

FINANCIAL ACCOUNTING-II CHDC 3 & CGDC 3

UNIT -1

BRANCH ACCOUNTING

Analytical Method / Stock and Debtors Method:

Analytical method for accounting of branch is used for exercising more detailed control over the working of a branch. Under this method several accounts are opened in the books of head office in place of one branch account. By opening detail accounts of several transactions greater supervision can be imposed on the financial activities of branch. Generally, following accounts are prepared for both cash price and invoice price transactions.

- (A) **Branch Stock Account. (either at cost price or invoice price)**
- (B) **Branch Debtors Account.**
- (C) **Branch Cash Account.**
- (D) **Branch Expenses Account.**
- (E) **Branch Profit / Loss Account.**
- (F) **Abnormal loss Account.**
- (G) **Goods sent to Branch Account. Etc.**

In case of invoice price transaction in addition to the above accounts an additional account is opened, called **Branch Stock Adjustment Account**, to reduce load on different invoice prices. All adjustments in relation to load on goods sent, goods return, abnormal loss of goods, opening and closing stocks are recorded in this account.

The balance of Branch Stock Account in case of cost price transactions represent Gross Profit or Gross Loss and the same is to be transferred to Branch Profit / Loss Account. In case of invoice price transaction, the balance of Branch Stock Adjustment Account shows Gross Profit or Gross Loss and transferred to the Branch P/L Account. Under invoice price transaction, Branch Stock Account is always balanced after making all relevant postings. But if in any case any balance arrives then such balance is called either Apparent Profit (Balance in the debit side) or Normal Loss (Balance in the credit side) and the same is transferred to the Branch Stock Adjustment Account.

The balance of Branch P/L Account is called Net Profit or Net Loss and transferred to the General P/L Account. The balances of Branch Expenses Account and Goods sent to Branch Account are transferred to the Branch P/L Account and Purchase Account respectively.

****Under cost price transactions no adjustment is required for Normal loss.**

Important journal entries of this method are as follows:

Common Journals for both cost and invoice price transactions:

Transactions	Journals
For goods sent to branch.	Branch Stock A/c.....Dr. To Goods sent to branch A/c
For cash sent to branch by H.O.	Branch Cash A/c.....Dr. To Bank A/c
For cash sales at branch.	Bank A/c..... Dr. (Money remitted directly to H.O) Branch Cash A/c.....Dr. (Money remitted through branch) To Branch Stock A/c
For credit sale at branch.	Branch Debtors A/c.....Dr. To Branch Stock A/c
When goods returned by the branch to the H.O.	Goods sent to branch A/c.....Dr. To Branch Stock A/c
For goods returned by the customer to the branch.	Branch Stock A/c.....Dr To Branch Debtors A/c
For collection from debtors.	Bank A/c.....Dr. Branch Cash A/c.....Dr. To Branch Debtors A/c
For discount, allowance & bad debt.	Branch P/L A/c.....Dr. To Branch Debtors A/c
For branch expenses.	Branch Expenses A/c.....Dr. To Bank A/c To Branch Cash A/c
For cash remittance to H.O.	Bank A/c.....Dr. To Branch Cash A/c
For purchase of assets at branch.	Branch Asset A/c.....Dr. To Bank A/c To Branch Cash A/c
For depreciation on branch assets.	Branch P/L A/c.....Dr. To Branch Asset A/c

For Abnormal loss.	Abnormal Loss A/c.....Dr. To Branch Stock A/c
When cash received from insurance company for loss.	Bank / Branch Cash A/c.....Dr. To Abnormal Loss A/c
Actual loss due to Abnormal Loss.	Branch P/L A/c.....Dr. To Abnormal Loss A/c

Additional journals for invoice price transactions:

