

Branch Accounts

Rainbow

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Branch Accounts

① Dependent Branch.

who does not maintain their own books of A/c's.

(their all transactions are maintained by HO)

② Independent Branch

who maintain their books of Accounts.

① Dependent Branch → How to calculate branch Retn Result?

HO shall calculate Branch performance 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 (IP/WP Method)

Net profit.

1) Final A/c system (Cost Method)

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

↓
cost for branch. IP/WP - price at which HO transferred goods to its Branch.

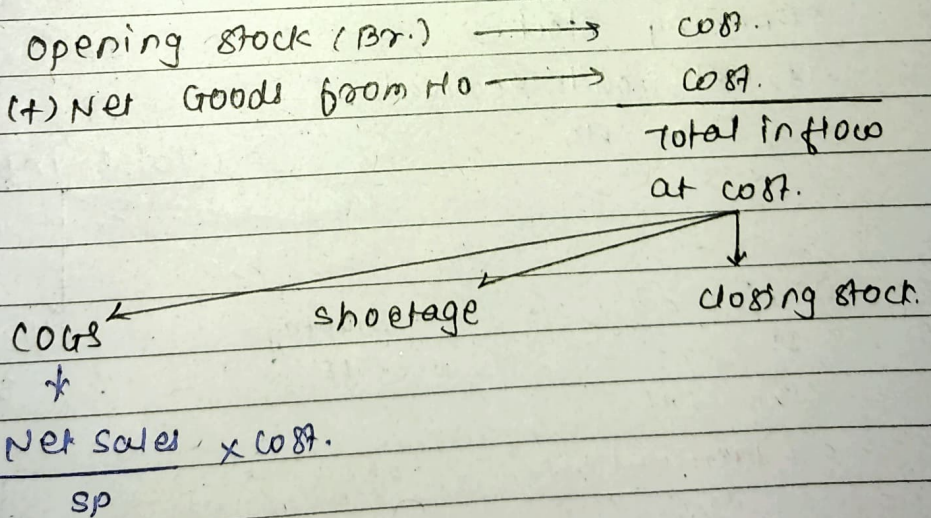
SP / List price / Catalogue price - price at which branch sold goods to customers.
HO diff. Branch diff.

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.

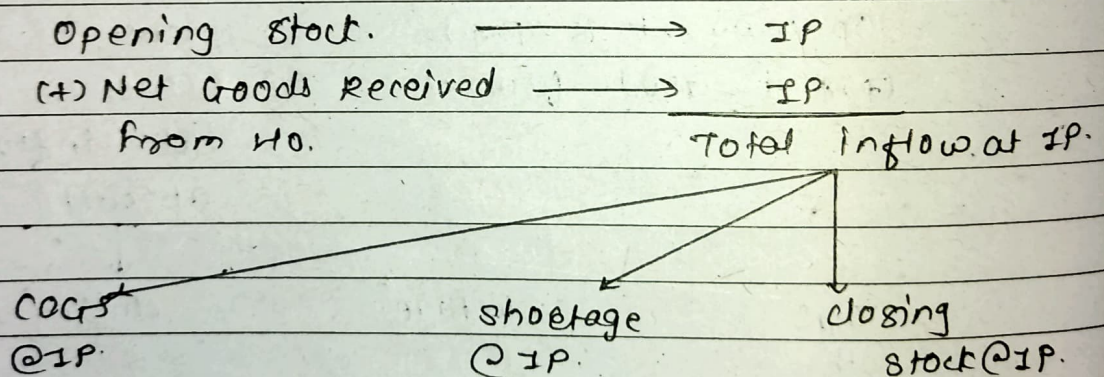
Working Notes always (format)!

2) Final Account System (IP/WP Method).
 Ho shall prepare 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:



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.

(i) using final Account system (cost method)

Solution:

Given:

JP → 20% less than LP

LP → Cost + 100%

assume, Cost to HO = 100/-

∴ LP = 200/-

∴ JP = 160/-

Instructions Given to Branch:

Cash sales @ JP

Credit sales @ LP/JP.

Working Note:

opening stock (cost)		7500
(+) Goods received from HO (cost).		82500
Total goods available with branch.		90,000.
		↓
COGS.	shortage.	closing stock.
28,750 + 50,000.	250/- (bal. fig)	11,000
= <u>78,750/-</u>	cost.	cost.

Memo. Branch Trading P&L A/c

Dr.

Cr.

To opening
stock.

7500.

By sales

Cash

46,000

Credit.

100,000.

To Goods sent

82,500.

From H.O.

By shortage.

250

To Gross profit.

67,250

By closing stock.

11,000

157,250157,250

To expenses.

17,500.

By Gross profit.

67,250

To abnormal
loss.

250.

