of accountants. Today, however, the subject before us is one well worthy of careful consideration by all accountants whether they are concerned with foreign undertakings or not.

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I shall not attempt to discuss here the causes underlying exchange fluctuations and the theories of economics involved, but I wish to bring to attention some of the difficulties which arise in attempting to translate the effect of these fluctuations in the accounts of a business which, today, is trading abroad. In the space at my disposal, it is impossible to deal with more than one phase of the many different kinds of foreign commercial branch activities, and I shall, therefore, confine my remarks to a consideration of the accounts of a manufacturer in the United States who markets his product at home and also has branch houses abroad.

Branch Records

In the case of a foreign branch established in a country where the currency was on a gold basis, up to comparatively recent times, it was considered sufficient for all practical purposes to treat the rates of exchange as stable or fixed. A par rate or a figure near that point, which facilitated conversion of transactions from one currency to another, was adopted for the purpose of converting monthly transactions; any entry necessary to bring to current rates, being of relatively minor significance, was treated as a profit or loss debit or credit, usually on the home office books.

Since the termination of the world war, exchange rates have been fluctuating violently, particularly in those countries directly concerned in the war, so that at the present time, except in a few instances, all sense of stability in exchange rates has disappeared. As an illustration, the Italian lire which was worth at par 19.30 cents has touched a low point of 3.50 cents and is today about 4.45 cents or a depreciation of 76% from par, this in turn being a reaction from a recent high point of 5.30 cents. Obviously under these conditions the conversion of transactions at a fixed rate is misleading and entirely unsatisfactory in making a presentation of the results of a foreign-branch business.

From what I can learn some concerns today are still adhering to the normal or pre-war basis of conversion and in some instances presenting their consolidated profit-and-loss account on these lines. In other cases a new fixed rate has been established. Clearly when there is a substantial percentage of reduction from par, which is fluctuating from month to month, the sales and expenses when converted at these rates are both overstated and mean little, with the result that the management of the business concerned is apt to believe the volume of the foreign business and amount of expense is much larger than is really the case, and thus the management gets a distorted viewpoint of the foreign business, unless it confines attention to the accounts in local currency.

It is essential that the accountant keep three distinct points clearly in mind:

FIRST—The home-office records must properly set forth the investment in the foreign branch, and only such profit or loss on exchange as affects this investment should be taken up on the home-office books.

SECOND—The branch-office records must correctly set forth its individual financial position from a local point of view and only the exchange adjustments which affect the branch profit-or-loss account must be taken up on the branch books.

THIRD—Both the home-office and branch balance-sheets and profit-and-loss accounts must be so consolidated, that the combined financial statements reflect the true position from a consolidated standpoint.

The accounts to be opened and exchange entries to be made in the books of the local branch or local incorporated subsidiary company will depend necessarily upon the terms of the contract between the branch and the parent company, expressed or implied, which governs the conditions of purchase of goods from the home-office.

The branch-office must at all times show its true liability to the home-office for purchases, which should be considered separately from advances by home-office to finance the acquisition of local fixed assets. These advances are frequently represented by capital stock of the local company or some form of branch indebtedness other than current account. Local working capital often is provided by home-office through extension of credit for goods shipped to the branch for local sale or provided by the accumulation of local profits.

In practice it will be found usually that where the branch has been operating for a number of years its liability to the home-office on current account represents an accumulation of credits for purchases less remittances on account of goods purchased and local profits made. In these circumstances the true liability of the branch to home office cannot be stated without an adjustment of the profits or losses of the branch of previous years. Where remittances have been made in local currency, and there is no definite contract between home-office and the branch, the probability will be that the exchange loss debits in the home-office profit-and-loss account have been overstated; on the other hand where the branch has been making profits and has remitted more than its dollar liability to the home-office for goods purchased the charges to profit-and-loss for loss on exchange will have been overstated in the local books.

It is a common practice to pay the local branch manager a share of the local profits; for this reason, it is necessary that the local profits be stated correctly. Further, today, as many countries are basing taxation on profits, it is essential that the local profits be properly stated, so that proper returns may be made to the local tax authorities. We have no monopoly on tax questions in this country, each and every country has its own, and an accountant who has in his charge the accounts of a dozen branches, in as many different foreign countries, has his hands full of these problems, which he cannot expect to cope with satisfactorily without assistance from local counsel and local public accountants.