Transactions	Journals
To reduce the load on the price of Opening Stock.	Stock Reserve A/c.....Dr. To Branch Stock Adjustment A/c
To reduced load on goods sent to branch.	Goods Sent to branch A/cDr. To Branch Stock Adjustment A/c
To reduced load on goods returned to H.O.	Branch Stock Adjustment A/cDr. To Goods sent to branch A/c
To reduced load on Abnormal loss.	Branch Stock Adjustment A/cDr. To Abnormal loss A/c
To reduce the load on the price of Closing Stock.	Branch Stock Adjustment A/cDr. To Stock Reserve A/c
For Normal loss.	Branch Stock Adjustment A/cDr. To Branch Stock A/c
For Apparent Profit.	Branch Stock A/cDr. To Branch Stock Adjustment A/c

For opening and closing balances of different accounts no separate entry is needed to be made. The balances are to be recorded as “ To Balance B/D or By Balance B/D” for opening and “ By balance C/D or To Balance C/D” for closing values in the corresponding accounts.

Formats of accounts under Analytical method:

Branch Stock Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Balance B/D		***		By Branch Cash A/c (Cash sales)		***
	To Goods sent to branch A/c (goods sent to branch)		***		By Branch Debtors A/c (credit sales)		***
	To Branch Debtors A/c (sales return)		***		By Goods sent to branch A/c (goods return to H.O.)		***
	To Branch P/L A/c (gross profit transfer)		***		By Abnormal Loss A/c		***
	To Branch stock				By Branch stock		
	Adjustment A/c				Adjustment A/c		
	(Apparent profit)				(Normal loss)		
					By Balance C/D		***
			****				****

- **In case of transaction at cost:** Like gross profit in the debit side of branch stock account, gross loss may arise in the credit side. In that case branch stock account will be credited by Branch P/L account.

Branch Debtors Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Balance B/D		***		By Bank / Branch Cash A/c		***
	To Branch Stock A/c (Credit sales)		***		(collection from debtors)		
					By Branch P/L A/c (bad debt, discount, allowance etc.)		***
					By Branch Stock A/c (Sales return)		***
					By Balance C/D		***
			****				****

Branch Cash Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Balance B/D		***		By Bank A/c (Cash remitted to H.O)		***
	To Branch Stock A/c (Cash sales)		***		By Branch Exp. A/c (Expenses paid)		***
	To Branch Debtors A/c (Collection from debt.)		***				
	To Bank A/c (Cash sent to branch)		***		By Balance C/D		***
			****				****

Branch Expenses A/c

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Branch Cash A/c (salary, wages, rent, rates, office exp. Etc.)		***		By Branch P/L A/c (Transfer)		***
			****				****

Branch P/L Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Branch Exp. A/c (Expenses transfer)		***		By Bank Stock A/c (gross profit trnsf.)		***
	To Branch Debtors A/c (bad debt, discount , allowance etc.)		***		By Branch Stock Adjustment A/c (gross profit trnsf.)		***
	To Branch Asset A/c (depreciation on branch asset)		***				
	To Abnormal Loss A/c (Actual loss for abnormal loss)		***		By General P/L A/c (Net loss transfer)		***
	To General P/L A/c (Net profit transfer)		***				
			****				****

Branch Stock Adjustment Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Goods sent to branch A/c (load on goods return)		***		By Stock Reserve A/c (Load on Op. Stock)		***
	To Branch Stock A/c (Normal loss)		***		By Goods sent to Branch A/c (load on goods sent)		***
	To Abnormal Loss A/c (load on abnormal loss)		***		By Branch Stock A/c (Apparent profit)		***
	To Branch P/L A/c (gross profit Transfer)		***				
	To Stock Reserve A/c (load on Cl. Stock)		***				
			****				****

- In case of transaction at invoice price:** Like gross profit in the debit side of branch stock adjustment account, gross loss may arise in the credit side. In that case branch stock adjustment account will be credited by Branch P/L account.

