


Branch Accounting



Discipline Courses-I
Semester-I
Paper : Financial Accounting & Auditing
Unit-VI
Lesson: Branch Accounting
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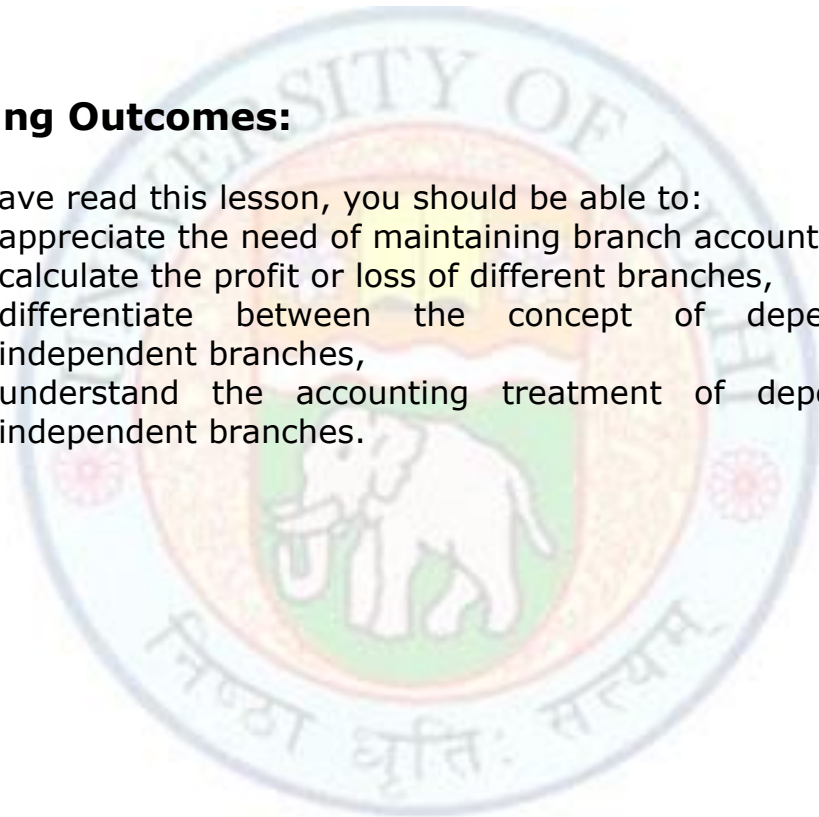
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1. Learning Outcomes:

After you have read this lesson, you should be able to:

- appreciate the need of maintaining branch accounts,
- calculate the profit or loss of different branches,
- differentiate between the concept of dependent and independent branches,
- understand the accounting treatment of dependent and independent branches.



2. Introduction:

In today's scenario, the business expands beyond the boundaries of cities, states, or countries. This requires establishment of different agencies or branches under single ownership in different geographical areas. With physical separation of production and distribution activities, there occurs a separation of record keeping and accounting too. In order to keep better track of the activities of individual branches, and to ascertain their operational efficiency, accounts are maintained for each branch separately. Maintenance of separate accounts for each branch not only reveals the profits or losses of operating a particular branch as a unit of business in a particular location, it also throws light on the efficiency of management and control of activities at the branch level. This increases the accountability of managers and other employees working in the branch.

Although branch accounting calls for setting up a separate unit for handling branch accounts in terms of infrastructural facilities and equipment, employing branch accountants, necessary inputs for maintaining and storing records and other related administrative facilities; nevertheless it is important and desirable.

Value Addition 1: Image
Branch Accounting
Click on the link below to view an image of a head office and its branches. The figure describes that although the branches may carry on their procurement and selling activities independently, their accounts are aggregated and consolidated at the head office.
Source: https://help.sap.com/static/erp_hcm_ias_2012_03/en/01/a9b5cd455711d182b40000e829fbfe/h-00100060000_image002.gif

3. Concept of Branch Accounting:

In a Branch Organization, there are branches and a head office. A branch may be defined as a section of the corporate or any other form of enterprise, geographically separated from the rest of the business, but controlled by a head office. The head office is the parent body that exercises control over all its branches. It is located in the main area of activity. It governs, oversees and regulates the conduct of activities at various branches. Due to large scale of business operations, both delegation and decentralization is required. Branch managers are appointed who take charge and overall responsibility for their respective branches. Their business activities are coordinated by the head office to ensure uniformity in business operations. The branches generally carry on the same activities as that of the parent enterprise.

Value Addition 2: Points to Ponder
Branch
In relation to a branch, the following points need to be remembered: <ul style="list-style-type: none"> • A branch is not a separate legal entity; • It is simply a segment of a business; • From accounting point of view, a branch is a clearly identifiable profit centre; • The concept of a branch means existence of a head office, that is, the principal place of business; for there can be no branch without a head office.

Many of the big companies have branches throughout India. Companies like Bata Shoe Co., Raymond, OCM, Essma, Reliance Co. Ltd, Tata etc. are the examples of having branches throughout India and following branch accounting. Banks are the best examples of having branches throughout the world, yet they do not follow branch accounting system. Banks following double accounting system for preparing accounts for their branches. Other examples of companies having branches but not following branch accounting system are insurance companies.

Need for Branch Accounting

A branch carries on all its activities under the direction and control of head office. Therefore, to have an effective control, it is desirable that the head office and branch obtain information from either side regularly. It becomes necessary to maintain separate accounts for each branch in order to achieve the following objectives:

1. To ascertain the profit or loss of each branch so that if any of them is not yielding the desired profits, corrective measures can be undertaken.
2. To ascertain the financial position of each branch separately at the end of the accounting period.
3. To exercise a proper degree of control on the operations of the branch.

Branch Accounting

4. To ascertain the requirements of stock and cash for each branch.
5. To coordinate the operations of various branches.
6. To incorporate the profit or loss made by branch and its assets and liabilities in the head office's final accounts.
7. To fulfill the audit requirements under section 228 of the Companies Act, 1956 in case of a company being a head office.

Value Addition 3: Surf and Learn

Branches of Companies

Surf Internet to find out the official addresses of a few branches of the following enterprises, whether or not branch accounting is followed in such branches:

- ICICI Bank
- Tata Motors
- Johnson & Johnson
- Wipro
- Nestle

4. Classification of Branches in Accounting

For accounting purposes, the branches may be classified as National and International branches. National branches are the branches that exist within the geographical territory of the Nation. International branches are those that are situated in other countries. The National branches may further be classified as dependent branches or independent branches. We may broadly say that while the dependent branches are dependent on the head office for their functioning, independent branches function as an independent business unit and prepare their own accounts that are completed and forwarded to the head office for consolidation.

Value Addition: Surf and Learn

Types of Dependent Branches

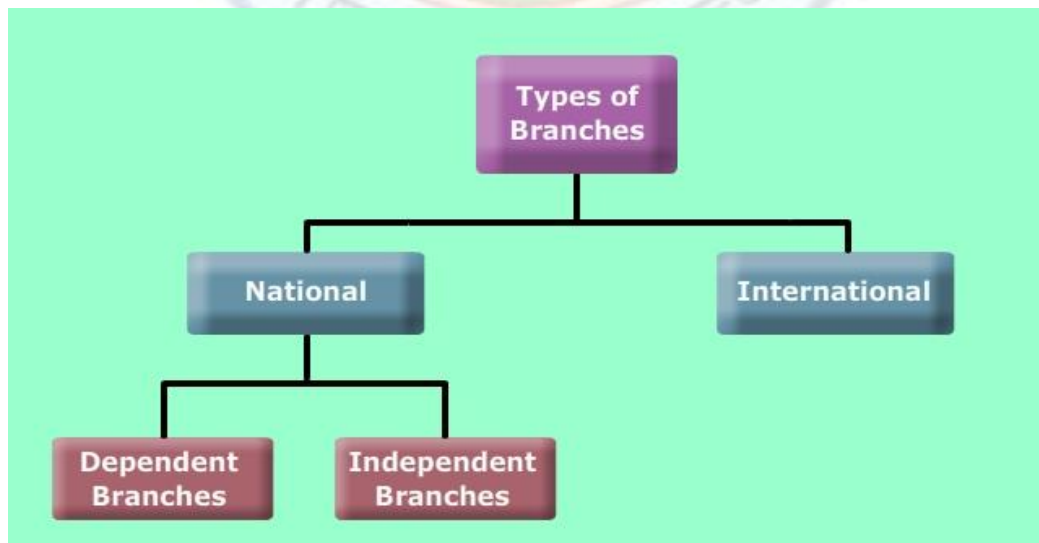
Click on the link below to know the types of dependent branches that may be classified as a service branch or a retail branch.

Service branch as the name suggests services the orders on behalf of the head office. In other words, they receive orders, process them and dispatch goods to the customers. The retail branch, on the other hand, may even purchase goods of other manufacturers besides the goods received from the head office and sell them to the customers.

In this lesson however, the mention of dependent branch refers to a service branch.

Source: <http://accountlearning.blogspot.in/2011/10/concept-and-meaning-of-branch-and-types.html>

Figure 1: Types of Branches



Value Addition: Image

Foreign Branches

Click on the link below to view an image of foreign branches. The figure clearly shows that while the head office may be in one country, its branches may be spread across the globe. The concept of foreign [branches make the functioning of MNCs smooth and efficient. Large Multi National Corporations are found to be operating with their main office in the host country and branches in many other developed and developing nations.](#)

Source: <http://www.anzon.net/files/imagemanagermodule/@random43181fe7784ff/branch.gif>

Value Addition: Did You Know?

Application of Exchange Rates for Foreign Branches

Click on the link below to know about the applicability of exchange rates and the conversion rules while consolidating accounts of foreign branches with that of head office.

Source: <http://cptcwa.blogspot.in/2013/02/branch-accounting.html>

5: Accounting Treatment for Dependent Branches

When a branch is totally controlled by the head office in terms of its policies and administration, it is called a **dependent branch**. The head office in such a case maintains accounts of the branch and ascertains profits or loss earned by the branch. As the name suggests, it is dependent on the head office for all its activities and does not enjoy much discretionary powers. It does not have a separate bank account for its transactions, it rather operates through the head office’s bank account.

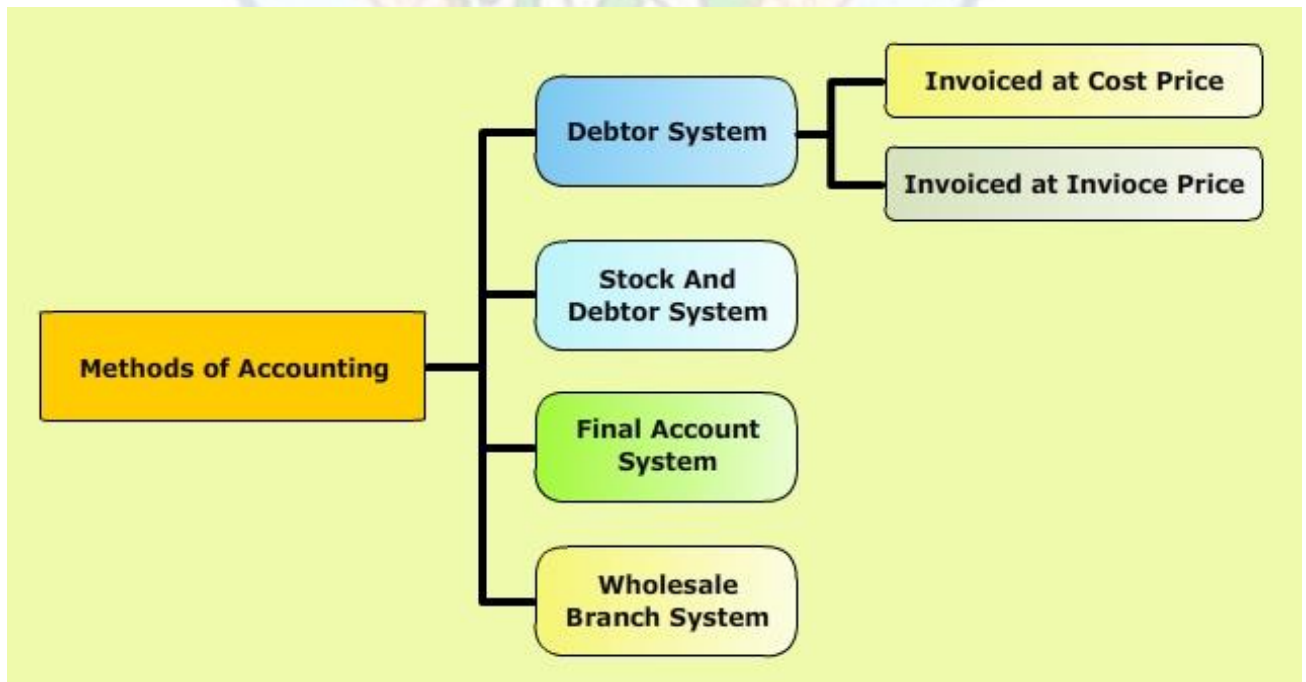
Features of Dependent Branches

- 1) Dependent branches mainly sell goods which are supplied by the head office for cash and also on credit to approved customers if authorized to do so by the head office.
- 2) Generally, cash collected is deposited into a local bank to the credit of the head office.
- 3) All expenses of regular nature are paid directly by the head office.
- 4) For meeting petty expenses, the branch manager is provided with cash, which is reimbursed by H.O. from time to time on an imprest system.
- 5) Such Branches do not maintain accounts books for ascertainment of profit/loss. But in order to supply the requisite information to the head office, some memorandum records such as, cash books; stock register, sales book etc. are maintained.

Methods of Accounting for Dependent Branches

The accounting arrangement of a dependent branch depends upon its size, the type of activities, the method of operations and the degree of control exercised by the head office. Accordingly accounts of dependent branches may be kept by the head office by adopting any of the following methods:

Figure 2: Methods of Accounting of Dependent Branches



1) Branch Debtors System

This system of accounting is adopted when a branch is small in size. Under this method, head office opens only one account for each branch called "Branch Account". All transactions relating to that branch are recorded in this account. This account is a nominal account and is prepared to ascertain profit or loss made by the branch. A branch is assumed to be a debtor of head office and it records only the transactions that take place between itself (H.O) and its branch.