For the purpose of continuing the illustration we shall assume the case of a manufacturer in the United States who has formed a branch in a foreign country, which is either conducted as a branch in the name of the parent company or incorporated locally as a company with limited liability, with or without local participation in the capital stock and with all the rights and privileges of a company incorporated locally. The relationship between the home-office and branch is that between a manufacturer and a dealer—the former shipping goods to the latter which disposes of the product. This illustration may be amplified in that the branch may purchase additional goods locally or may manufacture part of the goods it sells. Sometimes a service department is also maintained. It is assumed that the manufacturer charges the branch for all goods shipped at the same prices he would charge an in-dependent dealer, i. e., a discount from domestic list price, payment to be made in dollars against goods delivered at destination. Under these provisions the exchange difference existing when title to the goods passes to the branch forms part of the cost of the goods and must be borne by the branch. It follows that the branch manager must so arrange his local selling price that it covers the loss on exchange; in other words, the consumer must pay for the additional cost to the branch incurred in remitting dollars.

The cost of goods purchased from the home-office will, therefore, be expressed in local currency at the rate of exchange ruling at the time the goods were acquired, which in the illustration used, is the date of delivery at the branch. If the goods were paid for immediately under the terms assumed in this illustration, there would be no further loss on exchange to consider so far as the cost of goods purchased is concerned.

In practice an interval of time almost invariably elapses between the due date and the date on which remittance is made by the branch. As the exchange improves or declines in this interval the profit or loss resulting would be a financial item and would be shown as such in the profit-and-loss account, as distinct from the exchange difference which is incurred when the goods are acquired.

Theoretically, each purchase from the manufacturer should be converted at the current rates at the date of purchase and the inventory should be debited with these amounts and the home-office current account credited. At the end of the month the cost of the goods sold should be credited to inventory and charged to cost of sales account at the values at which the goods have been carried in the inventory. The liability to home-office and the inventory should be restated at the end of the month at the current rate ruling on the last day of the month and the debits or credits resulting should be carried to profit-and-loss as a financial gain or loss on exchange. If the net result of these two entries to profit-and-loss is a credit it would be sound practice to credit a reserve rather than to increase the profit for the month.

In practice, where a large number of transactions is involved, it will be found extremely laborious to treat with each on strictly theoretical lines, and abbreviated methods must be adopted. To facilitate the reconciliation of the account between home-office and the branch it is desirable that the branch carry the current account in both dollars and local currency at the par or a fixed rate of exchange and the inventory of goods purchased from home-office on a similar basis. The current account and inventory are thus both understated where a depreciated currency is concerned.

Correctly to set forth the financial position of the local branch it becomes necessary therefore to carry two accounts for the inventory of goods purchased from home-office—the first being at the fixed rate, the second account representing the difference between value at current rate and the value at the fixed rate of exchange. The same principle is also applied in the case of the home-office account when the branch carries the account in both local currency at a fixed rate and the actual dollar liability to home-office, a second account being set up to cover the additional cost over the fixed rate to be incurred by the branch in remitting dollars.

In cases where the current account has been carried at a fixed or par rate of exchange, and the inventory has been valued on the same basis, it becomes necessary at some date to adjust the liability to home-office to the actual indebtedness. For instance, if the Italian branch owed home-office $50,000 at the par rate of exchange, it would show on its books an indebtedness to home-office of lire 259,000. If we assume that the rate of exchange ruling at the date of the adjustment was twenty-five lire to the dollar the liability to home-office is actually lire 1,250,000, so that an additional liability to home-office must be set up for the difference, viz., lire 991,000, which will be carried in a separate account, entitled—say "home-office account, No. 2." It will be appreciated that part of this liability will be represented by goods purchased from home-office and unsold at the date of this adjustment. The inventory is at the fixed or par rate in local currency and must therefore be increased to bring its value to the current rate; and in order to facilitate the accounting this increase is carried in a separate account entitled—say "Inventory account No. 2." The difference between the adjustment in the "home-office account No. 2" and in the "Inventory account No. 2," will be carried to surplus account. It is presumed that home-office has hitherto been carrying the reserve necessary to adjust this condition in the consolidated balance-sheet, and it would be necessary to cancel this home-office reserve as the branch has now made the provision. At the end of each month or period subsequently both the current account and inventory of home-office goods will be refigured at the current rates ruling at the end of the period, and the local profit-and-loss account will be debited or credited, as the case may be.