Goods sent to branch A/c

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Branch Stock A/c (goods return to H O)		***		By Branch Stock A/c (Goods Sent)		***
	To Branch Stock Adjustment A/c (load on goods sent)		***		By Branch Stock Adjustment A/c (load on goods return)		***
	To Purchase A/c (Transfer)		***				
			****				****

Abnormal Loss A/c

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Branch Stock A/c (Gross loss)		***		By Bank A/c (Claim received)		***
					By Branch Stock Adjustment A/c (load on gross loss)		***
					By branch P/L A/c (actual loss)		***
			****		(balancing figure)		****

Examples:

Problem 1:

The Bombay Trading Company sent goods to its Delhi branch at cost. Branch cash account is maintained by the branch to perform all cash transactions. Following is a transaction summary entered into at the branch during the year ended 31.12.2019.

Stock on January 1, 2019	Rs.7000	Goods returned by customers	Rs. 500
Debtors on January 1,2019	Rs.12600	Salaries & Wages	Rs. 6200
Cash on January 1, 2019	Rs. 200	Rent & Rates	Rs. 1200
Goods sent to branch	Rs. 26000	Sundry expenses	Rs. 800
Goods returned to H. O.	Rs. 1000	Collection from debtors	Rs. 28500
Cash sales	Rs. 17500	Stock on Dec 31, 2019	Rs. 6500
Credit Sales	Rs. 28400	Debtors on Dec 31, 2019	Rs. 9800
Allowances to customer	Rs. 200	Cash on Dec 31, 2019	Rs. 100
Discount to customers	Rs. 1400		
Bad debts	Rs. 600		

Prepare necessary accounts in the books of H.O. under Analytical Method.

Solution:

In the books of Bombay Trading Company (H.O.)
Branch Stock Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.1	To Balance B/D		7000	31.12	By Branch Cash A/c (Cash sales)		17500
31.12	To Goods sent to branch A/c (goods sent to branch)		26000	31.12	By Branch Debtors A/c (credit sales)		28400
31.12	To Branch Debtors A/c (sales return)		500	31.12	By Goods sent to branch A/c (goods return to H.O.)		1000
31.12	To Branch P/L A/c (gross profit transfer) (balancing figure)		19900	31.12	By Balance C/D		6500
			53400				53400
			53400				53400

Branch Debtors Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.1	To Balance B/D		12600	31.12	By Branch Cash A/c (collection from debtors)		28500
31.12	To Branch Stock A/c (Credit sales)		28400	31.12	By Branch P/L A/c - Allowances		200
					- Discounts		1400
					- Bad debts		600
				31.12	By Branch Stock A/c (Sales return)		500
				31.12	By Balance C/D		9800
			41000				9800
			41000				41000

Branch Cash Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.1	To Balance B/D		200	31.12	By Bank A/c (Cash remitted to H.O)		37900
31.12	To Branch Stock A/c (Cash sales)		17500	31.12	(Balancing figure)		
31.12	To Branch Debtors A/c (Collection from debt.)		28500		By Branch Exp. A/c		
					- Salaries Wages		6200
					- Rent & Rates		1200
					- Sundry Exp.		800
				31.12	By Balance C/D		100
			46200				46200

Branch Expenses A/c

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.12	To Branch Cash A/c			31.12	By Branch P/L A/c (Transfer)		8200
	- Salaries Wages		6200				
	- Rent & Rates		1200				
	- Sundry Exp.		800				
			8200				8200

Branch P/L Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.12	To Branch Exp. A/c (Expenses transfer)		8200	31.12	By Bank Stock A/c (gross profit transfer.)		19900
31.12	To Branch Debtors A/c						
	- Allowances		200				
	- Discounts		1400				
	- Bad debts		600				
31.12	To General P/L A/c (Net profit transfer)		9500				
			19900				19900

Problem 2:

Romit Ltd. Has a branch at Karnojora, where it sends goods at cost plus 50%. From the following particulars regarding the branch, Prepare necessary accounts in the books of head office.