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(The closing balances of assets and liabilities at the branch are shown in the Balance Sheet of the Head Office)

The Branch Account under 'Debtors System' (cost price approach) will appear in books of head office as follows:

Dr.	Branch A/C for the year ended-----		Cr
Particulars	Rs	Particulars	Rs
To Balance b/d opening Balances)		By Balance b/d (opening Balances of liabilities, if any)	
Stock (at cost price)		By Goods Sent to Branch A/C	
Petty cash/Imprest Cash		:	
Prepaid Expenses		-Goods Returned by branch to H.O.	
Sundry Debtors		-Goods Returned by Branch customers directly to Head Office	
Fixed assets in beginning		By Bank A/c (Remittances received from branch)	
To Cash (Local Purchases by Branch)		By Balance c/d : (closing balances of assets at the end)	
To Goods Sent to Branch Account (at cost price)		Stock (at cost price)	
To Goods sent by other branches		Petty cash/Imprest cash	
To Bank (remittance by head office & expenses paid by head office)		Sundry Debtors	
To Balance c/d(closing balances of liabilities at the end)		Prepaid expenses	
To General Profit & Loss A/c (profit) (Balancing figure)		Cash-in-transit	
		Goods-in-transit	
		Fixed assets at the end	
		By General Profit & Loss A/c (loss) (Balancing figure)	

The items mentioned below are not recorded in Branch Accounts under this method:

- Petty Expenses paid by the Branch:** Petty expenses paid by the branch are not shown in the Branch Account. The Branch Account is debited with the opening balance of petty cash and the amount of petty cash sent by the Head office and is credited with the closing balance of petty cash. For calculating closing balance of petty cash, all petty expenses paid by the branch are taken into consideration. Therefore, these should not be shown separately in the Branch Account.
- Credit sales, sales returns, bad debts, discount allowed etc.** are not shown in the Branch Account. These items are related to Debtors Account. For calculating closing balance of debtors all these items are taken into consideration. Thus, there is no need to show them separately in Branch Account.
- Depreciation, Profit /Loss on sale of fixed assets:** Branch Account shows the opening and closing balances of fixed assets which automatically take care of depreciation, profit /loss on sale of fixed assets. Moreover, if an asset is sold for cash, the Branch Account will be credited with the remittances. If it is sold on credit, the Branch account will be credited with the Debtor for sale of an asset. Therefore, at the time of preparing Branch Account, these items are not shown separately.
- Normal and Abnormal loss of stock** is not shown in the Branch Account since stock at the end appears at the adjusted figure.

Illustration 1

Following is the information relating to the Jaipur Branch for the year ending 31st March 2010. Prepare the Branch Account in the books of Head Office.

Opening Balances on 1-4-2009	Rs		Rs
Stock at Branch (cost price)	75,000	Cheques sent to branch:	
Debtors at branch	1,50,000	Salaries	45,000
Petty cash at branch	1,500	Rent & Taxes	7,500
Goods sent to branch	12,60,000	Petty cash	5,500
Cash sales	3,00,000	Closing Balances on 31-3-	
Cash received from debtors	10,50,000	2010	
Goods returned by branch	10,000	Stock at branch	1,25,000
Credit sales	11,40,000	Debtors at branch	2,40,000
		Petty cash at branch	1,000

Solution 1:

Branch Accounting

In the Books of Head Office

Dr. Jaipur Branch Account for the year ended 31 st March, 2010		Cr.	
Particulars	Rs	Particulars	Rs
To Balance b/d		By Goods Sent to Branch A/C (returns from Branch)	10,000
Stock	75,000	By Bank A/C	
Debtors	1,50,000	Cash sales	3,00,000
Petty cash	1500	Cash received from	
To Goods Sent to Branch A/C	12,60,000	debtors	<u>1,050,000</u>
To Bank:		By Balance c/d	
Salaries 45,000		Stock (at cost)	1,25,000
Rent & Taxes 7,500		Debtors	2,40,000
Petty cash 5,500	58,000	Petty cash	1,000
To General Profit & Loss A/C (Profit)(Balancing figure)	81,500		
	-----		-----
	17,26,000		17,26,000
	-----		-----

Note: Under this method credit sales are not shown in Branch Account.

Illustration 2 (When figure for debtors at the end is missing)

Kiran Garments has a branch at Delhi. All cash received by the branch is daily remitted to the head office and all expenses are paid by the head office. Prepare Branch A/C in the books of Head Office from the following particulars for the year ending 31st December, 2009.

	Rs		Rs
Stock as on 1-1-2009	50,000	Cash received from debtors	1,84,000
Debtors as on 1-1-2009	24,000	Bad debts	4800
Goods received by branch from head office	3,20,000	Discount allowed	7200
Cash sales	2,80,000	Goods returned by customers to the Branch	8200
Credit sales	2,16,000	Cheques sent to branch for:	36,000
Stock as on 31-12-2009	43,000	Salaries	25,600
Goods in transit as on 31-12-2009	10,000	Other expenses	

Solution 2:

Note: If any of the three items related to branch debtors, viz. opening Balance of debtors; cash received from debtors & closing Balance of debtors is missing, it will have to be ascertained by preparing a 'Branch Debtors Account'. In the above Illustration, the closing Balance of Debtors is missing. Therefore, it is necessary to prepare 'Memorandum Debtors Account' to ascertain the missing figure.

Dr. Memorandum Branch Debtors Account		Cr.	
Particulars	Rs	Particulars	Rs
To Balance b/d (opening Balance)	24,000	By cash received from debtors	1,84,000
To Sales (credit)	2,16,000	By Bad debts	4,800
		By Discount allowed	7,200
		By Sales returns	8,200
		By Balance c/d (closing Balance of debtors being the balancing figure)	35,800
	-----		-----
	2,40,000		2,40,000
	-----		-----

Note: Under the debtors system of preparing Branch Account, only three items out of the Branch Debtors Account prepared as above will be recorded in the branch account. The three items are:

1. Opening Balance of debtors
2. Cash received from debtors
3. Closing Balance of debtors

Other items appearing in the Branch Debtors Account such as credit sales, bad debts, discount allowed and sales returns will not be recorded in the Branch Account.

Dr. Delhi Branch Account for the year ending 31 st December 2009		Cr.	
Particulars	Rs	Particulars	Rs

Branch Accounting

To Balance b/d: Stock (1-1-2009) 50,000	74,000	By Bank (cash received from branch): Cash sales 2,80,000	
Debtors (1-1-2009) 24,000	3,30,000	Cash received from debtors 1,84,000	
To Goods sent to branch account		By Balance c/d:	4,64,000
To General Profit & Loss A/C	----- 5,52,800	Stock(31-12-2009) 43,000	
		Debtors(31-12-2009) 35,800	88,800
		Goods in transit 10,000	----- 5,52,800

Working Notes:

1. Goods sent to Branch	Rs.
Goods received by branch	3, 20,000
Add: Goods in transit	10,000

	3, 30,000

b) When goods are invoiced at invoice price (Invoice Price Approach)

Sometimes the head office sends goods to the branch at a higher price than cost (termed as invoice price). The invoice price method is adopted where the goods generally would be sold at a fixed price by the branch. The method of sending goods at invoice price is desirable from the point of view of stock control. It is suitable for dealers where goods are of standard type and unlikely to fluctuate in price. The goods may also be invoiced at selling price to keep the margin of profit a secret from the branch manager. Under this method, the preparation of Branch Account is same as in the cost price method, except that all journal entries relating to the goods (stock) such as opening stock, goods sent to branch, goods returned to head office by Branch and closing stock are made at invoice price and proper adjustments for loading (difference between cost price and invoice price) are made by passing some additional entries.

Following **adjustment entries** are required for this purpose:

1. **For adjustment of excess price of the opening stock:**
 Stock Reserve A/C Dr. (with the difference in cost price and invoice price)
 To Branch A/C
2. **For adjustment of excess price of goods sent to branch:-**
 Goods Sent to Branch A/C Dr. (with the difference in cost price and invoice price)
 To Branch A/C
3. **Goods returned by Branch to H.O. is deducted out of the goods sent to Branch**
4. **For adjustment of excess price of closing stock:**
 Branch A/C Dr. (with the difference in cost price and invoice price)
 To Stock Reserve A/C

Illustration 3:

Relaxo Ltd. Supply goods to its Delhi branch at cost plus 25%. All cash sales at branch are daily remitted to the head office, and the latter directly pays all the branch expenses. From the following particulars, show by debtors system the result of the branch operations for the year ended December 31, 2009.

	Rs.
Stock at branch 1-1-2009 (invoice price)	3,000
Goods sent to branch (invoice price)	24,000
Remittance from branch	25,000
Cash paid by H.O. for rent & taxes	600
Cash paid by H.O. for salaries & wages	1,900
Cash paid by H.O. for sundry expenses	2,000
Returns from branch (invoice price)	150
Stock at branch on 31-12-2009(invoice price)	8,000

Solution 3:

In Books of Relaxo Ltd (H.O.)

Dr.	Delhi Branch Account for the year ended 31 st December, 2009		Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d: Stock	3,000	By Bank (remittance)	25,000
To Goods Sent to Branch A/C	24,000	By Stock Reserve A/C (note 1)	600
To Bank A/c: Salaries & wages	1,900	By Goods Sent to Branch A/C (returns)	150
Rents & Taxes	600	By Goods Sent to Branch A/C (note 2)	4,770

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Sundry expenses	2,000	By Balance c/d:	8,000
To Stock Reserve (note 3)	1,600	Stock	
To General Profit & loss A/C	5,420		
	-----		-----
	38,520		38,520

Working notes:

- Loading on opening stock** – Loading is 25% on cost but the given data are related to invoice price. Thus, if cost is Rs.100, the invoice price will be $(100+25) = \text{Rs.}125$. hence, loading on invoice price = $25/125 = 1/5$ or 20% Therefore, loading on opening stock will be $\text{Rs. } 3000 \times 1/5 = 600$.
- Loading on goods sent** – Total goods sent, Rs.24,000. goods returned by branch at invoice price = Rs.150. the loading on net goods sent will be $\text{Rs.}23850 \times 1/5 = \text{Rs.}4,770$.
- Loading on closing stock** – $\text{Rs.}8000 \times 1/5 = \text{Rs.}1,600$

Illustration 4:

Sonari Ltd. maintains a branch at Mumbai to which it sends goods at cost plus 25%. Mumbai branch sells goods both in cash and on credit. All collections and cash sales are directly deposited to head office Bank Account and all expenses are paid by the head office directly. From the following information, prepare Mumbai Branch Account in the books of head office:

	Amount in Rs			Amount in Rs
Balance on 1.4.2009:				
Branch Stock (at invoice price)	30,000	Cash Sales		30,000
Branch Debtors	40,000	Bad Debts		2,000
Transactions during the year:	1,4	Discount Allowed		3,000
Goods sent to Branch(at cost price)	0,000	Goods returned by branch (at invoice price)		10,000
Abnormal loss of goods at invoice price	8,000	Goods returned by debtors (at invoice price)		3,000
		Credit Sales		1,20,000
Cheques sent by H.O. to branch		Petty expenses		2,000
Rent	4,000	Stock (at invoice price)		40,000
Salaries	6,000			
Balances on 31-3-2010				
Debtors	45,000			
Outstanding rent	1,000			

Solution 4:

In the Books of Sonari Ltd (H.O.)

Dr.		Cr.	
Particulars	Rs	Particulars	Rs
To Balance b/d:		By Stock Reserve A/C	6,000
Stock	30,000	(note 1)	
Debtors	40,000	By Goods Sent to Branch	10,000
To Goods Sent to Branch	1,75,000	A/C (returns)	
A/C (note 2)		By Goods Sent to Branch	33,000
To Bank A/C :		A/C (note 3)	
Rent	4,000	By Bank A/C:	
Salaries	6,000	Cash sales	30,000
Petty expenses	2,000	Collection from Debtors	1,07,000
To stock reserve A/C	8,000	(note 4)	
To Balance c/d:		By Balance c/d:	
Outstanding rent	1,000	Debtors	45,000
To General P&L A/C(Profit)	5,000	Stock	40,000
(Balancing figure)			
	-----		-----
	2,71,000		2,71,000

Working Notes:

- Loading on opening stock:** Loading is 25% on cost but the given data are related to invoice price. Thus, if cost is Rs.100, the invoice price will be

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Rs.(100+25) = Rs. 125 . Hence, loading on invoice price = $25/125=1/5$ or 20%. Therefore, loading on opening stock = $30,000 * 1/5=Rs. 6000$.

2. **Invoice Price:** Invoice price of goods sent=Rs. 1,40,000 + 25% of 1,40,000=1,40,000 + 35,000=Rs. 1,75,000.
3. **Loading on net goods sent :** Total goods sent Rs. 1,75,000. Goods returned by branch at invoice price Rs. 10,000. The loading on net goods sent is $1/5 * 1,65,000 = Rs. 33,000$.

4. **Memorandum Branch Debtors A/C needs to be prepared:**

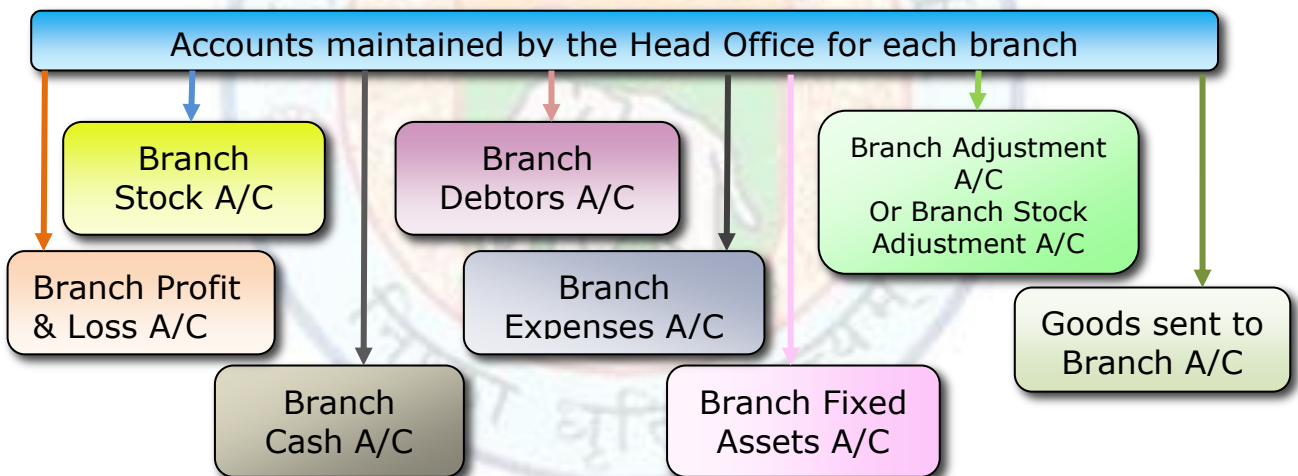
Dr.	Memorandum Branch Debtors Account		Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d	40,000	By Returns from Debtors	3000
To Sales (credit)	1,20,000	By Bad debts	2000
		By Discount allowed	3000
		By Bank (balancing figure)	1,07,000
	-----	By Balance c/d	45,000
	1,60,000		-----
			1,60,000

5. **Items to be ignored:** Under this method, credit sales, sales returns, bad debts, discount allowed to debtors, etc. are to be ignored while preparing branch account, as debtors opening Balance and closing Balance (shown in the Branch A/C) takes care of the above mentioned items.

2) Stock and Debtors System

Stock and debtors system is generally applied if the head office desires to exercise a greater control over the working of a branch. Goods are generally sent to the branch at an invoice price and the size of the branch is large. Under this method, many accounts are generally maintained by the H.O for each branch, which are given in the figure given below.

