

HNDA 2nd year

Advanced Financial Accounting
2101

BRANCH

2

ACCOUNTING

Chapter out comes

- Introduction
- Different types of branches
- Methods of keeping accounts for branches
- Accounting for Independent branches
 - special features of independent branches
 - preparation of current accounts
 - Identification of reasons for disagreement of current a/c balances
 - Preparation of final accounts when invoicing goods at cost
 - Preparation of final accounts when invoicing goods at mark up price

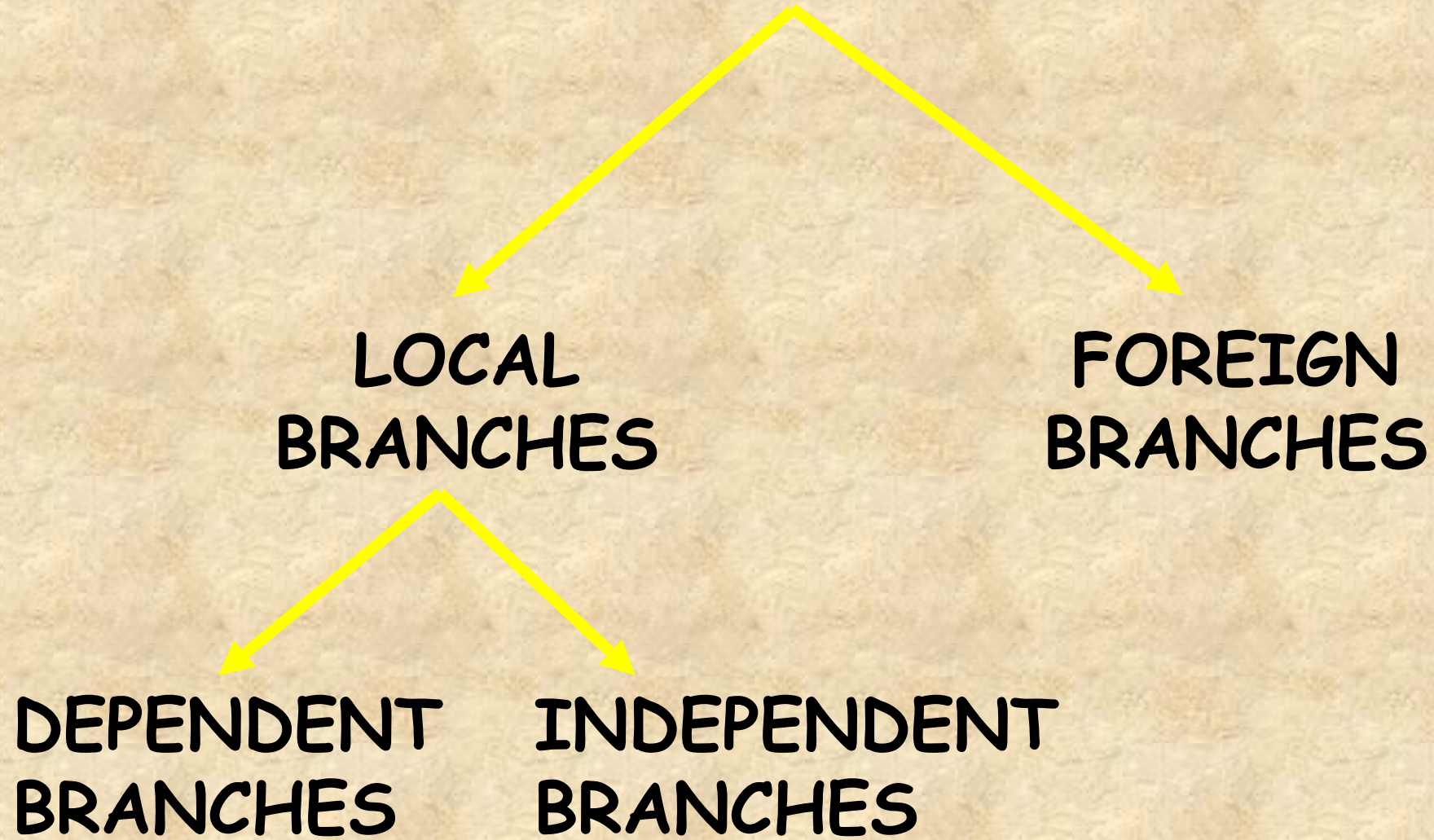
INTRODUCTION

- A company may attempt to expand its business by opening branches as another establishment of the company in different locations under the same name.
- The main business place is known as “head office” and a business unit located at some distance from the home office is known as a “branch”.
- A business firm may open branches in the same country or other countries to expand its business.
- Branches are controlled by a central office, often called head office.