I may mention that many complications can arise. For instance, it will sometimes be found that a branch has remitted more than is required and that the home-office actually owes the branch. Such a condition calls for special consideration as the branch in overpaying its account for purchases has been remitting profits or funds accumulated by the creation of reserves. In taking the loss on exchange on the amounts so remitted the branch has assumed a loss which should have been absorbed by the home-office. Remittances representing profits or funds other than for payment of purchases should be kept separately and the home-office should be charged with local currency, which it will credit at the rate ruling on the date of its receipt.

Home-office Accounts

Consolidated balance-sheet—The investment by home-office in a branch which is a local company with limited liability will appear on the books of the parent company usually as (1) capital stock investment in the local branch company, (2) the amount owing by the branch for goods shipped and (3) advances to pay for fixed assets or other purposes. If the foreign business is solely a branch of the home-office the capital stock account is omitted. A fourth item appears in the consolidated balance-sheet, viz., the surplus or deficit of the local branch. It is often found that the fixed assets located abroad are carried on the home-office books at cost, but it would seem proper when local statements are required for tax or other purposes, that these should be carried in the branch books if proper deductions for depreciation, etc., are to be admitted to the local profit-and-loss account.

The general principles to be adopted in converting the assets and liabilities and profit-and-loss items are familiar, but it is perhaps as well to recite them here.

(1)—Convert fixed assets at rates ruling at time they were bought or average rate ruling for purchases within fiscal period. Where exchange fluctuations have been extreme in the period covered and the purchases heavy it would be safer to take actual rates ruling at dates of purchases or the average monthly rate ruling when purchases were made. These assets are for use in the business and they remain in the foreign country; consequently they do not vary with the current rate of exchange. In cases where there is extreme depreciation of the exchange rates from par this rule must not be followed too strictly and special cases must be dealt with individually. It should be kept in mind that present values of fixed assets from a branch viewpoint may be worth much more than would appear in local currency owing to increased cost of labor and material.

(2)—Convert current assets and liabilities at rates ruling on last day of period. In the case of the home-office account the branch will carry the dollar balance and the equivalent in local currency at current rate ruling at the end of period, the two current accounts with home-office described above enabling the conversion to be effected easily. The inventory of goods purchased from home-office is shown by the branch in dollars and the two inventory accounts combined will be at current rate of exchange. Current assets and liabilities should be shown at values which would arise if liquidation took place on last day of period.

(3)—Remittances will take the form of, first, payments for goods in dollars to home-office, the loss on purchase of these in the period being charged into the branch profit-and-loss account through the "home-office account No. 2"; next, payments representing profits will be in local currency and will be credited at their value ruling at the date of receipt, the home-office taking up the loss or profit involved, and, lastly, proceeds of sale of fixed assets or securities or other cash payments, not related to the current account for goods purchased, will be converted at actual rate of exchange on each transaction, the home-office taking up the loss.

(4)—Reserves will be converted at current rates where they are to provide for local contingencies. The reserve for depreciation of fixed assets should be converted at the same rate used in converting fixed assets.

(5)—Surplus at beginning of period will be converted at rate used at beginning of period and profit-and-loss entries at average rates ruling during period. If the period covered by the profit-and-loss account is an extended one, and the transactions were irregular and fluctuations in rates were marked, it would be more correct to use a weighted average rate. In organizations which make up monthly accounts, the average rate for each month is a fairer figure than the average for the year.

In reviewing the conversion of the various profit-and-loss items the difficult question arises at what rate the charges for depreciation on fixed assets should be converted. Under the plan of balance-sheet conversion outlined the fixed assets are converted at rates ruling at the time when they were purchased; it follows therefore that the depreciation should be converted on the same basis, otherwise the proper depreciation charge in local currency will have been set up on the branch books, while the converted amount of depreciation in the consolidated statements will have been understated.