Figure 3: Accounts maintained under Stock and Debtor System by Head Office



Accounting Treatment in the Books of Head Office

The following journal entries are made relating to various transactions under this method:

1. **When goods are sent to branch at Invoice Price:**
 Branch Stock A/C Dr. (at invoice price)
 To Goods Sent to Branch account.
2. **When goods are returned by branch to head office**
 Goods Sent to Branch Account Dr. (invoice value of goods returned)
 To Branch Stock Account
3. **When goods are received from other branches on advice from Head Office**
 Branch Stock A/C Dr. (invoice price)
 To Goods Sent to Branch Account
4. **When goods are transferred to other branches on advice from Head Office**
 Goods sent to Branch Account Dr. (invoice price)
 To Branch Stock Account
5. **When goods are sold on credit**
 Branch Debtors Account Dr.
 To Branch Stock Account
6. **When goods are sold for cash**

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- Branch Cash Account Dr. (Actual sale proceeds)
 To Branch Stock Account
7. **When goods are returned by Branch Debtors to Branch**
 Branch Stock Account Dr.
 To Branch Debtors Account
8. **When Cash is collected from debtors**
 Branch Cash Account Dr.
 To Branch Debtors Account
9. **When Bills of Exchange are accepted by Branch Debtors**
 Bills Receivable Account Dr.
 To Branch Debtors A/C
10. **To record bad debts, discount allowed etc.**
 Branch Expenses A/C Dr.
 To Branch Debtors Account
11. **To record branch expenses incurred in cash**
 Branch Expenses A/C Dr.
 To Branch Cash Account.
12. **To record abnormal loss of stock (due to abnormal factors like fire, flood, theft, pilferage, spoilage etc.)**
 Branch Adjustment A/C Dr. (loading)
 Branch Profit & Loss A/C Dr. (cost)
 To Branch Stock A/C
13. **To record normal loss of stock (due to inherit nature of the goods)**
 Branch Adjustment Account Dr. (invoice price)
 To Branch Stock Account
14. **To record surplus representing excess of selling price over invoice price**
 Branch Stock Account Dr. (Excess of selling price over Invoice price)
 To Branch Adjustment Account
 or
 Branch Stock A/C Dr. (total surplus)
 To Branch Adjustment A/C (loading)
 To Branch Profit and Loss A/C (cost)
15. **To record deficiency due to sale of goods at a price lower than Invoice Price**
 Branch Adjustment A/c Dr. (Excess of Invoice price over selling price)
 To Branch Stock A/C
16. **For adjusting the load on amount of goods sent to branch and Goods returned by Branch to H.O.**
- (i) Goods sent to Branch A/C Dr. (Profit margin on goods sent to branch)
 To Branch Adjustment A/C
 (for adjusting loading on goods sent to Branch)
- (ii) Branch Adjustment A/C Dr. (Profit margin on goods returned by branch)
 To Goods Sent to Branch A/C
 (for adjusting loading on goods returned by Branch to H.O.)
17. **To remove loading from the amount of opening stock**
 Branch Stock Reserve Account Dr. (Loading/profit margin)
 To Branch Adjustment Account
 (This is only a transfer entry. The stock reserve carried forward from the previous year is closed and transferred to the Branch Adjustment Account. The stock reserve at the end will be carried forward to the next year)
18. **To remove loading from the amount of closing stock**
 Branch Adjustment Account Dr. (loading/profit margin)
 To Branch Stock Reserve Account
19. **To record gross profit made by branch:**
 Branch Adjustment Account Dr.
 To Branch Profit and Loss Account
 (The entry will be reversed in case of gross loss)
20. **To transfer the branch expenses to Branch Profit & Loss A/C:**
 Branch Profit and Loss Account Dr.
 To Branch Expenses Account
21. **The Balance in the Branch P & L Account will be net profit or net loss and will be transferred to General Profit and Loss Account.**
 Branch Profit and Loss account Dr.
 To General Profit & Loss Account
 (The entry will be reversed in case of net loss)
22. **For closing the Goods sent to branch account:**
 Goods Sent to Branch Account Dr.

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To Purchases Account/Trading Account.

The nature and functions of some of these accounts are given below:

Branch Stock Account

This is a very important account and is prepared to have a strict control over branch stock. It is always prepared at invoice price. Being a real account (an asset), it takes the rule of debit what comes in and credit what goes out. Therefore, the inflow of stock into the branch is recorded on the debit side of the account, and the outflow of stock from the branch is recorded on the credit side. In normal course the totals on two sides of the account must be the same. In case there is a difference, this difference is labelled as either surplus or shortage. Shortage/Deficiency is recorded on the credit side and surplus is recorded on the debit side.

Important features of Branch Stock Account are as under:

- 1) It controls branch stock
- 2) It is maintained at invoice price
- 3) Actual stock with the branch is shown as the closing balance in this account.

The Performa of the Branch Stock Account is given below:

Dr.	Branch Stock A/C (at Invoice Price)		Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d (opening stock)	xxx	By Goods Sent to Branch A/C	xxx
To Goods Sent to Branch A/C (goods sent by head office)	xxx	(goods returns by Branch to H.O.)	xxx
To Goods Sent to Branch A/C (goods received from other Branches)	xxx	By Goods Sent to Branch A/C (goods transferred to other Branches)	xxx
To Branch Debtors A/C (goods returns by Branch customers)	xxx	By Branch Debtors A/C (credit sales)	xxx
To Branch Adjustment A/C (surplus on trading excess of selling price over invoice price)	xxx	By Branch Cash A/C (cash sales)	xxx
Or		By Branch Adjustment A/C (loading of abnormal loss)	xxx
To Branch Adjustment A/C (cost of surplus)	xxx	By Branch Profit & Loss A/C	xxx
To Branch Profit & Loss A/C (loading on surplus)		(cost of abnormal loss/shortages)	xxx
		By Branch Adjustment A/c (Normal Loss)	xxx
		By Branch Adjustment A/C (deficiency due to excess of invoice price over selling price)	xxx
		By Balance c/d:	xxx
		-Stock at branch	
		-Goods in transit	

Branch Adjustment Account

This account is prepared with a view to ascertain the gross profit of the branch. In this account all loading (profit margin) entries are summarized. It is credited with the "stock reserve" on opening stock; loading on net goods sent to branch; surplus stock. This account is debited with the loading on shortage in stock; spoilage; pilferage; loss by fire; loss in transit and 'stock reserve' on closing stock. The Balance of this account is transferred to branch profit & loss account.

Dr.	Branch Adjustment Account		Cr.
Particulars	Rs	Particulars	Rs
To Branch Stock A/C (loading on abnormal loss/shortage)	xxx	By Branch Stock A/C	xxx
To Branch Stock A/C (invoice price of normal loss)	xxx	(surplus on trading due to excess of selling price over invoice price)	
To Branch Stock A/C (excess of invoice price over selling price)	xxx	Or	xxx
To Goods sent to Branch A/C (loading on goods returned by branch to head office)	xxx	By Branch Stock A/C (loading on surplus)	xxx
To Stock Reserve A/C (loading on closing stock)	xxx	By Goods Sent to Branch A/C (loading on goods sent to branch)	xxx
To Branch Profit & Loss A/C (Gross Profit)		By Stock Reserve A/C (loading on opening stock)	xxx
		By Branch Profit & Loss Account	
		(gross loss)	

Branch Accounting

xxx	Xxx
-----	-----

Branch Profit and Loss Account

This account is prepared to determine the net profit or loss of the branch. The gross profit or gross loss is transferred from "Branch Adjustment Account" to Branch Profit & Loss Account. It is debited with branch expenses; cost of shortage in stock, pilferage theft etc. It is credited with gross profit (transferred from 'branch adjustment account'). The Performa of Branch Profit and Loss Account is given below:

Dr.	Branch Profit and Loss Account		Cr
Particulars	Rs.	Particulars	Rs.
To Branch Adjustment A/C (gross loss)	Xxx	By Branch Adjustment A/C (gross profit)	Xxx
To Branch Stock A/C (cost of abnormal loss/shortage)	Xxx	By Branch Stock A/C (cost of surplus)	Xxx
To Branch Expenses A/C	Xxx	By Branch Cash A/C (insurance claim received)	Xxx
To General P&L A/C (Net Profit)	xxx	or	
		By Insurance Co A/C (Claim due)	Xxx
		By General P&L A/C (Net Loss)	Xxx
	xxx		Xxx

Branch Expenses Account :

This account records all cash as well as non cash expenses of the branch. The Balance of this account is transferred to 'Branch Profit and Loss Account' and thereby closed.

Dr.	Branch Expenses Account		Cr.
Particulars	Rs	Particulars	Rs
To Branch Cash A/C (cash expenses, e.g. salaries, rent, petty expenses)		By Branch P&L A/C	
To Branch Assets A/C (depreciation)			
To Branch Debtors A/C (Bad debts; Discount allowed etc.)			

Illustration 5:

Future India Ltd., Mumbai has a branch at Gurgaon to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly by H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to the Head Office for recording. Following further details are given for the year ended 31stDec, 2010:

Cost of goods sent to branch at cost			Rs.
			2, 00,000
Goods received by the branch till 31.12.2010 at invoice price			2, 20,000
Credit sales for the year at invoice price			1, 65,000
Cash sales for the year at invoice price			59,000
Cash remitted to the head office			2, 22,500
Expenses paid by H.O.			12,000
Bad debts written off			750
Balances as on	1.1.2010	31.12.2010	
	Rs.	Rs.	
Stock	25,000 (cost)	28,000 (invoice price)	
Debtors	32,750	26,000	
Cash in hand	5,000	2,500	

Required: Show necessary ledger accounts in the books of the head office and determine the Profit and Loss of the branch for the year ended 31st December, 2010, using (a) Debtors Method, and (b) Stock & Debtors Method.

Solution 5:

(a) Under Debtors Method

Dr.	New Delhi Branch Account		Cr.
Particulars	Rs	Particulars	Rs

Branch Accounting

To Balance b/d:		By Stock Reserve A/C (Rs.30000 x 20/120)	5,000
Stock	30,000	By Goods Sent to Branch A/C (Rs.240000 x 20/120)(Loading)	40,000
Debtors	32,750	By Bank A/C (remittance)	2,22,500
Cash	5,000	Recd. from the branch Cash sales	59,000
To Goods Sent to Branch A/C (Rs.2,20,000+Rs.20,000)	2,40,000	Drs. collection 1,63,500 (net of expenses)	48,000
To Bank A/C (expenses paid by H.O.)	12,000	(Rs. 2,22,500- Rs.59000)	26,000
To Stock Reserve A/C (loading on closing stock) (Rs.48000 x 20/120)	8,000		2,500
To Net Profit transferred to Profit and Loss A/C	16,250	By Balance c/d: Stock (including stock in transit) Debtors Cash	3,44,000
	----- 3,44,000		----- 3,44,000

Working Notes:

Dr.	(i) Memorandum Branch Stock Account		Cr
Particulars	Rs	Particulars	Rs
To Balance b/d	30,000	By Branch debtors A/C	1,65,000
To Goods Sent to Branch A/C	2,40,000	By Branch Cash A/C	59,000
To Branch Adjustment A/C (excess of selling price over invoice price) (balancing figure)	2,000	By Balance c/d: Goods-in-transit (Rs 2,40,000-Rs.2,20,000)	20,000
	-----	Stock at Branch	28,000
	2,72,000		----- 2,72,000

Dr.(ii)	Memorandum Branch Debtors Account		Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d	32,750	By bad debt	750
To Branch stock A/C	1,65,000	By Branch Cash A/C (balancing figure)	1,71,000
	-----	By Balance c/d	26,000
	197750		----- 197750

Dr.	(iii) Memorandum Branch Cash Account		Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d	5,000	By bank A/C (remittance to H.O.)	2,22,500
To Branch Stock A/C	59,000	By Expenses	12,000
To Branch Debtors A/C	1,71,000	By Expenses (paid by Branch) (balancing figure)	10,000
To Bank A/C (remittance by H.O.)	12,000	By Balance c/d	2,500
	-----		----- 2,47,000
	2,47,000		2,47,000

(b) Under Stock and Debtors Method

Dr.	Branch Stock Account (At invoice price)		Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d	30,000	By Branch debtors A/C	1,65,000
To Goods Sent to Branch A/C	2,40,000	By Branch Cash A/C	59,000
To Branch Adjustment A/C (excess of selling price over invoice price)	2,000	By Balance c/d: Goods-in-transit (Rs 240000-Rs.220000)	20,000
	-----	Stock at Branch	28,000
	2,72,000		----- 272000

Branch Accounting

Dr.		Branch Debtors Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Balance b/d	32,750	By Bad debt	750		
To Branch stock A/C	1,65,000	By Branch Cash A/C (balancing figure)	1,71,000		
	-----	By Balance c/d	26,000		
	1,97,750		-----		
			1,97,750		

Dr.		Branch Cash Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Balance b/d	5,000	By Bank A/C (remittance to H.O.)	2,22,500		
To Branch stock A/C	59,000	By Branch Profit and Loss A/C (expenses paid by H.O.)	12,000		
To Bank A/C	12,000	By Branch Profit and Loss A/C (balancing figure)	2,500		
To Branch Debtors A/C	1,71,000	(expenses paid by Branch)	-----		
	-----	By Balance c/d	2,47,000		
	2,47,000		-----		

Dr.		Branch Adjustment Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Stock Reserve A/C (on closing stock) (Rs.48000 x 20/120)	8,000	By Stock Reserve A/C (Rs.30000 x 20/120)	5,000		
To Gross Profit c/d	39,000	By Goods Sent to Branch A/C	40,000		
	-----	By Branch Stock A/C	2,000		
	47,000		-----		
			47,000		

Dr.		Branch Profit and Loss Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Branch expenses (paid by H.O. Rs 12,000 and paid by Branch Rs.10,000)	22,000	By Gross Profit b/d	39,000		
To Branch Debtors (Bad Debts)	750				
To Net Profit	16,250				

	39,000		-----		
			39000		

Dr.		Goods sent to Branch Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Branch Adjustment A/C	40,000	By Branch Stock A/C	2,40,000		
To Purchases A/C (transfer)	2,00,000				

	2,40,000		-----		
			2,40,000		

Illustration 6:

Atlantic Paper Products sends goods to their Bhopal Branch at cost price plus 25%. You are given the following particulars:

	Rs		Rs
Opening stock at Branch at its cost	5,000	Sales	25,500
Goods sent to Branch at invoice price	20,000	Expenses	8,000
Theft at invoice price	1,000	Closing stock at Branch (at cost to branch)	6,000
Loss in weight (normal) At invoice price	500	Claim received from the insurance company for loss in transit	2,000
Loss in transit at invoice price	2,500		

Branch Accounting

You are required to prepare in the head office books: (A) Branch Stock Account; (B) Branch Adjustment Account; (C) Branch Profit & loss Account; (D) Surplus in Stock Account; (E) Loss-in-Transit Account; and (F) Loss by Theft Account

Solution 6:

In the books of Atlantic Paper Products			
Dr.		Cr.	
Branch Stock Account (At invoice price)			
Particulars	Rs	Particulars	Rs
To Balance b/d (note 1)	5,000	By Loss in transit A/C	2,500
To Goods Sent to Branch A/C	20,000	By Normal Loss*	500
To Surplus in Stock A/C	10,500	By Loss by theft A/C**	1,000
		By Branch Debtors A/C	25,500
		By Balance C/D	6,000
	-----		-----
	35,500		35,500

* **Normal Loss:** Such loss is bound to occur due to inherent nature of goods, such as loss of weight due to leakage, evaporation etc. Normal Loss is treated as direct charge which affects gross profit margin only. Hence, normal loss will not be split into 'loading' and cost of 'goods lost'.