Introduction

- Branch accounting is concerned with recording trading transactions at branches, recording transactions between the head office and branches and ascertaining profit earned or loss incurred by a branch.
- This unit carries merchandise obtained from the home office, makes sales, approves customers' credit, makes collections from its customers, and remits cash received.

TYPES OF BRANCHES



Different types of branches

- **Local branch**- When a branch is opened in the same country where the head office is registered, it is called a local branch.
- **Foreign branch**- These branches are located outside the country.
- **Dependent branch**- (centralized branches)- All management functions of the branches are handled by the head office. Dependent branches are those which do not maintain separate books of account and wholly depend on Head Office.
- **Independent branches** – Most of the administrative activities and decision taking power relevant to branch is assigned to branch managers. Independent branches are those which maintain complete system of accounting.

Accounting System for a Branch (Methods of keeping accounts)

- **Centralized accounting system** – Accounting for dependent branches. The branch does not maintain a complete set of accounting records.
- **Decentralized accounting system** – Accounting for independent branches. The branch maintains a complete set of accounting records.

Decentralized accounting system – Accounting for independent branches

Special features

- Branches prepare their accounts independently.
- They also purchase and sell goods for cash and credit independently in addition to the goods that are supplied by the Head Office.
- Head office and the branches maintain **current accounts** to record the **inter transactions between head office and branches**.
- End of the each accounting period branch has to prepare the final accounts and send to the head office.

Current Accounts

- In Head Office books:

Branch Current Account is opened to record transactions between the Head Office and the Branch.

- In Branch books:

Head Office Current Account is opened to record transactions between them.

Head Office Books

Branch Current Accounts

Goods send to branch	xxx	Cash received	xxx
		Balance c/d	<u>xxx</u>
Balance b/f	<u>xxx</u>		<u>xxx</u>



These balances should be tallied each other.

Branch Books

Head Office Current A/C

Cash remitted to head office	xxx	Goods received from head office	xxx
Balance c/d	<u>xxx</u>		<u>xxx</u>
	<u>xxx</u>	Balance c/f	xxx



Reasons for disagreement of current account balances

1. Goods in transit
2. Cash in transit
3. Errors in respective ledger accounts

Adjusting entries

- Goods in transit and cash in transit should be adjusted **in the books of head office.**

1. Goods in transit

Goods in transit a/c	dr
Branch current a/c	cr

2. Cash in transit

Cash in transit a/c	dr
Branch current a/c	cr

Relevant Double entries

Transaction	In the Books of Head Office	In the Books of Branch
1. Goods dispatched to Branch from Head Office / goods received by Branch from Head Office	Branch Current Account Dr Goods Sent to Branch A/c Cr	Good Received from Head Office Dr Head Office Current Account CR
2. Goods Returned by branch to Head Office	Goods Sent to Branch Act Dr Branch Current Account Cr	Head Office Current Account DR Good Received From HO Cr
3. Cash remitted by Branch to Head Office / cash received by Head Office from Branch	Head Office Cash Book Dr Branch Current Account Cr	Head Office Current Account Dr Branch Cash Book Cr
4. Payment of Branch expenses by Head Office	Branch Current Account Dr Head Office Cash Book Cr	Branch Expenses Account Dr Head Office Current Account Cr
5. Payment of Head Office expenses By Branch	Head Office Expenses Act Dr Branch Current Account Cr	Head Office Current Account Dr Branch Cash Book Cr

