Branch Accounts

Branch Accounts

Ⓐ Dependent Branch.

who does not maintain theie own books of A/c's.
(theie all transactions are maintained by HO)

Ⓑ Independent Branch

who maintain their books of Accounts.

Ⓐ Dependent Branch → How to calculate branch ~~Retu~~ Results?
↓
Net profit.

HO shall calculate Branch peeformance by following any of the below Methods:

1. Stock & Debtors Method
2. Debtors Method.
3. Final A/c System (Cost Method)
4. Final A/c System (TP/WP Method)

1) Final A/c system (Cost Method)

Cost / cost price - cost of goods from HO pov.

TP/WP - price at which HO transferred Goods to its Branch.

cost for branch.

SP / list price / Cataloge price - price at which branch sold goods to customer.

HO diff.   Branch diff.

Final A/c system (Cost Method)

HO shall prepare Trading A/c of branch at its cost (HO cost)

Mem. Branch Trading A/c.

To opening stock.	cost.	By sales.	SP
To Goods from HO (-) return	cost.	By shortage of Goods.	cost.
To GP (bal. fig)		By closing stock.	cost.

Working Notes always (format)!

Opening stock (Br.) → cost.
(+) Net Goods from HO → cost.

Total inflow at cost.

→ COGS
→ shortage
→ closing stock.

COGS

$\frac{\text{Net sales}}{\text{SP}} \times \text{cost}.$

2) Final Account System (IP/WP Method)

HO shall prepar. Memo. trading A/c of branch at IP/WP.

Memo. Trading A/c.

To opening stock	IP	By sales	SP.
To Goods from HO (-) Return	IP	By shortage of Goods.	IP
To GP (Bal. fig)	IP	By closing stock.	IP.

Working Note :

Opening Stock. ⟶ IP
(+) Net Goods Received from HO. ⟶ IP

Total inflow at IP.

COGS @IP. | Shortage @IP. | Closing stock @IP.

Additional WN

Calculation of Stock Reserve as opng & clsg stock. (unrealised profit)

$$\frac{\text{IP value of Inventory}}{\text{IP}} \times (\text{IP} - \text{CP})$$

SR as closing stock of Branch
↳ To be shown as Debit side of HO P&L.
(Reversal of profit)

SR as Opening stock of Branch.
↳ To be shown as credit side of HO P&L.
(Recognition of earlier reversal of profit)

Question May 22. ① using final Account system (Cost Method)

Solution:

Given:
IP → 20% less than LP
LP → Cost + 100%

assume, cost to HO = 100/-
∴ LP = 200/-
∴ IP = 160/-

Instructions Given to Branch:
Cash sales @ IP
Credit sales @ LP/SP.

Working Note:

Opening stock (cost)	7500
(+) Goods received from HO (cost).	82,500
Total goods available with branch.	90,000.

COGS.	Shortage.	Closing stock.
28,750 + 50,000.	250/- (bal. fig)	11,000
= 78,750/-	Cost.	Cost.

Rainbow
PAGE:
DATE: / /

Memo. Branch Trading & P&L A/c

Dr. | | | Cr.

To opening stock.	7500.	By sales	
		Cash	46,000
		Credit.	100,000.
To Goods sent from H.O.	82,500.		
		By shortage.	250
To Gross profit.	67,250	By closing stock.	11,000
	157,250		157,250
To expenses.	17,500.	By Gross profit.	67,250
To abnormal loss.	250.		
To Net profit.	49,500.		
	67,250		67,250

Rainbow
PAGE:
DATE: / /

② Using Final Account System (IP / WP Method)

Working Note 1:

Op. stock. (IP)	12000.
(+) Goods from HO (IP)	132,000
Total Goods available with branch.	144,000.

COGS.

Cash sales = 46,000.
@ IP.

Credit sale = $\frac{100,000}{200} \times 160$
@ IP

= 80,000

Total COGS = 126,000/-.

Shortage.
@ IP
400/-

closing stock
@ IP.
H,600/-

Memo branch Trading & P&L A/c.

Dr.		Cr.		
To op. stock.	12000.	By sales		
To Goods. sent from HO.	132,000	Cash	46,000	
		credit	100,000	146,000
To Gross profit.	20,000.	By shortage		400
		By closing stock.		17600
	164,000			164,000

Rainbow
PAGE:
DATE: / /

WN: 2 : Calculation of Stock Reserve.