** **Abnormal Loss:** Branch stock destroyed by fire, floods, theft or loss in transit is called abnormal loss. Accounting treatment for abnormal loss is:

The invoice value of abnormal loss will be credited to 'Branch Stock Account', the particular loss account being debited with the same amount. The load on such loss will be debited to Branch Adjustment Account and credited to Abnormal Loss Account. The 'cost of loss' will be transferred to the Branch Profit & Loss Account.

Dr.		Cr.	
Branch Adjustment Account			
Particulars	Rs	Particulars	Rs
To loss-in-transit A/C (loading)	500	By Stock Reserve A/C (note 3)	1,000
To Normal Loss*	500	By Goods Sent to Branch A/C (note 4)	4,000
To Loss by theft A/C**	200	By Surplus in Stock A/C (note 5)	2,100
To Stock reserve A/C	1,200		
To Gross Profit c/d	4,700		
	-----		-----
	7,100		7,100

Dr.		Cr.	
Branch Profit & Loss Account			
Particulars	Rs	Particulars	Rs
To Expenses A/C	8,000	By Goss Profit b/d	4,700
To Loss by theft A/C (note 6)**	800	By Surplus in Stock A/C	8,400
To General Profit & Loss A/C	4,300		
	-----		-----
	13,100		13,100

Dr.		Cr.	
Surplus in Stock Account			
Particulars	Rs	Particulars	Rs
To Branch Adjustment A/C	2,000	By Branch Stock A/C	10,000
To Branch Profit & Loss A/C	8,000		
	-----		-----
	10,000		10,000

Dr.		Cr.	
Loss-in-transit Account			
Particulars	Rs	Particulars	Rs
To Branch Stock A/C	2,500	By Branch adjustment A/C	500
		By Bank A/C (claim recd.)	2,000
	-----		-----
	2,500		2,500

Dr.		Cr.	
Loss by theft Account			
Particulars	Rs	Particulars	Rs
To Branch Stock A/C	1,000	By Branch Adjustment A/C	200
		By Branch Profit & Loss A/C	800
	-----		-----
	1,000		1,000

Branch Accounting

Working Notes:

- Here, opening stock value has been given at cost to branch, i.e., at invoice price. Therefore, there is no need for converting that into the invoice price.
- It is assumed that all sales are made on credit.
- Loading is 25% on cost, i.e., 25/125 or 1/5 of invoice price. So, Loading on opening stock = $1/5 \times 5000 = \text{Rs.}1000$.
- Loading on goods sent is $1/5 \times 20000 = \text{Rs.}4000$.
- Loading on surplus stock is $1/5 \times 10000 = \text{Rs.}2000$. Loading on surplus in stock is credited to Branch Adjustment Account and cost is credited to Branch Profit and Loss Account.
- Loading on loss-in-transit is $1/5 \times 2500 = \text{Rs.}500$. Loading on lost-in-transit is debited to branch adjustment account. Cost of goods lost-in-transit (Rs.2000) is equal to insurance claim received. So, there is no abnormal loss which is to be transferred to the general profit and loss account.

Illustration 7:

Multichained Stores Ltd, Delhi has its branches at Lucknow and Chennai. It charges goods to its branches at cost plus 25%. Following information is available about the transactions of the Lucknow branch for the year ended on 31stMarch, 2010.

	Rs		Rs
Opening Stock	30,000	Closing Petty Cash	230
Opening Debtors	10,000	Closing Debtors	14,000
Opening Petty cash	50	Insurance Co. paid to H.O. for loss by fire at Lucknow	3,000
Goods sent to Lucknow Branch	3,25,000	Cash sent for petty expenses	34,000
Goods returned to H.O.	10,000	Bad debts at Branch	500
Cash sales	1,00,000	Goods transferred to Chennai branch under H.O. advice	15,000
Collection from Debtors	1,70,000	Insurance Charges paid by H.O.	500
Goods returned by Debtors	500	Goods lost in fire(invoice price)	5,000
Goods pilfered (invoice price)	2,000		

Goods worth Rs.15, 000 (included above) sent by Lucknow Branch to Chennai Branch was in transit on 31.3.2010.

Required: Show the following accounts in the books of Multi chained Stores Ltd.

- (a) Lucknow Branch Stock A/C (b) Lucknow Branch adjustment A/C (c) Lucknow Branch Profit & Loss account (d) Lucknow Branch Debtors A/C (e) Goods sent to Lucknow Branch A/C (f) Stock Reserve A/C

Solution 7:

Dr.		(a) Lucknow Branch Stock A/C	Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d	30,000	By Branch Cash A/C (cash sales)	1,00,000
To Goods Sent to Branch A/C	3,25,000	By Branch Debtors A/C (credit sales)	1,75,000
To Branch Debtors A/C	500	By Goods Sent to Branch A/C (returns to H.O.)	10,000
		By Goods Sent to Branch A/C (t/f of goods to other Branch)	15,000
		By Branch Adjustment A/C (Rs.5000 x 20/100)	1,000
		By Branch P&L A/C (cost of abnormal loss)	4,000
		By Branch Adjustment A/C (Rs.2000 x 20/100)	400
	-----	By Branch P&L A/C (cost of goods pilfered)	1,600
	3,55,500	By Balance c/d	48,500

			3,55,500

Dr.		(b) Lucknow Branch Adjustment Account	Cr.
Particulars	Rs	Particulars	Rs

Branch Accounting

To Branch Stock A/C (load on goods lost)	1000	By Stock Reserve A/C (Rs.30000 x 25/125)	6000
To Branch Stock A/C (load on goods pilfered)	400	By Goods Sent to Branch A/C [(Rs.325000-Rs.10000- Rs.15000)x25/125]	60,000
To Stock Reserve A/C (Rs.48500 x 25/125)	9700		
To Gross Profit t/f to Branch P&L A/C	54,900		
	-----		-----
	66,000		66,000

Dr. (c) Lucknow Branch Profit and Loss Account		Cr.	
Particulars	Rs	Particulars	Rs
To Insurance Charges	500	By Branch adjustment A/C (gross profit)	54900
To Petty expenses (Rs.50 + 34,000 – Rs.230)	33,820	By Branch Cash A/C (Insurance claim recd.)	3000
To Bad debts	500		
To Branch Stock A/C (cost of goods lost)	4000		
To Branch Stock A/C (cost of goods pilfered)	1600		
	17,480		
	-----		-----
To Net Profit t/f to general P & L A/C	57,900		57,900

Dr. (d) Lucknow Branch Debtors Account		Cr.	
Particulars	Rs	Particulars	Rs
To Balance b/d	10,000	By Branch Cash A/C	1,70,000
To Branch Stock A/C (credit sales) (balancing figure)	1,75,000	By Branch Stock A/C (returns to Branch)	500
		By Bad debts	500
		By Balance c/d	14000
	-----		-----
	1,85,000		1,85,000

Dr. (e) Goods sent to Lucknow Branch Account		Cr.	
Particulars	Rs	Particulars	Rs
To Branch Stock A/C	10,000	By Branch Stock A/C	3,25,000
To Branch Stock A/C	15,000		
To Branch Adjustment A/C	60,000		
To General Trading A/C or Purchases A/C	2,40,000		
	-----		-----
	3,25,000		3,25,000

Dr. (f) Lucknow Branch Stock Reserve Account		Cr.	
Particulars	Rs	Particulars	Rs
To Branch Adjustment A/C (t/f)	6,000	By Balance b/d	6,000
To Balance c/d	9,700	By Branch Adjustment A/C (t/f)	9,700
	-----		-----
	15,700		15,700

Illustration 8:

Reliance Industries, Mumbai has a branch in Chandigarh to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch expenses are paid direct from head office and the Branch has to remit all cash received into the head office Bank Account at Chandigarh. From the following details, prepare the accounts in the head office ledger and ascertain the branch profit. Branch does not maintain any books of account, but sends weekly returns to the head office:

	Rs.		R
Goods received from head office	6,00,000	Discount allowed to Debtors	6,000
Returns to head office	12,000	Bad debts	4,000

Branch Accounting

Opening stock at Chandigarh	60,000	Sales returns at Chandigarh Branch	8,000
Cash sales	2,00,000	Rent rates, Taxes at branch	18,000
Closing sundry Debtors	94,000	Salaries, wages, bonus at branch office expenses	6,000
Opening sundry Debtors at Chandigarh	72,000	Closing stock at Branch	1,20,000
Cash recd. from debtors	3,20,000		

Solution 8:

Dr.		Cr.	
(a) Chandigarh Branch Stock Account			
Particulars	Rs	Particulars	Rs
To Balance b/d	60,000	By Branch Cash A/C (cash sales)	2,00,000
To Goods Sent to Branch A/C	6,00,000	By Branch Debtors A/C (credit sales)	3,60,000
To Branch Debtors A/C (returns by customers)	8,000	By Goods Sent to Branch A/C (returns to H.O.)	12,000
To Branch Adjustment A/C (surplus) (b.f)	24,000	By Balance c/d	1,20,000
	-----		-----
	6,92,000		6,92,000

Dr.		Cr.	
(b) Chandigarh Branch Adjustment Account			
Particulars	Rs	Particulars	Rs
To Stock Reserve A/C (Rs.120000 x 25/125)	24,000	By Stock Reserve A/C (Rs.60000 x 25/125)	12,000
To Gross Profit t/f to Branch P&L A/C	1,29,600	By Goods Sent to Branch A/C (Rs.60000 - Rs.12000 x 25/125)	1,17,600
	-----	By Branch Stock A/C	24,000
	1,53,600		-----
			1,53,600

Dr.		Cr.	
(c) Chandigarh Branch Profit and Loss Account			
Particulars	Rs	Particulars	Rs
To Branch Expenses	84,000	By Branch Adjustment A/C (gross profit)	1,29,600
To Discount allowed	6,000		
To Bad debts	4,000		
To Net Profit t/f to General P & L A/C	35,600		
	-----		-----
	1,29,600		1,29,600

Dr.		Cr.	
(d) Chandigarh Branch Debtors Account			
Particulars	Rs	Particulars	Rs
To Balance b/d	72,000	By Branch Cash A/C (Collection)	3,20,000
To Branch Stock A/C (balancing figure) (Credit Sales)	3,60,000	By Branch Stock A/C (returns to branch)	8,000
		By Discount allowed	6,000
		By Bad debts	4,000
		By Balance c/d	94,000
	-----		-----
	432000		4,32,000

Dr.		Cr.	
(e) Chandigarh Branch Expenses Account			
Particulars	Rs	Particulars	Rs
To Bank A/C (Rent etc.)	18,000	By Branch P&L A/C	84,000
To Bank A/C (Salaries etc.)	60,000		
To Bank A/C (Office expenses)	6,000		
	-----		-----
	84,000		84000

Illustration 9:

Branch Accounting

Prachi Ltd. has two branches in Cochin and Bangalore. During the year ended 31st march 2009 goods have been invoiced to the Cochin Branch at 20% above cost and to the Bangalore Branch at 25% above cost. The branches do not maintain complete books of account but the following figures are available for the year ended on 31st March 2010.

	Cochin (Rs)	Bangalore (Rs)
Opening stock at invoice price	10,000	10,000
Goods sent to branch at cost	50,000	40,000
Amount remitted by branch	80,000	80,000
Amount remitted by head office	15,000	15,000
Goods returned by branch at invoice price	3,000	----
Cash as on 1-4-2009	2,000	1,000
Cash as on 31-3-2010	1,000	500
Goods returned by customers to branch at selling price	5,000	4,000
Expenses at branch in cash	9,000	3,000

All sales at the branches are for cash. During the year, Cochin branch purchased fixed assets worth Rs.4000 and this amount is included in the figure of branch expenses. Cochin branch transferred to the Bangalore branch, stock costing (to H.O.) Rs.5000 during the year. The Bangalore branch remitted Rs.2000 to the Cochin branch also during the year. There was a closing stock of Rs.24000 valued at invoice price at the Cochin branch. There was no closing stock at the Bangalore Branch. The branch stock adjustment account in the head office books showed the following positions as on 1stApril, 2009: For Cochin – Rs.2500 (Cr); and for Bangalore – Rs.2000 (Cr). Prepare Branch Stock Accounts, Branch Stock Adjustment Accounts, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account, and Branch Profit and Loss Accounts in the Head Office books ignoring depreciation.

Solution 9:

In the Books of Prachi Ltd. Branch Stock Account

Dr.				Cr.	
Particulars	Cochin Rs.	Bangalore Rs.	Particulars	Cochin Rs.	Bangalore Rs.
To Balance b/d	10,000	10,000	By Goods Sent to Branch A/C (return)	3,000	-----
To Goods Sent to Branch A/C	60,000	50,000	By Goods Sent to Branch A/C (note 2)	6,000	-----
To Branch Cash A/C (note 1)	5,000	4,000	By Branch Cash A/C (cash sales)	24,000	-----
To Goods Sent to Branch A/C (note 2)	-----	6,250	By Balance c/d	1,09,000	-----
To Surplus in stock A/C	34,000	3,250		-----	73,500
	1,09,000	73,500		-----	-----
	-----	-----			73,500
	24,000	-----			-----
To Balance b/d	-----	-----			-----

Dr. Branch Stock Adjustment Account

Dr.				Cr.	
Particulars	Cochin Rs.	Bangalore Rs.	Particulars	Cochin Rs.	Bangalore Rs.
To Goss Profit c/d	12,667	13,900	By Balance b/d (note 3)	2,500	2,000
To Balance c/d (note 5)	4,000	-----	By Goods Sent to Branch A/C (note 4)	8,500	11,250
	-----	-----	By Surplus in Stock A/C (loading)	5,667	650
	16,667	13,900	By Balance b/d	16667	13900
	-----	-----		-----	-----

Dr. Goods Sent to Branch Account

Dr.				Cr.	
Particulars	Cochin (Rs.)	Bangalore Rs.	Particulars	Cochin Rs.	Bangalore Rs

Branch Accounting

To Branch Stock A/C (returns)	3,000	-----	To Branch Stock A/C	60,000	50,000
To Branch Stock A/C (Transfer)	6,000	-----		-----	6,250
To Branch Stock Adjustment A/C	8,500	11,250	To Branch Stock A/C (transfer)		
To Purchase A/C	42,500	45,000			
	-----	-----		-----	-----
	60,000	56,250		60,000	56,250

Dr.		Branch Cash Accounts		Cr.	
Particulars	Cochin (Rs.)	Bangalore (Rs.)	Particulars	Cochin (Rs.)	Bangalore (Rs.)
To Balance b/d	2,000	1,000	By Bank A/C	80,000	80,000
To Bank A/C (remittance)	15,000	15,000	(Remittance)	5,000	4,000
To Bank A/C (from Bangalore)	2,000	----	By Branch Stock A/C	9,000	3,000
To Branch Stock A/C	76,000	73,500	By Branch Expense A/C	---	2,000
	-----	-----	By Bank A/C (To Cochin)	1,000	500
	95,000	89,500	By Balance c/d	95,000	89,500

Dr.		Branch Profit & Loss Accounts		Cr.	
Particulars	Cochin (Rs.)	Bangalore (Rs.)	Particulars	Cochin (Rs.)	Bangalore (Rs.)
To Branch Expenses A/C	5,000	3,000	By Surplus in stock A/C	28,333	2,600
To General Profit & Loss A/C	36,000	13,500	By Gross Profit b/d	12,667	13,900
	-----	-----		-----	-----
	41,000	16,500		41,000	16,500

Dr.		Branch Expenses Accounts		Cr.	
Particulars	Cochin	Bangalore	Particulars	Cochin	Bangalore
To Branch cash A/C	9,000	3,000	By Branch Fixed Assets A/C	4,000	-----
	-----	-----	By Branch Profit & Loss A/C	5,000	3,000
				9,000	3,000

Working Notes:

(1) All sales at the branches are for cash. Therefore, for return of goods by customers, Cash Account is to be credited and Branch Stock Account is to be debited.