6. Branch debtors returning goods to Head Office	Goods Returned Account Dr Branch Current Account Cr	Head Office Current Account Dr Branch Debtors Account Cr
7. Head Office debtors returning goods to Branch	Branch Current Account Dr Debtors Account Cr	Goods Returned Account Dr Head Office Current Account Cr
8. Cash received by Head Office from Branch debtors	Head Office Cash Book Dr Branch Current Account Cr	Head Office Current Account Dr Branch Debtors Account Cr
9. Cash received by Branch from head office debtors	Branch Current Account Dr Head Office Debtors Account Cr	Branch Cash Book Dr Head Office Current Account Cr
10. Branch accepting a bill drawn by Head Office	Bills Receivable A/c Dr Branch Current Acct Cr	Head Office Current Account Dr Bills Payable Account Cr
11. Depreciation attributable to Branch When Annual Depreciation is adjusted only in Head Office books	Branch Current Account Dr Accumulated depreciation A/C Cr	Depreciation Dr Head Office Current Acct Cr
12. Net Profit at the branch	Branch Current a/c Dr Head Office Profit & Loss a/c Cr	Branch profit & Loss a/c Dr Head office current a/c Cr

Example 01

- Nadeesh Company Ltd has its Head Office in Colombo while its only Branch is located in Kurunegala. The Branch independently maintains their books. Given below are some transactions that took place between the Head Office and the Branch during the year 2019/20.

	Head Office	Branch
Goods invoice by Head Office to the Branch	288,000	-
Goods received by the Branch	-	270,000
Goods returned by the Branch	-	7,500
Goods received by the Head office	5,000	-
Cash remitted by Branch to Head Office	-	148,000
Remittances received by Head Office	140,000	-
Branch expenses met by Head Office	10,000	-
Branch debtor payment at Head Office	21,000	-
Profit for the year	-	50,000

You are required to prepare,

1. Branch current account in the Head Office books and
2. Head Office Current in the Branch books

Head office Ledger

Branch Current Account

Goods sent to Branch	288,000	Goods returned	5,000
Branch expenses	10,000	Cash remittance	140,000
		Cash from branch debtors	21,000
		Balance c/d	<u>132,000</u>
	<u>298,000</u>		<u>298,000</u>
Balance b/f	132,000	Goods in transit	20,500
		Cash in transit	8,000
		Balance c/d	<u>103,500</u>
	<u>132,000</u>		<u>132,000</u>
Balance b/f	103,500		
Branch profit	<u>50,000</u>	Balance c/d	<u>153,500</u>
	<u>153,500</u>		<u>153,000</u>

Goods Sent to Branch account

Goods return	5,000	Branch cu. a/c	288,000
	<u>288,000</u>		<u>288,000</u>

Goods in transit a/c

B. current a/c	20,500	bal. c/d	20,500
	<u>20,500</u>		<u>20,500</u>

Cash in transit a/c

B. Current a/c	8,000	bal. c/d	8,000
	<u>8,000</u>		<u>8,000</u>

Branch Ledger

Head Office Current Account

Goods returned	7,500	Goods received	270,000
Cash remittance	148,000		
Balance c/d	<u>114,500</u>		
	<u>270,000</u>		<u>270,000</u>
Debtors pay.	21,000	Balance c/f	114,500
		Expenses	10,000
Balance c/d	<u>103,500</u>		
	<u>124,500</u>		<u>124,500</u>
		Balance c/f	103,500
		Branch net profit	50,000

Branch debtors

Balance	21,000	current (cash)	21,000
	21,000		21,000

Goods Received form Head Office A/c

H/O Cu. A/C	270,000	goods return	7,500
		To trading a/c	<u>262,500</u>
	<u>270,000</u>		<u>270,000</u>

Expenses a/c

H/o current a/c	10,000	to P/L	10,000
	10,000		10,000

Reasons for disagreement of current account balances

(1) Goods in Transit

From Head Office to branch = $(288000 - 270000) = 18,000$

From Branch to Head Office = $(7500 - 5000) = \underline{2,500}$

Total goods in transit = **20,500**

(2) Cash in Transit

Cash in Transit = $(148000 - 140000) = \mathbf{8,000}$

PREPARATION OF FINAL ACCOUNTS

- Separate trading and profit and loss accounts and statement of financial positions would be prepared for the head office and the branches separately for evaluating the performance of each branch.
- For investors, the head office and branches are a single business entity. Thus, combined financial statements should be prepared for external users.

Invoicing Goods at Cost

Q-1 Lanka Company Ltd. maintains a branch in Kandy in addition to its Head Office. Given below are several transactions that took place during the year ended 31.03.2020

	Head Office	Branch
Opening Stock (at cost)	60,000	47,000
Purchases	520,000	
Goods sent to Branch	200,000	
Goods received from, Head Office		180,000
Sales	500,000	310,000
Closing Stock (at cost)	65,000	27,000

Head office invoice goods to Branch at cost.