Owing to the difficulty of continually adjusting the rate for the conversion of depreciation, however, the plan may be followed of calculating the depreciation in dollars on the dollar value of the fixed assets and using the amount so obtained in the place of the local currency amount converted at current rates.

The branch trial balance thus converted will not balance, and a debit or credit will be required to make it complete. It will be found frequently that a debit ensues, as in many branches the current assets have been partly financed by surplus accumulated in prior years and capital stock formerly represented by a current account, which was permanently capitalized at a previously higher rate of exchange. In this instance therefore the debit represents the loss on exchange on assets subject to fluctuation which are financed through surplus and capital stock, and a reserve has to be set up on home-office books to cover this shortage in values. In the consolidated statement the home-office reserve offsets the artificial debit on the converted branch trial balance.

If the branch has remitted profits, by payment of a dividend in the period, the exchange loss incurred at the time when the dividend is remitted must be taken up on home-office books. For illustration, if a branch surplus was accumulated when exchange was at par and the local currency, at the beginning of the period, had depreciated, so far as the surplus was represented by assets subject to loss on exchange a reserve to cover this condition would have been set up on the home-office books. When the dividend is received by home-office this exchange reserve is debited with the loss and surplus is credited, the balance of the credit to surplus on account of this dividend coming through the cash account.

If the reserve on home-office books at the end of a given period is insufficient to meet the shortage on the branch-office trial balance after conversion, the profit-and-loss account must be charged and exchange reserve credited with difference, this being a home-office exchange loss due to depreciation of exchange rates on investment in current assets. I would mention here that in practice it is well to accumulate credits where possible and carry higher reserves than appear necessary at a given date, as the instability of rates even over a short period of time calls for conservative treatment.

Where surplus accounts have been permitted to stand on the books of the foreign subsidiary over an extended period, it is interesting to note that by converting the surplus at a rate prevailing at the end of the previous period the surplus account of the subsidiary may be stated much in excess of its real worth. This over-statement is however offset by the adjustment of the surplus of the parent company, which will have been reduced because the exchange reserve has been previously set up out of the home-office profits in previous years.

I should like to call attention to one other account which is important in dealing with the consolidated statement. Goods are usually charged to a branch at a price which will leave the home-office or manufacturer a small manufacturing profit. This means that the foreign branch-office inventories, when converted, are carried above actual cost of production in the United States and a reserve or adjustment account must be carried on the home-office books to bring the branch inventory to actual factory cost, for consolidated balance-sheet and profit-and-loss purposes. If consolidated monthly statements are prepared as promptly as possible after the closing date, it follows that the ascertainment of cost of sales must be facilitated; hence the importance of showing the branch inventories of goods purchased from home-office separately from inventories purchased abroad and keeping these inventories on a dollar basis, as well as in local currency.

The subject of foreign-exchange accounting is a big one and I have skimmed the surface of one aspect of the situation only. The practical treatment of transactions in foreign currencies, where we are dealing with values which are fluctuating and uncertain, is much a matter of compromise. Further, the method to be adopted is dependent upon the nature and volume of transactions to be recorded; a system which would answer all reasonable requirements in some circumstances would in other cases be too abbreviated. In any event we must not allow our accounting recommendations to involve enormous detail in our endeavor to meet the requirements of theoretical perfection.

SUPPLEMENTAL MEMORANDUM, ILLUSTRATING THE TREATMENT OF ENTRIES IN THE BOOKS OF A FOREIGN SUBSIDIARY BRANCH OFFICE AND THE CONSOLIDATION OF ITS ACCOUNTS AT THE HOME OFFICE

For the purpose of this example, the accounts are assumed to be those of a French subsidiary company. The rates of exchange used are as follows:

	Fcs.	*$*
The fixed rate of exchange	5	1
The rate ruling at the beginning of the period	10	1
The average rate ruling during the period	9.50	1
The rate ruling at the end of the period	9	1

It is assumed that the branch is engaged in distributing the product of a manufacturer in the United States; further that the goods are charged to the branch at factory cost price. The statements illustrating the example may be summarized as follows:

Home-office Records

Statement showing consolidation of home-office and branch balance-sheets at beginning and end of period and treatment of the more important transactions in home-office books which arise through trading with the branch in the period. (Statements A, B, C, D.)