To Net profit.

49,500.

67,25067,250

② Using Final Account system (JP/WP Method)

Working Note 1:

op. stock. (JP)	12000.
(+) Goods from HO (JP)	132000
Total Goods available with branch.	144000.

COGS.	shortage.	closing
Cash sales = 46,000.	@ JP	stock
@ JP	400/-	@ JP.
Credit sale = 100,000 x 160		11600/-
@ JP 200		
= 80,000		
Total COGS = 126,000/-		

Dr.	Memo branch Trading & P/L A/c.	Cr.
To op. stock.	12000.	By sales
To Goods sent from HO.	132000	Cash 46,000
		Credit 100,000 → 146,000
To Gross profit.	20,000.	By shortage 400
		By closing stock. 11600
	<u>164,000</u>	<u>164,000</u>

WN: 2 : Calculation of Stock Reserve.

	opening stock.	closing stock.
IP value.	12,000	17,600. (2p)
working.	$\frac{12,000 \times 60}{160}$	$\frac{17,600 \times 60}{160}$
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.

- Br. stock A/c. (@ 1p).
- Goods sent to Branch A/c. (@ cost)
- Br. Debtors A/c.
- Br. cash A/c.
- Br. Adjustment A/c (margin / loading)
- Br. P/L A/c.

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 returned by branch to HO:

GSTB A/c Dr.

To Br. stock A/c.

Br. stock A/c.

To bal. b/d. 7P

To GSTB. 7P

To Br. adjust. 10

By shortage. 7P

By Br. cash 7P

By Br. debtors. 7P 130

By GSTB A/c. 7P

By bal. b/d. 7P

Cost 100

7P 120

Sale 130.

Question (3) using Stock & Debtors Account Method.
May 22

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	
To branch adjustment	20,000	A/c (credit sale).	100,000
A/c.			
		By shortage A/c.	400
		By branch P&L	250 (lost)
		By br. Adj. A/c.	150 (margin)
		By closing stock.	17,600.
Treatment of abnormal loss			
If instead of abnormal loss,			
there was normal loss,			
then entirely 400 will be transferred			
to br. Adj. A/c.			
	<u>164,000</u>		<u>164,000</u>

Branch Adjustment A/c.

Particulars	Amt.	Particulars	Amt.
To branch stock A/c.	6600	By bal. b/d.	4500.
To br. stock	150.	(SR on op. stock)	
		By GSTB A/c	49,500
To Gross profit.	67,125.	By branch stock	20,000
		A/c.	
To bal. dd.	6,600		

4) Debtors Method.

- HO shall prepare one ~~big~~ 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. @ COA)

Transactions to be Recorded.

Goods sent to branch.

Goods Return by branch

Cash sent to branch.

Cash reimbursed by Branch.

Ho incurred Br. expenses
on behalf of Branch.Goods Return by customer
direct to Ho.Transactⁿ not to be recorded

Cash sales by Branch.

Credit sales by Branch.

Sales return to branch.

exp. incurred by branch.

Bad debts at branch.

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.

Question 20 using Debtors Method.

cost = 100.

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Branch A/c.

JP = 160

SP/CP = 200.

Dr.	Particulars	Amt	Particulars	Amt.	Cr.
	Total bid.		By bal. bid.		
	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. dd.		By bal. dd.		
	Stock Reserve	6,600.	Br. Debtors.	25,000.	
	other Assets liabilities		Br. stock.	17600.	
			other Assets		
		<u>216600</u>			<u>216,600</u>
		<u>167,100</u>			

Independent Branch.

Domestic.



maintains
its own
books in reporting
currency.

foreign

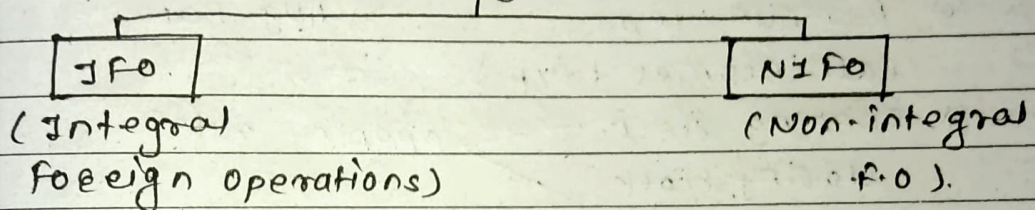


maintains
its books
@ foreign
currency.

Foreign Branch

Objective: To convert branch trial balance from foreign currency to reporting currency so that HO can prepare consolidated f.s. in reporting currency.

Foreign Branch Types.



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

Non Integral: Branch is independent 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 hand, cash @ bank.