(2) Cost of goods transferred by Cochin branch to Bangalore branch is Rs.5000. Invoice price of such goods to Cochin branch = Rs.5,000 + 20% of Rs.5000 = Rs.6000, whereas invoice price of the same goods to Bangalore branch = Rs.5,000 + 25% of Rs.5,000 = Rs.6,250

(3) Branch Stock Adjustment Account Balance at the beginning of the year has been given as: For Cochin----Rs.2,500 (Cr); and for Bangalore----Rs2,000 (Cr).

Students should note that these Balances are nothing but stock reserves at the beginning of the year. Instead of opening Stock Reserve Account, an amount equal to stock reserve on closing stock can be carried forward in the Branch Stock Adjustment Account to get the same effect.

Now, one question may arise that stock reserve for Cochin branch should have been— $\frac{1}{6}$ of 10,000 = Rs.1,667 but it has been given as Rs.2,500. This is due to change in the "mark-up" percentage. Last year's "mark-up" was much higher than that of current year.

(4) Loading on Goods Sent (Net)

Particulars	Cochin (Rs.)	Bangalore (Rs.)
Goods sent to branch	60,000	50,000
Less: Returned	(3,000)	-----
Less: Transferred to Bangalore (Rs.5000 + 20% of Rs.5000)	(6,000)	-----
	-----	6,250
Add: Transferred from Cochin (Rs.5000 + 25% of Rs.5000)	-----	-----
	51,000	56,250
	-----	-----
	8,500	11,250

Loading: Cochin $\frac{1}{6}$ of Rs.51000; Bangalore $\frac{1}{5}$ of

Branch Accounting

Rs.56250		
----------	--	--

Illustration 10:

Hindustan Ltd. has two branches, at Delhi and at Mumbai. Goods are invoiced to branches at cost plus 50%. Goods are transferred by/to another branch at its cost. Following information is available of the transactions of Delhi branch for the year ended on 31st March.

Opening stock at its cost	Rs. 2,67,000	Goods returned by credit customers directly to H.O.	Rs 1,200
Goods sent to Branch (including goods invoiced at Rs.15000 to branch on 31 st March but not recd. by branch before close of the financial year)	Rs 7,83,000	Loss-in-transit (at invoice price) Rs.6,600 against which a sum of Rs.4,000 was recovered from the Insurance Company in full settlement of the claim.	
Goods recd. from Mumbai branch	Rs 6,000	Branch expenses (including Insurance charges)	Rs 50,000
Goods transferred to Mumbai Branch	Rs 51,000	Bad debts Rs.1,000 and Discount allowed to Customers	Rs 500
Goods returned by branch to H.O.	Rs 11,700	Cash sales Rs.32,000 and credit sales	Rs7,29,400
Goods returned by credit customers to branch	Rs 5,700	Normal loss due to wastage and deterioration of stock (at cost)	Rs 1,000
Agreed allowance to Customers off the selling price (already taken into account while invoicing)	Rs.1,000	The branch manager is entitled to a commission of 5% of profit of branch after charging such commission.	

Required: Prepare Branch Stock account, Branch Adjustment Account and Branch Profit and Loss account in each of the following alternative cases:

Case 1: If the closing stock at branch at its cost as per physical verification amounted to Rs.2,00,000.

Case 2: If the closing stock at branch at its cost as per physical verification amounted to Rs.2,27,000.

Solution 10: Case 1:

Dr.	Delhi Branch Stock Account		Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d	2,67,000	By Goods Sent to Branch A/C (returns to H.O.)	11,700
To Goods Sent to Branch A/C	7,83,000	By Goods Sent to Branch A/C (transfer to Mumbai Branch)	51,000
To Branch Debtors A/C (returns to branch)	5,700	By Branch Cash A/C (cash sales)	32,000
To Goods Sent to Branch A/C (Transfer from Mumbai Branch)	6,000	By Branch Debtors A/C (credit sales)	7,29,400
		By Branch Adjustment A/C (load on loss-in-transit)	2,200
		By Branch Profit and Loss A/C (cost of Loss-in transit)	4,400
		By Branch Adjustment A/C (normal loss)	1,500
		By Branch adjustment A/C (agreed allowance allowed)	1,000
		By Branch Adjustment A/C (Load on Shortage)	4,500
		By Branch Profit and Loss A/C (cost of shortage)	9,000
	-----	By Balance c/d:	2,00,000
	10,61,700	In hand	15,000
		In transit	-----
			10,61,700

Dr.	Delhi Branch Adjustment Account		Cr.
Particulars	Rs	Particulars	Rs.
To Branch Stock A/C (load on loss-in-transit)	2,200	By Stock Reserve A/C (load on opening stock)	89,000
To Branch Stock A/C (normal loss)	1,500	By Goods Sent to Branch A/C (load on net goods sent)	2,41,700
To Branch Stock A/C (agreed allowance)	1,000		
	4,500		
	71,667		

Branch Accounting

To Branch Stock A/C (load on shortage)	2,49,833		
To Stock Reserve A/C (load on closing stock)	-----		-----
To Gross Profit t/f to Branch P&L A/C	3,30,700		3,30,700

Dr.		Delhi Branch Profit and Loss Account		Cr.	
Particulars	Rs	Particulars		Rs	
To Branch Expenses A/C	50,000	By Branch adjustment A/C (gross profit)		2,49,833	
To Branch Stock A/C (cost of loss-in-transit)	4,400	By Bank A/C (claim received)		4,067	
To Branch Stock A/C (cost of shortage)	9,000				
To Bad debts	1,000				
To Discount allowed	500				
To Branch manager's commission (Rs.189000 x 5/105)	9,000				
To Net Profit t/f to general P&L A/C	1,80,000				

	2,53,900			2,53,900	

Note: Unless otherwise specifically stated, shortage arising in Branch Stock is presumed to have occurred due to abnormal factors like theft and thus, the load portion thereof is debited to Branch Adjustment Account and the cost portion thereof is debited to Branch Profit and loss account.

Case 2:

Dr.		Delhi Branch Stock Account		Cr.	
Particulars	Rs	Particulars		Rs	
To Balance b/d	2,67,000	By Goods Sent to Branch A/C (returns to H.O.)		11,700	
To Goods Sent to Branch A/C	7,83,000	By Goods Sent to Branch A/C (transfer to Mumbai Branch)		51,000	
To Branch Debtors A/C (returns to branch)	5,700	By Branch Cash A/C (cash sales)		32,000	
To Goods Sent to Branch A/C (Transfer from Mumbai Branch)	6,000	By Branch debtors A/C (credit sales)			
To Branch adjustment A/C (Surplus being Excess of selling Price over Invoice Price) (balancing figure)	13,500	By Branch adjustment A/C (load on loss-in-transit)		7,29,400	
		By Branch Profit and Loss A/C (cost of Loss-in transit)		2,200	
		By Branch adjustment A/C (normal loss)		4,400	
		By Branch adjustment A/C (agreed allowance allowed)		1,500	
		By Balance c/d:		1,000	
	-----	In hand			
	1075200	In transit		2,27,000	
				15,000	

				1075200	

Dr.		Delhi Branch Adjustment Account		Cr.	
Particulars	Rs	Particulars		Rs	
To Branch Stock A/C (load on loss-in-transit)	2,200	By Stock Reserve A/C (load on opening stock)		89,000	
To Branch Stock A/C (normal loss)	1,500	By Goods Sent to Branch A/C (load on net goods sent)		2,41,700	
To Branch Stock A/C (agreed allowance)	1,000	[(Rs.783000 + 6000 - 11700 - Rs.51000 - 1200) x 50/150]		13,500	
To Stock Reserve A/C (load on closing stock)	80,667	By Branch stock A/C (Surplus)			
To Gross Profit transferred to Branch P&L A/C	2,58,833				

	3,44,200			-----	
				3,44,200	

Branch Accounting

Dr.		Delhi Branch Profit and Loss Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Branch Expenses A/C	50,000	By Branch Adjustment A/C (gross profit)	2,58,833		
To Branch Stock A/C (cost of loss-in-transit)	4,400	By Bank A/C (claim)	4,067		
To Bad debts	1,000				
To Discount allowed	500				
To Branch manager's commission (Rs.207000 x 5/105)	9,857				
To Net Profit transferred to General P&L A/C	1,97,143				

	2,62,900		-----		
			2,62,900		

Illustration 11:

T of Calcutta has a branch at Dibrugarh. The branch does not maintain separate books of accounts. The branch has the following assets and liabilities on 31st August, 2009 and 30th September, 2009:

	31 st August 2009	30 th September 2009
Stock of Tea	1, 80,000	1,50,000
Advance to suppliers	5, 00,000	4,50,000
Bank Balance	75,000	1,00,000
Prepaid expenses	10,000	12,000
Outstanding expenses	13,000	11,000
Creditors for purchases	300,000	to be ascertained

During the month, Dibrugarh Branch:

- (a) Received by electronic mail transfer Rs.10,00,000 from Calcutta Head Office;
- (b) Purchased tea worth Rs.12,00,000
- (c) Sent tea costing Rs.12,30,000 to Calcutta, freight of Rs.80,000 being payable at the destination by the receiver;
- (d) Spent Rs.25,000 on office expenses;
- (e) Paid Rs.300, 000 as advance to suppliers.
- (f) Paid Rs.6, 50,000 to suppliers in settlement of outstanding dues.

In addition, T informs you that the Calcutta office had directly paid Rs.3, 50,000 to Dibrugarh suppliers by cheque drawn on Bank Accounts in Calcutta during the month. T informs you that for the purpose of accounting, Dibrugarh branch is not treated as an outsider. He wants you to write the detailed accounts relating to the transactions of the Dibrugarh branch as would appear in books of Calcutta Head Office.

Solution 11:

In the Books of Calcutta Head Office Branch Tea Stock Account

Dr.		Branch Tea Stock Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Balance B/D	180000	By Tea-in-transit to Calcutta A/C	1230000		
To Dibrugarh Branch Suppliers A/C	1200000	By Balance C/D	150000		
	-----		-----		
	1,38,0000		1,38,0000		

Dr.		Advance to Branch Suppliers' Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Balance b/d	5,00,000	By Dibrugarh Branch Suppliers' A/C	3,50,000		
To Dibrugarh Branch Bank A/C	3,00,,000	By Balance c/d	4,50,000		
	-----		-----		
	8,00,000		8,00,000		

Dr.		Branch Suppliers' Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Advance to Dibrugarh Branch Suppliers' A/C (adjustment)	3,50,000	By Balance b/d	3,00,000		
To Dibrugarh Branch Bank A/C	6,5,0000	By Dibrugarh Branch Tea Stock A/C (purchase of tea)	1,200,000		
To Calcutta Head Office Bank A/C	3,50,000				
To Balance c/d	1,50,000		-----		
	-----		15,00,000		
	15,00,000				

Branch Accounting

Dr.		Branch Bank Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Balance b/d	75,000	By Advance to Dibrugarh Branch Suppliers' A/C	3,00,000		
To Calcutta Head Office Bank A/C	10,00,000	By Dibrugarh Branch Suppliers A/C	6,50,000		
		By Dibrugarh Branch Expenses A/C	25,000		
		By Balance c/d	100,000		
	-----		-----		
	10,75,000		10,75,000		

Dr.		Branch Expenses Account		Cr.	
Particulars	Rs	Particulars	Rs		
To Prepaid Expenses A/C	10,000	By outstanding expenses A/C	13,000		
To Dibrugarh Branch Bank A/C	25,000	By Prepaid expenses A/C	12,000		
To Outstanding Expenses A/C	11,000	By Dibrugarh Branch Profit & Loss A/C	21,000		
	-----		-----		
	48,000		---		
			48,000		

Illustration 12:

B. Ltd., Mumbai has a branch in Kolkata. Goods are sent to Branch at cost plus 50%:
(All figures are in Rs)

Opening stock at Branch at invoice price	6,00,000
Opening debtors at branch	2,00,000
Goods received by branch during the year	18,00,000
Goods in transit to branch (opening) at invoice price	30,000
Cash sales during the year (Rs.30000 below invoice price)	6,30,000
Credit sales during the year (Rs.75000 above invoice price)	12,00,000
Debtors paid during the year	11,00,000
Stock shortage (detected at the end of the year) at invoice price	60,000
Goods returned by branch during the year (invoice price)	90,000
Bad debts written-off	20,000
Branch Expenses	40,000

From the above information, you are required to prepare: Branch Stock Account; Branch adjustment account and branch profit and loss account for the year ended 31st December, 2010. (You may assume that there is stock in transit at the year-end)

Solution 12:

In the books of B.Ltd

Dr. Branch Stock Account Cr.

Particulars	Rs	Particulars	Rs
To Balance b/d:		By bank A/C (cash sales)	6,30,000
At branch	6,00,000	By Branch Adjustment A/C	30,000
In-transit	30,000	By Branch Debtors A/C	12,00,000
To Goods Sent to Branch A/C (note 1)	17,70,000	By shortage in stock A/C (note 4)	60,000
To Branch Adjustment A/C (note 3)	75,000	By Goods Sent to Branch A/C	4,65,000
	-----	By Balance c/d (balancing figure)	24,75,000
	24,75,000		

Dr Branch Adjustment Account Cr.