Branch Records

Balance-sheet at beginning and end of period, journal and ledger. (Statements E, F, G, H.)

HOME OFFICE — A

CONSOLIDATED BALANCE-SHEET (WORKING SHEET)

January 1st (Beginning of period.)

Assets	*H. O.*	*French Branch*	*Consolidated Total*
Fixed assets	$500,000.00	$12,000.00	$512,000.00
Inventories	200,000.00	10,000.00	210,000.00
Accounts receivable	150,000.00	4,000.00	154,000.00
Cash	25,500.00	2,000.00	27,500.00
Current account (French subsidiary)	9,500.00	*9,500.00*	
Capital stock (French subsidiary)	16,000.00	*16,000.00*	
Deferred charges	5,000.00	500.00	5,500.00
	906,000.00	3,000.00	909,000.00
Liabilities			
Capital stock	600,000.00		600,000.00
Surplus	269,000.00	9,000.00	278,000.00
Reserve for foreign exchange	6,500.00	*6,500.00*	
Accounts payable	30,500.00	500.00	31,000.00
	906,000.00	3,000.00	909,000.00

HOME OFFICE — B

CONSOLIDATED BALANCE-SHEET (WORKING SHEET)

January 31st (End of period)

Assets	*H. O.*	*French Branch*	*Consolidated Total*
Fixed assets	$500,000.00	$12,000.00	$512,000.00
Inventories	250,000.00	13,000.00	263,000.00
Accounts receivable	125,000.00	5,333.33	130,333.33
Cash	35,500.00	3,000.00	38,500.00
Current account (French subsidiary)	12,500.00	*12,500.00*	
Capital stock (French subsidiary)	16,000.00	*16,000.00*	
Deferred charges	4,000.00	555.55	4,555.55
	943,000.00	5,388.88	948,388.88
Liabilities			
Capital stock	600,000.00		600,000.00
Surplus	270,000.00	8,000.00	278,000.00
Profit for period	15,666.66	1,000.00	16,666.66
Reserve for foreign exchange	5,388.89	*5,388.89*	
Accounts payable	51,944.45	1,777.77	53,722.22
	943,000.00	5,388.88	948,388.88

HOME OFFICE — C

CONSOLIDATED PROFIT-OR-LOSS STATEMENT
FOR THE MONTH ENDED JAN. 31.

		H. O.	*French Branch*	*Consolidated Total*
Sales	$300,000.00	38,000	$4,000.00	$304,000.00
Cost of sales	175,000.00	19,000	2,000.00	177,000.00
Gross profit	125,000.00	19,000	2,000.00	127,000.00
Expenses	110,000.00	10,000	1,052.63	111,052.63
Exchange loss or gain	*666.66*	*500*	*52.63*	*719.29*
Net profit carried to balance-sheet	15,666.66	9,500	1,000.00	16,666.66

HOME OFFICE — D

ACCOUNTS AFFECTED BY FOREIGN EXCHANGE TRANSACTIONS
IN PERIOD

LEDGER

Surplus Account

Jan. 1	Balance		$269,000.00
31	Cash a/c French dividend (journal entry No. 1)		555.55
31	Exchange reserve, portion of exchange reserve utilized on transfer a/c profits (journal entry No. 2)		444.45
			270,000.00

Reserve for Foreign Exchange

Jan. 1	Balance		6,500.00
31	French subsidiary dividend account (journal entry No. 2)	444.45	
31	Profit or loss (journal entry No. 3)	666.66	
	Balance c/d	5,388.89	
		6,500.00	6,500.00
Feb. 1	Balance b/d		5,388.89

Profit and Loss Account

Jan. 31	Reserve for foreign exchange (journal entry No. 3)	666.66
	Assumed profit of domestic business for month	15,000.00
		15,666.66

JOURNAL

(1)	Cash	555.55	
	to surplus		555.55
	being proceeds of dividend of 5000 fcs received when rate was 9 fcs to $		
(2)	Exchange reserve	444.45	
	to surplus		444.45
	being difference between amount actually received in cash for dividend and amount at fixed rate of exchange		

(3)	Foreign exchange reserve	$666.66	
	to profit loss		$666.66

To adjust the exchange reserve to amount required to cover loss on exchange on investment in current assets other than for goods purchased from home office. (See converted branch balance-sheet statement F.)