	Opening stock.	Closing stock.
IP value.	12,000	17,600. (IP)
working.	$\frac{12,000}{160} \times 60$	$\frac{17600}{160} \times 60$
SR.	4500 /-	6600 /-
	↓ Credit side of * HO P&L.	↓ Debit side of * HO P&L

3) Stock & Debtors Method!

Branch (sale / purchase / stock related) ↓ one common A/c. Br. Stock A/c.

Here, following ledger a/c's shall be prepared.

a) Br. Stock A/c. (@ IP).
b) Goods sent to Branch A/c. (@ cost)
c) Br. Debtors A/c.
d) Br. Cash A/c.
e) Br. Adjustment A/c (margin / loading)
f) Br. P&L A/c.

Rainbow
PAGE:
DATE: / /

few examples).

① Goods sold by branch in cash:

Br. Cash A/c Dr.
To Br. Stock A/c.

② Goods sold by branch on credit.

Br. debtors A/c Dr.
To Br. stock A/c.

③ Goods sent to Br. by HO:

Br. Stock A/c Dr.
To GSTB A/c.

(It is a kind of sale made by HO).

④ Goods return by branch to HO:

GSTB A/c Dr.
To Br. Stock A/c.

Br. Stock A/c.

To bal. b/d.	IP	By shortage.	IP
To GSTB.	IP.	By Br. cash	IP
		By Br. debtors.	IP 130
To Br. adjust.	10.	By GSTB A/c.	IP
		By bal. c/d.	IP.

Cost 100
IP 120
Sale 130.

Rainbow

PAGE:
DATE: / /

Question May 22 | (3) using stock & debtors Account Method.

Branch stock A/c. (JP)

Particulars.	Amt.	Particulars	Amt.
To bal. b/d.	12,000.	By branch cash.	46,000.
To GSTB.	132,000.	By branch debtors A/c (credit sale).	100,000
To branch adjustment A/c.	20,000		
		~~By shortage A/c.~~	400
		By branch P&L	250 (cost)
		By br. Adj. A/c.	150 (margin)
		By closing stock.	17,600.
	164,000		164,000

treatment of abnormal loss
If instead of abnormal loss, there was normal loss, then entirely 400 will be transferred to br. adj. A/c.

Branch Adjustment A/c.

Particulars	Amt.	Particulars	Amt.
~~To branch stock A/c.~~	~~6600~~	By bal. b/d. (SR on op. stock)	4500.
To br. stock	150.	By GSTB A/c	49,500
To Gross profit.	67,250.	By branch stock A/c.	20,000
To bal. c/d.	6,600		

Q.17/22.

Rainbow

PAGE:
DATE: / /

Branch profit & loss A/c.

Particulars	Amt.	Particulars	Amt.
To branch expens.	17500.	By Gross profit.	67,250
To br. stock A/c	250.		
To Net profit	49,500		
	67,250		67,250

Goods sent to Branch A/c. ((087))

Particulars	Amt.	Particulars	Amt.
To branch Adjustment A/c.	49500.	By Branch stock A/c	132,000 ~~132,000~~ ~~82,500~~
To Trading A/c.	82,500		
	132,000		132,000

Branch Debtors A/c.

Particulars	Amt.	Particulars	Amt.
To bal. b/d.	10,000.	By branch cash A/c.	85,000.
To branch stock A/c	100,000.		
		By bal. c/d.	25,000.
	110,000		110,000

Br. cash A/c.

Particulars	Amt.	Particulars	Amt.
To Br. stock A/c	46,000	By branch expenses	11,500
To branch debtors A/c.	85,000	By ~~Head office A/c.~~	
		H.O. cash A/c.	120,000
To H.O. cash A/c	6500.		
	137,500		137,500

Rainbow
PAGE:
DATE: / /

4) Debtors Method.

→ HO shall prepare one ~~sig~~ single A/c. → Branch A/c.
↓
(as a presumed just like debtor).

→ HO shall treat Branch as a outside ~~entity~~ party & record only transaction between HO & Branch. (i.e. transaction made by branch with outside customers are recorded by HO.)

→ In Branch A/c, opening & closing balances of Assets & Liabilities shall also be recorded.