Particulars	Rs	Particulars	Rs
To Branch Stock A/C(note 2)	30,000	By Branch Stock A/C (note 3)	75,000
To Shortage-in-Stock A/C	20,000	By Stock Reserve A/C(note 5)	2,10,000
To Stock Reserve A/C(note 7)	1,55,000	By Goods Sent to Branch A/C (note 6)	5,60,000
To Gross Profit c/d	6,400,00		-----
	-----		---
	845000		845000

Dr Branch Profit & Loss Account for the year ended 31st Dec., 2010. Cr.

Particulars	Rs	Particulars	Rs
-------------	----	-------------	----

Branch Accounting

To Branch Expenses A/C :		By Gross Profit b/d	6,40,000
Bad debts	20,000		
Cash expenses	40,000		
To Shortage-in-stock A/C (loading)	40,000		
To General Profit & Loss A/C	5,40,000		
	-----		-----
	640000		640000

Working Notes:

- (1) Goods received by branch during the year is Rs.18,00,000. It includes Rs.30,000 opening stock in transit. Therefore, actual goods sent to branch during the year is Rs.18,00,000-Rs.30,000 = Rs.17,70,000.
- (2) For sale of goods below invoice price, Branch Adjustment Account is debited and Branch Stock Account is credited.
- (3) For sale of goods above invoice price, Branch Stock Account is debited and Branch Adjustment Account is credited.
- (4) Loading of shortage in stock is debited to Branch Adjustment Account and "cost" is debited to Branch Profit & Loss Account. Loading of shortage-in-stock = 1/3 of Rs.60,000 = Rs.20,000 and cost = Rs.60,000-Rs.20,000 = Rs.40,000.
- (5) Loading on opening stock including goods-in-transit = 1/3 of Rs.(60,000+30,000) = Rs.2,10,000.
- (6) Loading on net goods sent to branch during the year = 1/3 of Rs.(17,70,000-90,000) = Rs.5,60,000
- (7) Loading on closing stock = 1/3 of Rs.4,65,000 = Rs.1,55,000

3) Final Account System

It is not a separate system of maintaining accounts, but the head office may also prepare a memorandum trading and profit and loss account to find out the profit or loss of a branch, apart from preparing branch account. Under this method, the trading and profit and loss figures (relating to trading account) at cost price. The reason for preparing the memorandum trading and profit and loss account is to have full information of all transactions which are ignored in debtors system.

Important features of this system are:

1. All stock items (opening stock; Goods sent to Branch; Goods returned to H.O; closing stock etc) are to be converted into cost price. (if these are given at invoice price)
2. A Branch Account is also prepared which is of a 'Personal Account' in nature. It will show only the mutual transactions between head office and branch. The Balance of Branch Account is nothing but net assets of the branch at the end of the accounting year.
3. Branch Trading and Profit and Loss Account is merely a memorandum account and therefore the entries made therein do not form part of double entry system. The only object of this account is to disclose profit/loss incurred by the branch.

Illustration 13:

A Kolkata merchant has a branch at Delhi to which he charges out the goods at cost plus 25%. The Delhi branch keeps his own sales ledger and transmits all cash received to the head office ever day. All expenses are paid from the head office. The transaction for the Branch were as follows: (all figures in rupees)

Stock on 1.1.2009	22,000	Allowances to customers	500
Debtors on 1.1.2009	200	Returns inward	1,000
Petty cash on 1.1.2009	200	Cheques sent to branch:	
		Rent	1,200
		Wages	400
		Salaries	1,800
Cash Sales	5,300	Stock on 31.12.2009	26,000
Goods sent to branch	40,000	Debtors on 31.12.2009	4,000
Collections on ledger accounts	42,000	Petty Cash on 31.12.2009 (including miscellaneous Income not remitted Rs. 50)	250
Goods returned to head office	600	Bad Debts	600

Prepare the branch account and the branch trading and profit and loss account for the year ending 31.12.2009 in the head office books.

Branch Accounting

Solution 13:

In the Books of Head Office

Dr.	Delhi Branch Account		Cr.
Particulars	Rs	Particulars	Rs
To Balance b/d:		By Bank A/C (cash sales)	5,300
Stock	22,000	By Bank A/C (collections from debtors)	42,000
Debtors	200	By Goods Sent to Branch A/C (returns)	600
Petty Cash	200	By Stock Reserve A/C (note 1)	7,880
To Goods Sent to Branch A/C	40,000	By Goods Sent to Branch A/C (note 2)	
To Bank A/C (remittance)		By Balance c/d:	
Rent	1,200	Stock	26,000
Wages	400	Debtors	4,000
Salaries	1,800	Petty cash	250
To Stock Reserve A/C	5,200		
To General Profit & Loss A/C	19,430		
	-----		-----
	90,430		90,430

Delhi Branch Trading and Profit & Loss Account

Dr.	For the year ended 31st December, 2009		Cr.
Particulars	Rs	Particulars	Rs
To opening stock (Rs.22,000-Rs.4,400)	17,600	By sales:	
To Goods Sent to Branch(cost)		Cash	5,300
	32,000	Credit	47,900
Less: Returns to H.O. 480	31,520		53,200
(cost)	400	Less: Returns inward	1,000
To Wages	23,480	By Closing Stock (26000-5200)	20,800
To Gross Profit c/d	-----		
	73,000		73,000

To Rent	1,200	By Gross Profit b/d	23,480
To Salaries	1,800	By Misc. Income	50
To Bad debts	600		
To Allowances to customers	500		
To General Profit & Loss A/C	19,430		

	23,530		23,530

Note: At the time of preparing Branch Trading and Profit and Loss Account, all figures should be converted into cost.

Working Notes: (1) $25/125 \times \text{Rs.}22,000 = \text{Rs.}4,400$

(2) $25/125 \times \text{Rs} (40,000-600) = \text{Rs.}7,880$

4) Wholesale Branch System

Manufacturing concerns usually sell their goods through agents or middlemen or intermediaries, known as wholesalers and/or retailers. At times they operate through their own retail outlets. These retail outlets are supplied with goods at the price at which they are sent to the middlemen, that is, the wholesaler. Such price is cost plus a percentage of profit, and is known as wholesale price. The branch is expected to sell the goods at retail prices that are higher than the wholesale price. The real profit earned by the branch is the excess of the final selling price (also called as retail price) over the wholesale price. For example, the cost price of an article is Rs. 100, the whole sale price is Rs. 125 and the retail price is Rs. 160. If an article sold by the branch, the actual profit is $\text{Rs } 160 - \text{Rs } 100 = \text{Rs } 60$ but the branch's real profit is $\text{Rs } 160 - \text{Rs } 120 = \text{Rs } 35$.

Creation of reserve for unrealized profit on unsold stock at the branch

If all the goods that have been sent to the branch are sold, no problem is created. However, when part of the stock remains unsold, it includes profit margin of the head office which is the difference between wholesale prices (the prices at which goods are sent to the Branch) and the actual cost price of the goods to the head office. The head office must create suitable reserve on closing stock at the branch at the end of the year because this stock is valued at wholesale price and profit on it is still unrealized. The following journal entry is passed at the yearend:

Profit and Loss Account (of the head office)	Dr
--	----

Branch Accounting

To Stock Reserve account (Amount of difference between wholesale price and cost price)

In the Balance sheet, branch stock is shown after deducting stock reserve. At the beginning of the next year, a reserve entry is passed for this profit will be realized.

Stock Reserve Account Dr.
To Profit and Loss account (Head office)

Illustration 14:

XYZ Ltd. operates a number of retail shops. Goods are invoiced at wholesale price which is cost plus 25%. Shops sell the goods at the list price which is cost plus 100%.

From the following particulars, prepare:

- (a) Branch Stock Account (at wholesale price)
- (b) Branch Profit and Loss Account
- (c) Stock Reserve Account
- (d) An extract of Head Office Profit and Loss Account

Particulars:

Opening stock at shops	Rs 2,000	Expenses at the shops	Rs 1,01,500
Goods sent to shops	Rs. 8,00,000	Goods returned by customers at the shop	Rs.20,000
Goods returned by shops	Rs 8,000	Goods destroyed by fire (retail price)	Rs. 6,400
Goods sold at the shops	Rs 5,20,000		

Solution 14:

In the Books of XYZ Ltd.

Dr. Branch Stock Account (at Wholesale Price)		Cr.	
Particulars	Rs	Particulars	Rs
To Balance b/d	2,000	By Sales	5,20,000
To Goods sent to shops	8,00,000	By Goods returned by shops	8,000
To Sales returns	20,000	By Goods destroyed by fire (note 2)	4,000
To Gross profit c/d (note1)	1,87,500	By Balance c/d	4,77,500
	-----		-----
	10,09,500		10,09,500

Dr. Branch Profit and Loss Account		Cr.	
Particulars	Rs	Particulars	Rs
To Expenses at the shops	1,01,500	By Gross Profit b/d	1,87,500
To Goods destroyed by fire (note 2)	4,000		
To Net Profit (transferred to H.O. Profit & Loss Account)	82,000		
	-----		-----
	1,87,500		1,87,500

Dr. Stock Reserve Account		Cr.	
Particulars	Rs	Particulars	Rs
To H.O. Profit and Loss A/C (transfer)	400	By Balance b/d (note 3)	400
To Balance c/d	95,500	By H.O. Profit and Loss A/C (reserve required-note 3)	95,500
	-----		-----
	95,900		95,900

Dr. Head Office Profit and Loss Account		Cr.	
Particulars	Rs	Particulars	Rs
To Stock Reserve (note 3) (reserve on closing stock)	95,500	By Branch Profit and Loss A/C	82,000
		By Stock Reserve (note 3) (reserve on opening stock)	400

Working Notes:

(1) Calculation of gross profit

	Rs.
Cost price	100
Add: Profit @ 25%	25
Wholesale Price (A)	<u>125</u>
Cost Price	100

Branch Accounting

There will be no entry in the branch books. The 'cash in transit' is an asset and will be shown in the Balance Sheet.

III. Items of Income or Expenditure of Branch - Some items of income or payments or expenses relating to branch transacted by the head office or vice-versa, hence not recorded at the respective ends. Moreover, the head office may like to allocate a part of its own expenses among the branches for some services rendered by it, which benefits the branch. At the end of the year, the head office may change the branch with a reasonable amount of the services so rendered or benefit given. The entry in the books of the head office will be:

Branch Account Dr
 To Profit & Loss Account or
 To Expenses Account
 (being the services/expenses charged to the branch)

The entry for the same in the branch books will be:

Head Office Expenses Account Dr
 To Head Office Account
 (Amount due to head office for services received)

IV. Purchase of branch fixed assets and depreciation thereon

1. a. If Assets Accounts are maintained by H.O.

It is usual for the head office to open and maintain the fixed assets of the branch in its own book, though the assets are in use with the branch. The following entries are required.

i. If the H.O. purchases an asset for use at the branch:

Branch fixed Assets A/C Dr
 To Bank

For recording Depreciation

Branch Account Dr
 To Branch Fixed Assets Account
 (Being the depreciation on branch fixed assets)

ii. If the Branch purchases the fixed assets and asset account is maintained by H.O.

Books of Branch

Head Office Account Dr
 To Bank/Cash A/C

(Being asset purchased- account to be opened in head office books)

For Depreciation (in books of head office)

Branch Account Dr
 To Branch Assets A/C

Books of Head office

Branch Assets A/C Dr
 To Branch A/C

b. If assets accounts are maintained by Branch

i. When fixed assets are purchased by H.O.

Branch books	Head Office Books
Fixed Assets A/C Dr. To Head Office Account	Branch Account To Bank/Cash A/C (Being asset purchased- account to be opened in branch books)
For recording Depreciation Depreciation To Fixed Assets A/C	

ii. When fixed assets are purchased by the branch itself.

For purchase: Fixed Assets Account Dr.
 To Bank/Cash A/C

For depreciation: Depreciation Account Dr.
 To Fixed Assets Account

V. Inter-Branch Transactions

Sometimes, goods are transferred from one branch to another branch under instructions from Head Office. Similarly, cash may also be sent from one branch to another. When goods are transferred directly from one branch to another, its accounting treatment in the head office books takes place as if goods were first physically returned to the head office by one branch and the head office sent goods to another branch. So, while the branch that sends goods, records such outflow to another branch on its credit side of stock account; and the receiving branch records the inflow on its debit side of the stock account; the head office books show both receipt of goods from one branch as well as

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dispatch of goods to another branch. Therefore, there is both a debit and a credit transaction recorded in its stock account. The following entries are passed:

Books of H.O.	Books of sending branch	Books of receiving branch
Receiving Branch A/C Dr To Sending Branch A/C (Being goods transferred to ___ branch from ___ branch.)	H.O. A/C Dr To Goods Sent to H.O. A/C (Being goods sent to ___ branch as per H.O. instruction)	Goods from H.O. A/C Dr To Head Office A/C (Being goods Recd. from ___ branch as per H.O. instruction)

Frequent Inter Branch Transactions

If there are frequent inter-branch transactions involving transfer of money, bills, goods etc., the head office may, at the end of each month pass a single consolidated entry for all inter-branch transactions of a particular kind during the month in order to avoid frequent accounting work involved in it. For this purpose a memorandum statement showing details of such inter-branch during the month may be prepared and the net position ascertained.

Illustration 16:

From the following inter-branch transactions in April, 2010, make the entry in the books of Delhi head office.

(a) Kolkata Branch:

1. Received goods from Nagpur branch Rs.18, 000 and Ahmadabad branch Rs.12, 000.
2. Sent goods to Ahmadabad branch Rs.30, 000 and Nagpur branch Rs.24, 000.
3. Received bills receivable from Ahmadabad branch Rs.18, 000.
4. Sent acceptances to Nagpur branch Rs.12, 000 and Ahmadabad branch Rs.6, 000.

(b) Kanpur Branch:

1. Received goods from Nagpur branch Rs.30, 000 and Kolkata branch Rs.12, 000.
2. Cash sent to Nagpur Branch Rs.6000 and Kolkata branch Rs.12000.

(c) Nagpur Branch: (apart from (a) and (b) above):

1. Sent goods to Ahmadabad branch Rs.18, 000.
2. Received bills from Ahmadabad branch Rs.18, 000.
3. Received cash from Ahmadabad branch Rs.10, 000.