Monetary Liabilities:

Fixed settlement is expected (not to be changed).

eg. Creditors, Loans, etc.

int. on loan is an exp. ^{so that a liability} amt is ~~debt~~ ^{determine}

Non-Monetary Assets & Liabilities: other than Monetary.

eg. Building.

Stock.

Investments.

Rules of Conversion① Integral FO:

Conversion of T.B.

- ① Monetary A/c. → Closing Rate (B/c)
- ② Non-Monetary A/c → Spot Rate (rate prevailing on transaction of date)
- ③ Revenue items (all incomes & exp.) → Avg. Rate.
- ④ Opening stock.
 ~~Closing stock.~~
 opening capital } opening rate.
- ⑤ HO A/c balance of 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.

exchange difference → Transfer to FCR

↓
under BLS.

↓

RFS.

positive → cr. bal.

Negative → dr. bal.

This is different
from FEMIT diff. Acc.

→ No deferred
Amortisation is
allowed.

* Whether FCR can be transfer to P&L Acc?

yes.

↓
when Non-

Integral fo. is
disposed.

yes.

↓
when Non-Integral
is converted into
Integral fo.

yes, but.

partial transfer
to P&L.

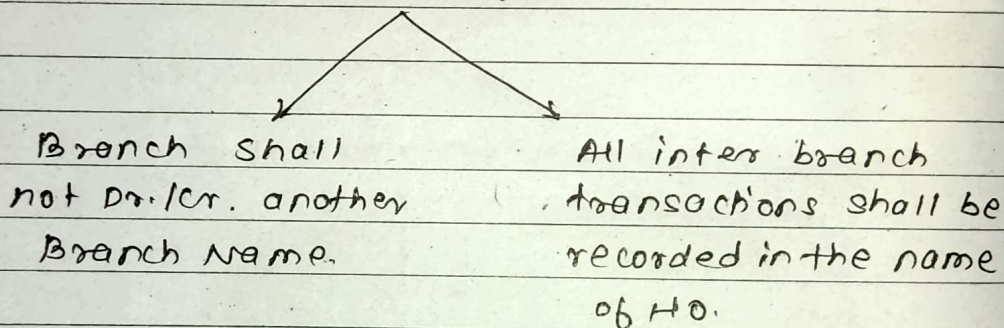
when partially
sold.

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.

- Inter Branch Transactions: Transaction between one Branch & another Branch.



eg: Mumbai Branch sent goods to Pune Branch of 10,000:

<u>Mumbai</u>	<u>Pune</u>	<u>Ho (Delhi)</u>
Ho Dr.	Good Recd - Dr	Pune A/c Dr
To Goods recd.	To Ho.	To Mumbai

- It is very necessary to reconcile 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 :- Goods in transit Dr.
entry (at yr end). To Ho A/c

(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.
Recording of Margin.

SR A/c Dr.
To P/L A/c

P/L of
Ho

for closing SR.
Eliminate margin.

P/L A/c Dr.
To SR A/c.

Consolidated B/S.

Stock Ho.

Branch @ IP

(-) SR.

→ Once branch A/c & Ho A/c are reconciled (after all rectification & adjustment)

All Income, expenses, Assets & Liabilities of Br. are transferred to Ho:-

(to prepare consolidated FS)

Ho shall pass following entries

1) For incomes & expenses.

Branch Alc	Dr.	Branch exp. Alc	Dr.
	To Branch income.		To Branch.

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

Branch Alc Dr.

To Branch P&L Alc.

Net loss

Branch P&L Alc Dr.

To Branch Alc.

2) For Branch Assets / Liabilities.

Branch Alc Dr.

To Br. Liabilities.

Br. Assets Dr.

To Branch Alc

Journal Entries

Transactions.	HO's Books.	Branch's Books
① Goods sent by HO to Branch.	Branch Dr To GSB	GR HO To HO.
② Goods returned by HO to Branch.	GSB. To Branch.	HO To GR HO.
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 Dividend collected by branch on behalf of HO.	Branch To dividend.	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	BA. To cash.
⑩ Branch Assets purchased by HO (maintained by branch).	Branch To cash.	Assets To HO.

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 $\rightarrow$ B) (M $\rightarrow$ Ho)	Branch. To Asset.	Depr. To Ho.
⑭ Depreciation (FA $\rightarrow$ B) (M $\rightarrow$ B)	No entry.	depr. To FA.
⑮ Branch Transactions.	Receiver To sender.	
⑯		
⑰ Ho sent Goods not received by branch.	No Entry.	Stock in transit To Ho.
⑱ Branch sent goods not received by Ho.	Stock in transit To Branch.	No entry
⑲ Ho sent Cash not received by branch.	No entry.	Cash in transit To Ho.
⑳ Branch sent goods not received by Ho.	Cash in transit. To Branch.	No entry