Note: Branch A/c shall be maintained at IP & loading on opposite side. (i.e @ cost)

Transactions to be Recorded.	Transactⁿ not to be recorded
Goods sent to branch.	Cash sales by Branch.
Goods Return by branch	Credit sales by Branch.
Cash sent to branch.	Sales return to branch.
Cash reimburssed by Branch.	exp. incurred by branch.
HO incurred Br. expenses on behalf of Branch.	Bad debts at branch.
Goods return by customer direct to HO.	Discount allowed to Debtors by Branch.

Note: Sometimes ~~Source~~ some transactions or opening / closing balances may be missing in Question & to find out these missing figures we should always prepare following ledger in working Note:

a) Branch Stock A/c.
b) Branch Debtors A/c.
c) Branch Cash A/c.

Rainbow
PAGE:
DATE: / /

Question May 22 (4) using Debtors Method. Cost = 100.

Branch A/c. IP = 160

SP/LP = 200.

Dr. Cr.

Particulars	Amt	Particulars	Amt.
To bal. b/d.		By bal. b/d.	
Br. Stock.	12000.	Stock Reserve	4500
Br. Debtors.	10,000.	other ~~Assets~~ liabilities	-
other Assets.	-		
To Goods sent to Branch.	132,000	By Goods sent to Branch	49,500.
To cash.	6500.	By cash	120,000.
To NP.	49,500		
To Bal. c/d.		By bal. c/d.	
Stock Reserve	6,600.	Br. Debtors.	25,000.
other ~~Assets~~ liabilities		Br. Stock.	17600.
		other Assets	
	216600		216,600
	~~167,100~~		

Independent Branch.

Domestic.
↓
maintains its own books in reporting currency.

foreign
↓
mainteins its books @ foreign currency.

Foeeign Branch.

Objective: To conveet branch trial balance feom foeeign cueeency to repoeting currency so that HO can prepaee consolidated f.s. in reporting cueeency.

Foeeign Branch types.

IFO	NIFO
(Integral foeeign operations)	(Non-integral f.o).

Integral All the activities & Business decisions of branch are dependent on HO.

Non Integral Branch is independend in respect. of Decision & funding, Selling, purchase.

Monetary Assets / Liabilities: value is fixed & determined.

Monetary Assets:
Fixed recovery is expected. (not to be changed).
eg. ~~deb~~ debtors, cash in hands, cash @ bank.
Monetary Liabilities:
fixed settlment is expected (not to be changed).
eg. Creditors, Loans, o/s exp.
∴ int. on loan is o/s exp. so the loan (flow) amt is ~~dete~~ certain

Non-Monetary Assets & Liabilities: othee than Monetary.
eg. Building.
Stock.
Investments.

Rainbow
PAGE:
DATE: / /

Rules of Conversion

① **Integral FO:**

Conversion of T.B.

① Monetary A/L. → Closing Rate (B/S)

② Non-Monetary A/L → Spot Rate. (rate prevailing on transaction of date.)

③ Revenue items. → Avg. Rate.
(all incomes & exp.)

④ Opening stock.
~~Closing Stock~~.
Opening capital
→ opening rate.

⑤ HO A/c balance & Goods received from HO. → At actual balance appearing in HO Records.

exchange difference. ⇒ Transfer to P&L A/c of Branch.

② **Non-Integral FO:**

Conversion of T.B.

① All Assets & Liabilities (Monetary & Non-monetary) → Closing Rate.

② All Revenue items. (income & exp.). → At actual rate if possible otherwise Avg.

③ HO A/c & Goods received A/c → Actual balance in HO records

④ Opening Balance. → opening Rate.

Rainbow

PAGE:
DATE: / /

exchange difference. → : Transfer to $\boxed{\text{FCTR}}$

under B/S.

RFS.

positive → cr. bal.

Negative → Dr. bal.

This is different from FCMIT Diff: A/c.

No deferred & Amortisation is allowed.

* whether FCTR can be transfer to P&L A/c?

yes.

when Non-integral is converted into integral FO.

yes.

when Non-Integral F.O. is disposed.

yes, but. partial transfer to P&L.

when partially sold.

Domestic Branch (Independent)

→ Branch is preparing its own books i.e. it has its own Trial Balance.

→ Branch can Debit HO A/c & Credit HO A/c while transacting with HO.