Solution 16:

Statement showing Inter Branch Transactions

Branches	Kolkata		Kanpur		Nagpur		Ahmadabad	
	Dr (Rs.)	Cr (Rs.)	Dr (Rs.)	Cr (Rs.)	Dr (Rs.)	Cr (Rs.)	Dr (Rs.)	Cr (Rs.)
Kolkata								
Goods recd	30,000	-----	-----	-----	-----	18,000	-----	12,000
Goods sent	-----	54,000	-----	-----	24,000	-----	30,000	-----
Bills receivable	19,000	-----	-----	-----	-----	-----	-----	18,000
recd	-----	18,000	-----	-----	12,000	-----	6,000	-----
Bills payable								
Accepted	12,000	12,000	42,000	-----	-----	30,000	-----	-----
	-----	-----	-----	18,000	6,000	-----	-----	-----
Kanpur								
Goods Recd.	-----	-----	-----	-----	-----	18,000	18,000	-----
Cash sent	-----	-----	-----	-----	18,000	-----	-----	18,000
	-----	-----	-----	-----	10,000	-----	-----	10,000
Nagpur								
Goods sent	-----	-----	-----	-----	-----	-----	-----	-----
Bills receivable	60,000	84,000	42,000	18,000	70,000	66,000	54,000	58,000
recd	24,000	-----	-----	24,000	-----	4,000	4,000	-----
Cash Recd.								
Total Balance								

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Branch Account Dr
 To General Profit & Loss Account

(Net profit transferred)

In case of Loss, the entry will be reversed.

The above six entries will complete the branch Trading and Profit & Loss Account

7. To incorporate the branch assets:

Individual Branch Asset Account Dr
 To Branch Account

(Assets incorporated)

8. To incorporate branch Liabilities:

Branch Account Dr
 To Individual Branch Liability Account

(Liabilities incorporated)

The last two entries enable the head office to prepare a Balance sheet for the branch by the head office. The effect of all above incorporating entries is to close the branch account in the books of the head office, since all items have been transferred to the head office books. Sometimes, the head office does not prepare the Balance sheet of the branch, hence the entries no. 7 & 8 are required to be passed.

Abridged Incorporation

Under this method, a Memorandum Trading and Profit and Loss Account is prepared for ascertaining branch profit or loss. Entry is passed only for incorporating the net profit or loss at the branch, which is given as under:

If it is net profit

Branch Account Dr
 To General P&L Account
 (Net profit incorporated)]

If it is net loss

General P&L A/C Dr
 To Branch Account

(Net loss incorporated)

In addition to above entry, branch assets and branch liabilities will be incorporated as shown already.

Illustration 17:

The following is the Trial Balance of Meerut Branch as on 31st Dec 2010:

Particulars	Dr. (Rs.)	Cr. (Rs.)	Particulars	Dr. (Rs.)	Cr. (Rs.)
Delhi Head Office	-----	5,000	Debtors	3,700	-----
Stock on 1 st Jan 2009	6,000	-----	Creditors	-----	1,850
Purchases	1,06,040	-----	Rent	1,960	-----
Goods recd. from Head Office	19,000	-----	Sundry office expenses	1,470	-----
Sales	-----	1,38,000	Cash at bank	1,780	-----
Goods supplied to Head Office	-----	6,000	Furniture	6,000	-----
Salaries	4,500	-----	Depreciation on furniture	400	-----
			TOTAL	1,50,850	1,50,850

Stock at branch on 31st December, 2010 was valued at Rs.7,700.

Meerut Branch Account in the head office books on 31st December, 2010 stood at Rs.8,700 (debit Balance). On 28th December, 2009 the Head Office forwarded goods of the value of Rs.3700 to the branch where they were recd. on 3rd January, 2011.

- (i) Prepare Trading and Profit and Loss Account of Meerut Branch for the year ended 31st December, 2010 and its Balance Sheet as on the date.
- (ii) Pass Journal Entries in the books of the head office to incorporate the above mentioned trial Balance, and
- (iii) Show Meerut Branch Account as it would be closed in the head office's ledger.

Solution:

(i) In this problem, Meerut Branch Trading and Profit and Loss Account as well as Balance Sheet are to be prepared in the usual manner as if it is a separate business. The balance of Head Office Account (Rs.5,000) should be treated as capital.

(ii)

Dr. Meerut Branch Trading and Profit and Loss Account for the year ending 31st December, 2010 Cr.

Particulars	Rs	Particulars	Rs
To Opening stock	6,000	By Sales	1,38,000
To Purchases	1,06,040	By Goods supplied to H.O. (note)	6,000

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To Goods recd. from H.O.	9,000	4) By Closing Stock	7,700
To Gross Profit c/d	20,660		
	-----		-----
	1,51,700		1,51,700
	-----		-----
To Salaries		By Gross Profit b/d	20,660
To Rent			
To Sundry office expenses	4,500		
To Depreciation on furniture			
To Net Profit	1,960		
	1,470		
	400		
	12,330		-----
	-----		20,660
	20,660		

Meerut Branch Balance Sheet as at 31st December, 2010

Liabilities	Rs	Assets	Rs
Delhi Head Office:		Furniture	6,000
Opening bal. 5000		Debtors	3,700
Add: Profit <u>12330</u>	17,330	Closing stock	7,700
Creditors	1,850	Cash at Bank	1,780
	-----		-----
	19180		19180

(iii) For incorporation of Branch Trial Balance, the following entries are to be passed:

In the Books of the Head Office

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
2009 Dec,31	Meerut Branch Trading A/C Dr. To Meerut Branch A/C (note 1) (Being the incorporation of opening stock purchases and goods recd. from head office.)	1,31,040	1,31,040
	Meerut Branch A/C Dr. To Meerut Branch Trading A/C (note 2) (Being the incorporation of sales, goods supplied to head office and closing stock)	1,51,700	1,51,700
	Meerut Branch Trading A/C Dr. To Meerut Branch Profit & Loss A/C (Being the gross profit transferred to Branch Profit & Loss Account)	20,660	20,660
	Meerut Branch Profit & Loss A/C Dr. To Meerut Branch A/C (note 3) (Being the incorporation of branch expenses i.e. salaries, rent etc.)	8,330	8,330
	Meerut Branch Profit & Loss A/C Dr. To General Profit & Loss A/C (Being the incorporation of branch net profit)	12,330	12,330
	Goods-in-transit A/C Dr. To Meerut Branch A/C (Being the goods sent to branch on 28 th December 2010 recd. on 3 rd Jan, 2011)	3,700	3,700
	Meerut Branch Furniture A/C Dr. Meerut Branch Debtors A/C Dr. Meerut Branch Stock A/C Dr. Meerut Branch Cash A/C Dr. To Meerut Branch A/C (Being the incorporation of branch assets)	6,000 3,700 7,700 1,780	19,180
	Meerut Branch A/C Dr. To Meerut Branch Creditors A/C (Being the incorporation of branch liability)	1,850	1,850

(iii) In the books of the Head Office

Dr.	Meerut Branch
Account	Cr.

Branch Accounting

Particulars	Rs	Particulars	Rs
To Balance b/d	8,700	By Meerut Branch Trading A/C (Note 1)	1,31,040
To Meerut Branch Trading A/C (note 2)	1,51,700	By Meerut Branch Profit & Loss A/C	8,330
To Meerut Branch Creditors A/C	1,850	By Goods-in-transit A/C	3,700
	-----	By Meerut Branch Assets A/C	19,180
	1,62,250		-----
			1,62,250

Notes:

(1) In the Branch Trial Balance, Delhi Head Office Account shows a credit Balance of Rs.5,000. It means that in the Head Office books, Meerut Branch Account should show a debit balance of Rs.5000. But in the Head Office books, it shows a debit balance of Rs.8,700. The difference of Rs.3,700 is due to goods in transit.

(2) After incorporation of Branch Trial Balance, the Branch Account in the Head Office books will not show any balance.

Working Notes:

(1) Opening stock Rs.6,000 + purchases Rs.1,06,040 + Goods recd. from H.O. Rs.19,000 = Rs.1,31,400.

(2) Sales Rs.1,38,000 + Goods supplied to H.O. Rs.6,000 + Closing stock Rs.7,700 = Rs.1,51,700

(3) Salaries Rs.4,500 + Rent Rs.1,960 + Office expenses Rs.1,470 + Depreciation Rs.400 = Rs.8,330.

(4) Goods supplied to Head Office should not be treated as goods returned to Head Office. They have been treated as goods sold to Head Office.

Illustration 18:

Imphal Branch of a business having Head Office in Calcutta prepares its accounts independently. The position as on 31.12.2010 is depicted below:

Particulars	Calcutta Head Office		Imphal Branch	
	Dr (Rs.)	Cr (Rs.)	Dr (Rs.)	Cr (Rs.)
Bills Receivable/ Payable	-----	11,800	6,000	-----
Debtors/creditors	78,500	39,600	58,400	29,200
Stock	1,42,000	-----	72,000	-----
Cash and bank	1,07,400	-----	44,200	-----
Fixed assets	4,53,500	-----	1,59,400	-----
Profit and Loss Account	-----	1,46,600	-----	30,600
Capital	-----	8,82,000	-----	-----
Branch account	2,98,600	-----	-----	-----
Head Office Account	-----	-----	-----	2,80,200
TOTAL	10,80,000	10,80,000	3,40,000	3,40,000

It is revealed that the above accounts for the year ended 31.12.2010 were prepared without considering the following facts:

- (a) Goods worth Rs.4,400 had been dispatched by the Head Office to Imphal on 27.12.2010 but the goods did not reach there till 2.1.2011.
 - (b) As per convention, the branch should be charged with Rs.3,000 for administrative services rendered by the Head Office.
 - (c) The branch had sent a bank draft to the Head Office on 30.12.2010 for Rs.10,000. But the draft reached the Head Office after 31.12.2010.
 - (d) Stock stolen in transit Rs.4,000 (uninsured). The stock was invoiced by the Head Office to the branch and charged to the Branch. But the branch manager refused to consider it in branch books.
 - (e) Depreciation on some branch assets (of which accounts are maintained in the head office books) not provided for Rs.2,500.
 - (f) The Balance of branch profit should be transferred to the head office books.
- Show the necessary adjustment entries in the books of the head office and the branch and prepare the Balance Sheet of the business as on 31.12.2010.

Solution 18:

In the books of Head Office (Calcutta) Journal

Date	Particulars	Dr. Rs.	Cr. Rs.
2010 Dec. 31	(a) Goods in Transit A/C Dr. To Imphal Branch A/C (Being goods sent to Imphal Branch on 27.12.2009 but the goods did not reach branch, now adjusted)	4,400	4,400

Branch Accounting

(b)	Imphal Branch A/C Dr. To Profit and Loss A/C (Being amount charged to Imphal branch for administrative services rendered by H.O.)	3,000	3,000
(c)	Cash in Transit A/C Dr. To Imphal Branch A/C (Being bank draft sent by branch on 30.12.2010 but received by H.O. after 31.12.2010, now adjusted)	10,000	10,000
(d)	Profit and Loss A/C Dr. To Imphal Branch A/C (Being goods stolen in transit and charged to branch but the branch manager refused to accept it, now adjusted in the H.O. Profit and Loss Account)	4,000	4,000
	Note: It should be noted that after passing (a),(c) and (d) entries above, the Branch Account Balance in H.O. book will be (Rs 2,98,600 – Rs 4,400 – Rs 10,000 – Rs 4,000)=Rs 2,80,200. Now it is matching with the Balance of head office account (in the branch's books)		
(e)	Imphal Branch A/C Dr. To Imphal Branch Fixed Assets A/C (Being depreciation on fixed assets of Imphal Branch adjusted)	2,500	2,500
(f)	Imphal Branch A/C Dr. To profit and loss A/C (Note 1) (Being the incorporation of Branch profit)	25,100	25,100
	Profit and Loss A/C (Note)Dr. To Capital Account (Being total profit transferred to Capital Account)	1,70,700	1,70,700
	Branch Bills Receivable A/C Dr. Branch Debtors A/C Dr. Branch Stock A/C Dr. Branch Cash and Bank A/C Dr. Branch Fixed Assets A/C Dr. To Imphal Branch A/C (Being the incorporation of branch assets in the H.O. book)	6,000 58,400 72,000 44,200 1,59,400	3,40,000
	Imphal Branch A/C To Branch Creditors A/C (Being the incorporation of branch liability in the H.O. book)	29,200	29,200
	Note: Last four entries have not been asked in the question. Yet these entries are required to be passed to close the Imphal Branch Account in the H.O. book (See working Note 4 for details).		

In the books of Imphal Branch Journal

Date	Particulars	Dr. (Rs)	Cr. (Rs)
2010 Dec. 31	Profit and Loss A/c To Head Office A/c (Being the amount charged by H.O. for administrative services)	3,000	3,000
	Profit and Loss A/c To Head Office A/c Being depreciation on Branch Fixed Assets maintained at H.O. adjusted)	2,500	2,500
	Profit and Loss A/c To Head Office A/c (being adjusted branch profit transferred to Head Office Account)	25,100	25,100

Tutorial Note: No entry is to be passed for Goods-in-Transit and Cash-in-Transit because these have already been adjusted in Head Office books.

Balance Sheet of Head Office as on 31st December, 2010

Liabilities	Rs.	Rs	Assets	Rs	Rs
-------------	-----	----	--------	----	----

Branch Accounting

Capital: Opening Balance	8,82,000		Fixed Assets: Head Office	4,53,500	
Add: Profit	1,70,700		Branch	1,59,400	
	-----	10,52,700	Less: Depreciation	6,12,900	
				2,500	-----
					6,10,400
Creditors: Head Office	39,600		Stock: Head Office	1,42,000	
Branch	29,200		Branch	72,000	
	-----	68,800		-----	2,14,000
Bills Payable: Head Office		11,800	Debtors: Head Office	78,500	
			Branch	58,400	
				-----	1,36,900
			Goods-in-Transit		4,400
			Bills Receivable: Branch		6,000
			Cash and Bank: Head Office	1,07,000	
			Branch	44,200	
				-----	1,51,600
			Cash-in-Transit		10,000
		11,33,300			11,33,300

Working Notes:

(1) Revised Net Profit of Branch	(2) Revised Net Profit of Head Office
Profit as per Trial Balance	30,600
less: Charge for Administration Services	3,000
	27,600
Less: Depreciation of Branch Fixed Assets	2,500
	25,100
Profit as per Trial Balance	1,46,600
Add: Charge for Administration Services	3,000
	1,49,600
Less: Goods-in-Transit	4,000
	1,45,600

(3) Total profit transferred to Capital Account = Rs 1,45,600 + Rs 25,100 = Rs 1,70,700

(4)

Imphal Branch Account

Particulars	Rs	Particulars	Rs
To Balance b/d	2,98,600	By Goods-in-Transit	4,400
To Profit and Loss A/c	3,000	By cash-in-Transit	10,000
To Imphal Branch Fixed assets A/c	2,500	By Profit and Loss A/c	4,000
To Profit and Loss A/c	25,100	By Branch Bills Receivables A/c	6,000
To Branch Creditors A/c	29,200	By Branch Debtors A/c	58,400
		By Branch Stock A/c	72,000
		By Branch Cash and Bank A/c	44,200
		By Branch Fixed assets A/c	1,59,400
	3,58,400		3,58,400

Summary:

- With expansion of business and globalization, many businesses have expanded beyond the boundaries of cities, states, or countries; and have set up their branches at such places. This has given rise to a different concept of accounting: Branch Accounting.
- In Branch Organization, there is a concept of a branch and a head office. The head office refers to the business unit at the principal place of business, while others are termed as branches. Each branch is considered as a separate profit center.
- A branch carries on all its activities under the direction and control of head office.
- Branch accounts are prepared for multiple reasons, for example, for ascertaining the profit or loss of each branch, exercising a proper degree of control on the operations of the branch, ascertaining the requirements of stock and cash for each branch, coordinating the operations of various branches, incorporating the profit or loss made by branches and their assets and liabilities in the head office's

Branch Accounting

final accounts, and for fulfilling the audit requirements under section 228 of the Companies Act, 1956.