FRENCH BRANCH — E

BALANCE-SHEET, JAN. 1 (BEGINNING OF PERIOD)

Assets	*Francs*	$	*Rate used in conversion*
Furniture, fixtures, real estate	60,000	12,000	5 fcs to $
Inventory #1 (@ fixed rate 5 fcs to $)	50,000	10,000	10 fcs to $
Inventory #2 (representing difference between fixed and current rate)	50,000		
Cash	20,000	2,000	do
Accounts receivable	40,000	4,000	do
Deferred charges	5,000	500	do
	225,000	28,500	
Liabilities			
Capital stock	80,000	16,000	5 fcs to $
Surplus	45,000	9,000	do
Home-office account No. 1 (@ fixed rate of exchange)	47,500	9,500	10 fcs to $
Home-office account No. 2 (representing difference between fixed rate and current rate)	47,500		
Accounts payable	5,000	500	do
	225,000	35,000	
Difference	Dr.	$6,500	

FRENCH BRANCH — F

BALANCE-SHEET, JAN. 31 (END OF PERIOD)

Assets	*Francs*	$	*Rate used in conversion*
Furniture and fixtures	60,000	12,000	5 fcs to $
Inventory No. 1	65,000	13,000	9 fcs. to $
Inventory No. 2	52,000		
Cash	27,000	3,000	do
Accounts receivable	48,000	5,333.33	do
Deferred charges	5,000	555.55	do
	257,000	33,888.88	
Liabilities			
Capital stock	80,000	16,000	5 fcs. to $
Surplus	40,000	8,000	do
Profit or loss (current year)	9,500	1,000	9.5 fcs. to $
Home-office account No. 1	62,500	12,500	9 fcs to $
Home-office account No. 2	50,000		
Accounts payable	15,000	1,777.77	do
	257,000	39,277.77	
Difference	Dr.	$5,388.89	

FRENCH BRANCH

G

JOURNAL

1	Jan. 10	Inventory #1	$15,000.00	
		To home-office account No. 1		$15,000.00
		To record purchase of goods invoiced at $3,000.00		
2	" 20	Inventory #1	10,000.00	
		To home-office account No. 1		10,000.00
		To record purchase of goods invoiced at $2,000.00		
3	" 21	Home-office acount No. 1	10,000.00	
		Home-office account No. 2	8,000.00	
		To cash		18,000.00
		To record payment of $2,000 to home office @ lire 9.5 to the dollar		
4	" 31	Accounts receivable	38,000.00	
		To profit or loss account (sales)....		38,000.00
		To record sales for month of January		
5	" 31	Profit-and-loss account	19,000.00	
		To inventory No. 1		10,000.00
		To inventory No. 2		9,000.00
		To record cost of goods sold during month of January which is arrived at as follows:		
		Cost of goods sold $2,000 @ fixed rate = fcs. 10,000		
		@ average rate for month 9.5 to the $ = fcs. 19,000		
		Difference 9,000		
6	" 31	Cash	30,000.00	
		To accounts receivable		30,000.00
		To record receipts for month in settlement of customers' accounts		
7	" 31	Inventory #2	11,000.00	
		To home-office account #2		10,500.00
		Profit-and-loss		500.00
		To adjust inventory #2 and home-office account #2 as follows:		
		Inventory at end of month $13000 @ 9.5 to the dollar=117,000.00		
		Inventory #1—bal. 65,000.00		
		Inventory #2—bal. 41,000.00 106,000.00		
		Difference 11,000.00		
		Home-office account $12,500 @ 9.5 to the dollar =112,500.00		
		Home-office account #1 ....62,500.00		
		Home-office account #2 ....39,500.00 102,000.00		
		Difference 10,500.00		
		The difference between the two above adjustments, viz. 500 fcs., represents a gain on exchange due to improvement in exchange rates since the beginning of the period.		