You are required to show the trading account of branch, head Office and the company showing separately in columnar form.

Lanka company ltd
Trading a/c for the year ended 31/03/2020(On memorandum basis)

	Head office	Branch	Company
Sales	500,000	310,000	810,000
Cost of sales			
Opening stock	60,000	47,000	107,000
Purchases	520,000	-	520,000
	580,000	47,000	627,000
Goods sent to /received branch	(200,000)	180,000	(20,000)
	380,000	227,000	607,000
Closing stock	(65,000)	(27,000)	92,000
Cost of sales	315,000	200,000	515,000
Gross profit	185,000	110,000	295,000

Invoicing Goods to Branch with Nominal Profit (Goods Sent to Branch at a Mark Up)

- The head office supplies goods to its branch with an invoice price at cost plus profit.
- Goods Sent to Branch a/c and Goods Received from HO a/c are valued at invoice price.
- If there is unsold stock at the end of the accounting period, the unrealized profit-in-stock must be eliminated from the consolidated final accounts.
- A Provision for Unrealized Profit a/c will be opened to measure unearned profit included in the closing stock of the branch and reflect in the HO's books.

Provision for Unrealized Profit

$$= \frac{\text{Stock at mark up}}{100 + \text{Mark up}} \times \text{Mark up}$$

Stock mark up = Closing stock at branch sent from HO + Goods in transit

Relevant double entry is

Profit & loss accounts DR

Provision for unrealized Profit CR

(The above adjustment should be made in the books of head office)

Q- 2 Head Office of Shan Company Ltd is established in Kandy while a Branch is situated at Galle. Given below are some details relating to the year ended 31.03.2020.

	Head Office	Branch
Stock at 01.04.2019 Head Office (at cost)	33,150	
Branch (Invoice Price)		32,500
Purchases	470,850	
Goods sent to Branch (invoiced Price)	180,000	
Goods received from Head Office (invoiced price)		170,000
Sales	461,750	225,000
Stocks at 31.03.2020 Head Office (at cost)	12,250	
Branch (invoiced price)		29,000

The Head Office invoices goods to Branch at a price including a profit margin of 30% on cost.

You are required to prepare trading Account for Head Office, Branch and Company in columnar form

Shan company LTD
Trading a/c for the year ended 31/03/2020

	Head office	Branch	Company
Sales	461,750	225,000	686,750
Cost of sales			
Opening stock	33,150	32,500	58,150
Purchase	470,850	-	470,850
	504,000	32,500	529,000
Goods sent to/ Received Branch	(180,000)	170,000	(7,692)
	324,000	202,500	521,308
Closing stock	(12,250)	(29,000)	(34,558)
Cost of sales	311,750	173,500	486,750
Gross profit	150,000	51,500	200,000
Unrealized profit	(1,500)		
Realized profit	148,500		

Opening stock at company
 $= 33,150 + 32,500 / 130 * 100$
= 58,150

Goods in transit
 $= 10,000 / 130 * 100$
= 7,692

Closing stock
 $= 12,250$
 $+ 29,000 / 130 * 100$
= 34,558

Adjustment for unrealized profit(in the HO books)

Provision for unrealized Profit A/c			
		Balance c/f	7,500
		To P/L A/C	1,500
			<u>9,000</u>
Balance c/d	<u>9,000</u>		
	<u>9,000</u>		
		Balance c/f	9,000

Unrealized profit balance
at the beginning

$$= \frac{32,500 * 30}{130} = 7,500$$

Unrealized Profit of HO
at the end

$$= \frac{(10,000 + 29,000) * 30}{130}$$

$$= 9,000$$

Q-3 Anura Company Ltd has a branch in Kurunegala in addition to its Head Office in Colombo. Its trail balances as at 31.03.2020 are as follows.