- From accounting point of view, branches may be classified as National and International branches. Also, the National branches may be either dependent or independent branches.
- When a branch is totally controlled by the head office in terms of its policies and administration, it is called a dependent branch.
- There are various methods of recording the accounting treatment for dependent branches, namely, Debtor System, Stock and Debtor System, Final Account System, and Wholesale Branch System.
- Independent branches maintain separate set of books of accounts and keep a full system of accounting. They extract their own trial Balance and prepare their own Trading and Profit and Loss Account, a copy of which is forwarded to the head office for incorporating the same in its books of accounts.
- The incorporation of the accounts of the branches with that of the head office may be done either in a detailed manner or in an abridged way.

Exercises:

Theoretical Questions:

1. What do you understand by "Branch"? Explain the rules for preparing accounting records of various types of branches.
2. What are various types of Branches? What are the main characteristics of dependent branches?
3. Write a note on Stock and Debtors System in Branch Accounts.
4. Distinguish between dependent and independent branches.
5. How is abnormal and normal loss treated in branch accounting under Stock and Debtors system?
6. Write a short note on the following:
 - a) Goods in transit
 - b) Branch Adjustment Account
 - c) Cash in transit
 - d) Branch Stock Account

Practical Questions:

Debtors System

1. From the following particulars relating to the Kanya-Kumari branch for the year ended 31 December, 2009, prepare Branch Account in the books of head office:

Particulars	Rs	Particulars	Rs
Goods sent to branch	28400	Petty cash at Branch On 1.1.2009	500
Cash sales	18800	Petty cash at Branch On	
Credit sales	41200	31.12.2009	300
Cash recd. From debtors	38000	Goods returned by the Branch	1000
Cash sent to Branch For		Opening stock at Branch	9600
expenses:		Debtors on 31.12.2009	9000
Rent	2000	Discount allowed to debtors	1000
Salaries	8000	Bad debts written-off by the	
Petty cash	2000	Branch	2000
		Stock at Branch On 31.12.2009	10500

(Ans. Branch Profit: Rs. 18,900; Opening Balance of Debtors: Rs 8,200.)

2. Jaico Ltd. invoices goods to its Kanpur branch at cost plus 25% thereon, both cash and credit sales are effected by the branch. The branch expenses are paid direct from the Head Office. The details of transactions available for the year ended 31.3.2009 are:

Particulars	Rs	Particulars	Rs
Goods recd. From H.O. at invoice price	40,000	Discounts allowed to customers	300
Returns to H.O. at invoice price.	800	Bad debts	500
Stock at Kanpur on 1.4.2007 at invoice price	80,00	Returns from customers	700
Credit sales for the year	30,000	Rent and rates	60
Cash sales for the year	18,700	Wages and salaries	1200
Debtors as on 1.4.2007	5,200	Sundry expenses	300
Debtors as on 31.3.2009	4,200	Stock on 31.3.2009 at invoice price.	6000

Branch Accounting

Record the above transactions in the Head Office ledger and close the accounts as on 31.3.2009 and show how the relevant items will appear in the Head Office's Balance Sheet on that date.

(Ans. Branch Profit: Rs.5, 800)

Stock and Debtors System

3. B Ltd. opened a branch in Hyderabad in late 2008, and forwarded goods for resale from the H.O. at Calcutta invoiced them at selling price; the mark up was $\frac{1}{3}$ of selling price. The head office maintained a branch stock account, goods sent to branch account, branch debtors' account and the branch adjustment account. These were written-up from weekly branch returns of cash sales, credit sales, cash received from debtors and other credits allowed to debtors. During the year to 31 Dec, 2009, the following transactions took place at Hyderabad

Particulars	Rs	Particulars	Rs
Goods recd. from Calcutta	1,80,000	Cash discount given	1,808
Goods returned to Calcutta	1,680	Cash sales	1,00,800
Bad debts	596	Credit sales	72,000
Cash recd. from debtors	68,624		

The following additional information is also available in respect of the branch:
 Stock on hand at selling price: 1.1.2009: Rs.16,080; 31.12.2009: Rs.21,000 and
 Debtors : 1.1.2009 : Rs.6,608; and 31.12.2009 : Rs.7,580

You are required:

(a) to present the ledger accounts in the head office recording the above transactions; and

(b) to compare the gross profit of the branch for the period.

(Ans. Gross Profit: Rs. 57,650 (after charging loading Rs. 150 for deficiency of stock). Deficiency of stock at invoice price Rs 600.)

4. Sunny traders of Mumbai opened a branch shop on 1.1.2010 in Kolkata. All goods for sale at the shop are purchased by the head office and charged to the branch at retail selling price, which is cost plus $33\frac{1}{3}\%$. The branch backs its takings, without deduction, for the credit of head office. Although it is a cash business, the branch manager is allowed to give credit in a few special cases. The following information is relevant for the first three months to 31 March:

Particulars	Rs
Purchases	27,130
Sales at head office	9,100
Goods sent by head office to the branch selling price	28,000
Cash sales at branch	18,000
Credit sales by branch	2,000
Goods returned to head office at selling price	1,000
Cash collected from branch debtors	1,730
Branch expenses	1,000
Head office expenses	1,200
Closing stock at head office	2,650
Opening stock at head office	2,900
Authorized reduction in branch selling prices	820

From the above particulars, prepare: (i) Branch Stock Account; (ii) Branch Adjustment Account (iii) Branch Profit and Loss Account; and (iv) Goods sent to Branch Account.

(Ans. Branch Profit: Rs 3,385)

5. The R.Co.Ltd. invoices goods to its Kanpur branch at cost plus 25%. Both cash and credit sales effected by the branch being remitted to H.O.

The following are the details of the transactions for the year ended 31.12.2009:

Particulars	Rs	Particulars	Rs
Goods recd. from H.O. at invoice price.	2,00,000	Discounts allowed to customers	1,600
Returns to H.O. at invoice price	5,000	Bad debts written-off	3,000
Stock at branch as on 1.1.2009	50,000	Returns from customers	2,000
	1,10,000	Rents, rates and taxes	2,400
Credit sales	1,08,000	Salaries and wages	8,000
Cash sales	38,000	Sundry expenses	1,200
Debtors as on 1.1.2009	1,16,000		
Cash recd. from debtors			

Prepare: Branch Stock a/c; Branch Debtors A/c; Branch Adjustment A/c; and Branch Profit and Loss A/c in the books of Head Office *(Ans. Gross Profit: Rs. 43,200; Branch Profit: Rs 27,000)*

Branch Accounting

Final Accounts System

6. A head office in Kolkata has a branch in Burdwan. All purchases are made by the head office and goods sent to the branch are invoiced at cost plus 25%. All cash recd. by the branch is deposited to the Head Office Account in the Burdwan branch of the Head Office bank.

The branch maintains a Sales Ledger and the other necessary subsidiary books but all other branch transactions are recorded in the head office books.

The following information pertaining to the branch has been collected for the year ended Dec, 31, 2009:

Particulars	Rs	Particulars	Rs
Stock at branch on Jan.1 (invoice price)	30,000	Stock at branch on Dec.31 (invoice price)	25,000
Goods recd. from H.O. less returns (invoice price)	96,000	Cash sales	54,000
Credit sales less returns	43,000	Cash recd. from customers	41,000
Discount allowed to customers	1,000	Bad debts written-off	500
Branch expenses paid	5,700		

In the H.O. books prepare the Branch Stock Account, Branch Total Debtors Account and Branch Profit and Loss Account. *(Ans. Branch Profit: Rs 9,000)*

7. B.S. Ltd. operates a retail branch at Ranchi. All purchases are made by the head office in Kolkata. Goods for the branch being delivered to it direct and charge out at selling price, which is cost price plus 50%. All cash recd. by the branch is remitted to Kolkata. Branch expenses are paid by the branch out of an imprest account which is reimbursed by Kolkata monthly. The branch keeps a Sales Ledger and certain essential subsidiary books; but otherwise all branch transactions are recorded in the books of the Kolkata Office. On January 1, 2009, Stock-in-trade at the branch at selling price, amounted to Rs.48660 and debtors to Rs.6440. During the year ended Dec 31, 2009, the following transactions took place at the branch:

Particulars	Rs	Particulars	Rs
Goods recd. by the branch at selling price	1,21,800	Cash sales	64,150
Credit sales	51,280	Goods returned to Kolkata at selling price.	1,560
Reductions in selling price authorized by head office	970	Cash recd. from debtors	42,660
Debtors written-off as irrecoverable	650	Cash discounts allowed	1,120

A consignment of goods dispatched to the branch in December, 2009, at selling price of Rs.1200 was not recd. by the branch until Jan 6, 2009 and had not been included in its stock figure. The expenses relating to the branch for the year ended Dec 31, 2009 amounted to Rs.17290. On Dec 31, 2009, physical stock at the branch, at selling price amounted to Rs.52200. You are required to write-up the Branch Stock Account; and the Branch Total Debtors Account maintained in Kolkata books, and to prepare the Trading and Profit and Loss Account of the branch for the year ended Dec 31, 2009.

(Ans. Branch profit: Rs 18,570; Gross Profit: Rs 37,830)

Wholesale Branch System

8. Kanpur Trading Co. Ltd. operates a number of retail branches of its own as well as supplies goods to other stockists. The wholesale price is cost plus 20% and retail branches sell the goods at 10% above the wholesale price. Goods are sent to retail branches at wholesale price.

The following figures relate to the Lucknow Branch for the year 2009.

Particulars	Rs
Opening stock	1,12,500
Goods sent to Lucknow branch (at cost to H.O.)	4,50,000
Sales at Lucknow branch	5,77,500
Expenses incurred at Lucknow Branch	15,000
Shortage of goods (at selling price)	2,475

You are required to ascertain profit made by the Lucknow branch.

(Ans. Gross Profit: Rs 52,500; Net Profit: Rs 35,625; Stock: Rs 1, 25,250)

Independent Branches

9. A head office at Bangalore has branches at Kolkata and Mysore. What adjustment entries are required to be passed in the books of head office in regard to following? The company closes its accounts on Dec 31 each year. **9.**
- (a) A remittance of Rs.8500 made by Kolkata to the Head Office on Dec 28 was recd. by the latter on January 4.
- (b) Depreciation at 10% p.a. is to be provided on machinery at Mysore costing Rs.75000 the account of which is in the head office books.

Branch Accounting

- (c) Goods worth Rs.20000 sent by the head office to Mysore branch on Dec 24 were recd. by the latter on January 8.
- (d) The Kolkata branch paid Rs.100 dividend to a local shareholder on behalf of the Head Office.
- (e) A sum of Rs.300 being arrears of call money was recd. by the Mysore office from a shareholder in November but was not communicated to the Head Office till January 3.

10. The following is the Trial Balance of Delhi Branch as at 31 March, 2009:

Particulars	Dr.(Rs.)	Cr (Rs.)
Bombay Head Office	32,400	-----
Stock – 1 st April,2009	60,000	-----
Purchases	1,78,000	-----
Goods recd. from H.O.	90,000	-----
Sales		3,80,000
Goods supplied to H.O.		60,000
Salaries	15,000	-----
Debtors	37,000	-----
Creditors	-----	18,500
Rent	9,600	-----
Office Expenses	4,700	-----
Cash in Hand and at Bank	17,800	-----
Furniture	14,000	-----
	4,58,500	4,58,500

Closing stock was valued at Rs.27000. The Branch Account in the books of the head office stood at Rs.4600 (Dr.) on 31stMarch, 2009. On 28thMarch, 2009 the head office forwarded goods to the value of Rs.25000 to the branch where they were recd. on 3rd April, 2009.

- Required: (a) Branch Trading and Profit and Loss Account.
 (b) Journal entries necessary to incorporate the above figures.
 (c) Delhi Branch Account in the books of the Head office.

(Ans. Branch Profit: Rs 1,09,700; Cash-in-Transit: Rs 12,000)

11. Messers. Dhyanchand & Co., Kanpur, have a branch in Varanasi. The Varanasi branch deals not only in the goods from the head office but buys some auxiliary goods and deals in them. They, however, do not prepare any Profit and Loss Account but close all the accounts to the head office at the end of the year and open them afresh on the basis of advice from their head office. The Fixed Assets Accounts are also maintained at head office. The goods from the head office are invoiced at selling prices to give a profit of 20% on the sale price. The goods sent from the branch to the head office are at cost. From the following, prepare the Branch Account, Branch Trading and Profit and Loss Accounts and Branch Assets Account in the head office books:

Trial Balance of Varanasi Branch as on 31.3.2009

Particulars	Dr. (Rs.)	Cr. (Rs)
Head office opening Balance 1.4.2008	15,000	-----
Goods from Head Office	50,000	-----
Purchases	20,000	-----
Sales	-----	10,000
Opening stock (H.O. goods at invoice price)	4,000	-----
Opening stock of other goods	500	-----
Goods to head office	-----	3,000
Salaries	7,000	-----
Rent	3,000	-----
Office expenditure	2,000	-----
Cash in hand	500	-----
Cash at bank	4,000	-----
Head Office Current Account		15,000
Sundry Debtors	15,000	-----
Sundry Creditors		3,000
	1,21,000	1,21,000

The branch balances on 1 April 2008 were as under:

Furniture Rs.5,000; Sundry debtors Rs.9,500; Cash Rs.1,000; Creditors Rs.30,000; Stock (head office at invoice price) Rs.4,000; Other goods Rs.500. The closing stock at branch of the head office goods at invoice price is Rs.3,000 and that of purchased goods cost is Rs.1,000. Depreciation is to be provided at 10% on branch assets.

(Ans: Branch Profit: Rs 30,200; Stock Reserve: Rs 600)

Glossary

Branch Accounting

- **Branch Accounting:** is accounting for geographically separated sections of enterprises.
- **Dependent Branch:** The term 'Dependent Branch' means a branch which does not maintain its own set of books.
- **Independent Branch:** A Branch which maintains independent accounts is known as Independent Branch.
- **Foreign Branch:** A Branch established in some foreign country is called Foreign Branch

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- Visit the link <http://www.indiastudychannel.com/resources/8502-BRANCH-ACCOUNTS.aspx> to read about dependent barnches.
- Visit the link <http://accountlearning.blogspot.in/2011/10/concept-and-meaning-of-branch-and-types.html> to read about branches and its types.
- Visit the link <http://www.youtube.com/watch?v=4wMxyUd6iAc> to go through an online lecture on debtors system of branch accounting.