Goods Received from HO A/c Dr.
  To HO A/c.

→ <u>Inter Branch Transactions</u> : Transaction between one Branch & another Branch.

Branch shall not Dr./Cr. another Branch Name.	All inter branch transactions shall be recorded in the name of HO.

<u>eg</u>: Mumbai Branch sent goods to Pune Branch of 10,000 :

Mumbai	Pune	HO (Delhi)
HO Dr.	Good Recvd - Dr	Pune A/c Dr
To Goods recvd.	To HO.	To Mumbai

→ It is very necessary to reconsile HO A/c of branch Books with Branch A/c of HO Books.

If both are not reconciled, the reasons are as under :-

(i) HO sent goods to branch, but branch did not received till year end.

Branch should pass entry (at yr end). :- Goods in transit Dr
  To HO A/c

Q5, 4

Rainbow
PAGE:
DATE: / /

(ii) Branch sent cash to HO, but HO did not received till year end:
HO should pass entry :- Cash in transit Dr.
(at year end). To Branch A/c.

(iii) Misc. reasons like HO received cash from Branch Debtors but not informed to Branch.
Branch should pass entry :- HO A/c Dr.
To Debtors A/c.

→ If HO sends goods to Branch at IP (cost + margin)

Opening stock & closing stock of branch must have unrealised profit of HO (i.e. SR)

HO shall pass entry:

For opening SR.	For closing SR.
Recording of Margin.	Eliminate margin.
SR A/c Dr.	P&L A/c Dr.
To P&L A/c	To SR A/c.

P&L of HO

Consolidated B/S.

Stock HO.	
Branch @ IP	
(-) SR.	

→ Once branch A/c & HO A/c are reconciled (after all rectification & adjustment)
All Incomes, expenses, Assets & liabilities of Br. are transferred to HO:-
(to prepare consolidated FS)

Rainbow
PAGE:
DATE: / /

HO shall pass following entries
1) For incomes & expenses:

Branch A/C Dr.
To Branch income.

Branch exp. A/C Dr
To Branch.

Sometimes, instead of taking individual incomes & expenses, HO directly takes Net Profit of Branch only.

Branch A/C Dr.
To Branch P&L A/C.

Net loss:

Branch P&L A/C Dr.
To Branch A/C.

2) For Branch Assets / Liabilities:

Branch A/C Dr.
To Br. Liabilities.

Br. Assets Dr.
To Branch A/C

Rainbow

PAGE:
DATE: / /

Journal Entries

Transactions.	HO's Books.	Branch's Books
① Goods sent by HO to Branch.	Branch Dr To GSB	GRHO To HO.
② Goods returned by HO to Branch.	GSB. To Branch.	HO To GRHO.
③ Branch expenses paid by HO.	Branch cash / Bank. To expenses.	expenses. To HO.
④ proportion of HO's exp. charged to Branch.	Branch. To expenses.	expenses. To HO.
⑤ Payment made to branch by HO.	Branch To cash.	Cash To HO.
⑥ Branch's debtors collected by HO	Cash To Branch.	HO To debtors.
⑦ Diwidend collected by branch on behalf of HO.	Branch To diwidend.	Cash To HO.
⑧ Cash Remitted by branch to HO.	Cash To Branch.	HO To Cash
⑨. Branch Assets purchased by branch (maintained by ~~HO~~ Branch.)	No entry.	B A. To cash.
⑩ Branch Assets purchased by HO (maintained by branch).	Branch To cash.	Assets To HO.

Rainbow

PAGE:
DATE: / /

(11) Branch Assets purchased by HO. (maintained by HO).	Branch FA. To cash / Bank.	No entry.
(12) Branch Assets purchased by branch (maintained by HO).	BFA. To branch.	HO To cash / bank.
(13) Depreciation (FA → B) (M → HO)	Branch. To Asset.	Depr. To HO.
(14) Depreciation (FA → B) (M → B)	No entry.	depr. To FA.
(15) Branch Transactions.	Receivee To sendee.	
(16) HO sent Goods not received by branch.	No Entry.	Stock in transit To HO.
(17) Branch sent goods not received by HO.	Stock in transit To Branch.	No entry
(18) HO sent cash not received by branch.	No entry.	Cash in transit To HO.
(19) Branch sent goods. not received by HO.	Cash in transit. To Branch.	No entry