	Head office Rs. 000		Branch Rs. 000	
	dr	cr	dr	cr
Property, Plant & Equipment	22,000		10,000	
Accumulated Depreciation- 01/04/2019		4,400		2,000
purchases	102,000			
sales		84,000		44,000
Goods sent to/ Received by Branch		44,000	40,000	
stock at 01/04/2019	3,000		440	
Provision for unrealized Profit		40		
Current Accounts	13,720			9,520
Other Income				2,920
Administrative Expenses	4,400		1,800	
Sales Expenses	3,400		800	
Finance Expenses	1,200		800	
Debtors / Creditors	12,820	8,000	4,000	
Bank Balance	1,700		600	
Retained profit at 01/04/2019		1,800		
stated capital		22,000		
	164,240	164,240	58,440	58,440

You are given the following additional information.

1. Head Office invoices goods to branch at cost plus 10%.
2. Value of stocks as at 31.03.2020.

Head Office – at cost 6200,000

Branch – at invoice price 4510,000

3. Estimated Tax for 2019/2020 is Rs.8350,000.
4. Company's depreciation policy is to depreciate 10% on cost.
5. Reasons for differences in current accounts are due to goods and cash in transit.

You are required to prepare the followings for the board of directors.

- (a) Income Statement for the year ended 31.03.2020.
- (b) Statement of Financial Position as at 31.03.2020.

Anura company

Income statement for the year ended 31/03/2010

	Head Office	Branch	Company
Sales	84,000	44,000	128,000
Cost of sales			
Opening stock	3,000	440	3,400
Purchases	102,000		102,000
	105,000	440	105,400
Goods send to/ received at branch	(44,000)	40,000	(3,636)
	61,000	40,440	101,764
Closing stock	(6,200)	(4,510)	(10,300)
Cost of sales	54,800	35,930	91,464
Gross profit	29,200	8,070	36,536
Unrealized profit	(734)		
Other income	-	2,920	2,920
Distribution expenses	(3,400)	(800)	(4,200)
Administrative expenses	(4,400)	(1,800)	(6,200)
Depreciation	(2,200)	(1,000)	(3,200)
Finance expenses	(1,200)	(800)	(2,000)
Profit before tax	17,266	6,590	23,856
Transferred net profit to H/O	6,590	(6,590)	-
Profit before taxation	23,856		23,856
Taxation	(8,350)		(8,350)
Profit after taxation	15,506		15,506
Retained profit brought forward	1,800		1,800
Retained profit at the end	17,306		17,306

Company's opening stock

HO = 3,000

Branch

$$\frac{440}{110} * 100 = \underline{400}$$

$$\underline{3,400}$$

Goods in transit

$$\frac{4,000}{110} * 100 = \underline{3,636}$$

Company's opening stock

HO = 6,200

Branch

$$\frac{4,510}{110} * 100 = \underline{4,100}$$

$$\underline{10,300}$$

Anura Company LTD

Statement of Financial Position as at 31/03/2020

Assets		
Non current Assets		
Property Plant & Equipment	32,000	
Provision for depreciation	(9,600)	22,400
Current Assets		
Stocks(6,200+4,510+4,000-774)	13,936	
Debtors	16,820	
Cash in transit	200	
Balance at bank	2,300	33,256
Total Assets		55,656
Equity & Liabilities		
Equity		
Stated Capital		
Ordinary Share capital		22,000
Retained Profit		17,306
Total Equity		39,306
Non current Liabilities		
-		
Current Liabilities		
Creditors	8,000	
Tax payable	8,350	16,350
Total Equity & Liabilities		55,656

• Workings

Head office ledger

Branch current A/C

Balance c/f	13,720	Goods in transit	4,000
		Cash in transit	200
		Balance c/d	<u>9,520</u>
	<u>13,720</u>		<u>13,720</u>
Balance b/f	9,520		
Branch profit	<u>6,590</u>	Balance c/d	<u>16,110</u>
	<u>16,110</u>		<u>16,110</u>
balance c/f	16,110		

Provision for unrealized profit a/c

	01/04/2019	bal b/f	40
		To income statement	734
31/03,2020 bal c/	<u>774</u>		<u>774</u>

Unrealized profit as at 31/03/2020

Closing stock at branch	= 4,510
Goods in transit	= <u>4,000</u>
Stock loaded with profit	= 8,510

Unrealized profit	= <u>8,510</u> * 10
	110
	= 774

- **Branch Ledger**

Head office current a/c

		Balance c/f	9,520
Balance c/d	<u>16,110</u>	Income statement	<u>6,590</u>
	<u>16,110</u>		<u>16,110</u>
		Balance b/f	16,110

- END -