8	Jan. 31	Surplus	$5,000.00	
		To dividend account		$5,000.00
		6¼% dividend on capital stock		
9	" 31	Dividend account	5,000.00	
		To cash		5,000.00
		Draft in favor of home office in payment of dividend		
10	" 31	Profit-and-loss account (expenses)...	10,000.00	
		To accounts payable		10,000.00
		Expenses for the month		

FRENCH BRANCH　　H

LEDGER

Accounts Receivable

			Fcs.	*Fcs.*
Jan.	1	Balance	40,000	
	31	Profit-and-loss (Sales) journal entry #4 ..	38,000	
	31	Cash journal entry #6		30,000
	31	Balance carried forward		48,000
			78,000	78,000
Feb.	1	Balance brought forward	48,000	

Deferred Charges

Jan.	1	Balance	5,000	

Capital Stock

Jan.	1	Balance		80,000

Surplus

Jan.	1	Balance		45,000
	31	Dividend journal entry #8	5,000	
	31	Balance carried forward	40,000	
			45,000	45,000
Feb.	1	Balance brought forward		40,000

Home-office Account #1 (at fixed rate)

			$	Fcs.	$	Fcs.
Jan.	1	Balance			9,500	47,500
	10	Inventory account #1 journal entry #1			3,000	15,000
	20	Inventory account #1 journal entry #2			2,000	10,000
	21	Cash journal entry #3.....	2,000	10,000		
	31	Balance carried forward...	12,500	62,500		
			14,500	72,500	14,500	72,500
Feb.	1	Balance brought forward			12,500	62,500

FRENCH BRANCH H1

LEDGER

Home-office Account #2

			Fcs.	Fcs.
Jan.	1	Balance		47,500
	21	Cash journal entry #3	8,000	
	31	Sundries journal entry #7		10,500
	31	Balance carried forward	50,000	
			58,000	58,000
Feb.	1	Balance brought forward		50,000

Accounts Payable

Jan.	1	Balance		5,000
	31	Profit-and-loss (expense) journal entry #10.		10,000
	31	Balance carried forward	15,000	
			15,000	15,000
Feb.	1	Balance brought forward		15,000

Profit-and-loss Account

Jan.	31	Accounts receivable journal entry #4		38,000
	31	Inventory #1 and 2 journal entry #5	19,000	
	31	Sundries journal entry #7		500
	31	Accounts payable #10	10,000	
	31	Balance carried forward	9,500	
			38,500	38,500
Feb.	1	Balance brought forward		9,500

Dividend Account

Jan.	31	Surplus journal entry #8		5,000
	31	Cash journal entry #9	5,000	
			5,000	5,000

FRENCH BRANCH H2

LEDGER

Furniture and Fixtures

			Fcs.
Jan.	1	Balance	60,000

Inventory No. 1 Account (at fixed rate)

			$	Fcs.	$	Fcs.
Jan.	1	Balance	10,000	50,000		
	10	Home-office account #1 journal entry #1	3,000	15,000		
	20	Home-office account #1 journal entry #2	2,000	10,000		
	31	Profit-and-loss journal entry #5			2,000	10,000
	31	Balance carried forward			13,000	65,000
			15,000	75,000	15,000	75,000
Feb.	1	Balance brought forward	13,000	65,000		

Inventory No. 2 Account

			Fcs.	Fcs.
Jan.	1	Balance	50,000	
	31	Profit-and-loss journal entry #5		9,000
	31	Sundries journal entry #7....	11,000	
	31	Balance carried forward		52,000
			61,000	61,000
Feb.	1	Balance brought forward	52,000	

Cash

			Fcs.	Fcs.
Jan.	1	Balance	20,000	
	21	Home-office account #1 and 2 journal entry #3		18,000
	31	Accounts receivable journal entry #6	30,000	
	31	Dividend account journal entry #9		5,000
	31	Balance carried forward		27,000
			50,000	50,000
Feb.	1	Balance brought forward	27,000	