Stock at cost (1.04.2019)	Rs.20000	Bad debt	Rs.200
Debtors (1.04.2019)	Rs. 18000	Sales Return to branch	Rs. 3000
Cash (1.04.2019)	Rs. 5000	Branch expenses paid by H.O.	Rs. 10000
Goods sent to branch at I.P.	Rs. 99000	Cash remitted to H.O.	Rs. 80000
Cash Sales	Rs. 27000	Cash (31.03.2020)	Rs. 6000
Credit Sales	Rs.79000	Stock at I.P. (31.03.2020)	Rs. 27000
Normal Loss at cost	Rs. 2000	Debtors (31.03.2020)	Rs. 30000

** I.P.= Invoice Price.

Solution:

As the problem is a problem of invoice price, we need to make entries at invoice price. Thus all transactions given at cost price are to be translated in to invoice price. After making entries at invoice price we have to reduce load on invoice prices at Branch Stock Adjustment Account.

Invoice price = Cost * 150% Or Invoice price = Cost +(Cost * 50%)

- I.P. of Opening Stock= Rs.20000*150%= Rs.30000
- I.P. of Normal Loss= Rs.2000*150%= Rs.3000

In the books of Romit Ltd.(H.O.)

Branch Stock Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.04	To Balance B/D		30000	31.03	By Branch Cash A/c (Cash sales)		27000
31.03	To Goods sent to branch A/c (goods sent to branch)		99000	31.03	By Branch Debtors A/c (credit sales)		79000
31.03	To Branch Debtors A/c (sales return)		3000				
31.03	To Branch Stock Adjustment A/c (Apparent Profit) * (balancing figure)		4000	31.03	By Branch Stock Adjustment A/c (Normal loss)		3000
					By Balance C/D		27000
			136000				136000

* As Normal loss is given in the problem and branch stock account reflects a debit balance, So it is treated as Apparent profit.

Branch Stock Adjustment Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.03	To Branch Stock A/c (Normal loss)		3000	31.03	By Stock Reserve A/c (Load on Op. Stock) (30000*50/150)		10000
31.03	To Branch P/L A/c (gross profit Transfer) (Balancing Figure)		35000	31.03	By Goods sent to Branch A/c (load on goods sent) (99000*50/150)		*** 33000
31.03	To Stock Reserve A/c (load on Cl. Stock) (27000*50/150)		9000	31.03	By Branch Stock A/c (Apparent profit)		4000
			47000				47000

Branch Debtors Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.04	To Balance B/D		18000	31.03	By Branch Cash A/c (collection from debtors)		63800
31.03	To Branch Stock A/c (Credit sales)		79000	31.03	(balancing figure) By Branch P/L A/c - Bad debts		200
				31.03	By Branch Stock A/c (Sales return)		3000
				31.03	By Balance C/D		30000
			97000				97000

Branch Cash Account **

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.04	To Balance B/D		5000	31.03	By Bank A/c (Cash remitted to H.O)		80000
31.03	To Branch Stock A/c (Cash sales)		27000	31.03	By Branch Exp. A/c (Expenses paid by Branch) (Balancing figure)		9800
31.03	To Branch Debtors A/c (Collection from debt.)		63800	31.03	By Balance C/D		6000
			95800				95800

Branch Expenses A/c

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.03	To Branch Cash A/c (Expenses paid by Branch)		9800	31.03	By Branch P/L A/c (Transfer)		19800
	To Bank A/C (Expenses paid by H.O)		10000				
			19800				19800

Branch P/L Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.12	To Branch Exp. A/c (Expenses transfer)		19800	31.12	By Bank Stock A/c (gross profit transfer.)		35000
31.12	To Branch Debtors A/c - Bad debts		200				
31.12	To General P/L A/c (Net profit transfer)		15000				
			35000				35000

** As cash sent to H.O, Opening and Closing Balances of cash are given in the problem so, Branch Cash Account is prepared to identify expenses paid by the branch.