**Learning Unit 2**

**Branch accounting**

2.1 The purpose of branches

2.2 Internal control at branch level

2.2.1 Internal control over sales

2.2.2 Internal control over purchases

2.2.3 Internal control over the bank account

2.3 Centralised system of branch accounting

2.3.1 Head office issues goods to branch at cost

2.3.2 Head office issues goods to branch at selling price

2.4 Decentralised system of branch accounting

2.4.1 Recording transactions between the head office and the branch,

in the books of the branch

2.4.2 The branch account in the financial records of the head office

2.5 Merchandise and cash still in transit at year-end

2.6 Transactions between branches

**2.1 The purpose of branches**

The aim of a business is to make profit, which is why company owners or shareholders are constantly looking at ways to expand the interests of the business. Creating branches is one way of expanding the interests of the business. This is done by opening up branches of the business in different locations in the same region or in other regions than the one in which the main business or branch is situated.

The main branch (known as the ‘head office’), is responsible for providing the capital to establish the branches. The head office sets the policies which are followed by the different branches, and performs other tasks such as providing stock to the branches, paying the salaries of the employees at the branches or even paying other expenses of the branches such as telephone facilities or electricity.

Although the branches all operate independently, they are still a division of the main organisation, which is the head office. As such, the branch is accountable to the head office for its activities. The assets of the branches are the property of the head office. As the head office is responsible for providing the capital to start the branch as well as for the provision of money to run the day-today activities of the branch, it is entitled to the entire profit made by the branch. Likewise, the head office is accountable for the liabilities and commitments of the branch. The branch is obligated to report on its activities on a regular basis, as well as to submit its financial records to the head office, thus permitting the head office to maintain control over the activities of the branch.

In an organisation that has many branches, it is quite common for the branches to vary from each other in terms of their position in the organisation as a whole. For example, one branch may be permitted to handle sales made in cash only, while the trade debtors are handled by the head office, and as such, is passed through the books of the head office. It is also very common for the head office to limit the branches with regards to the controlling of cash.

For example, all cash received by a branch from sales or from payment received from debtors are expected to be deposited into the head office bank account, which is subject to inspection and control by the head office. The head office can then deposit money into a separate bank account, which the branch would use to pay certain expenses. This enables the head office to maintain an appropriate balance in the bank account. On the other hand, another branch could have complete independence with regard to all revenue received and expenses paid, and may only be required to report its activities to the head office at the end of the financial period. Any net profit made by the branch will be transferred to the head office at that stage.

**2.2 Internal control at branch level**

The degree of internal control at each of the branches may vary, as it depends on a number of elements, such as the size of the branch, its staff complement and other factors. It is not always possible to separate the duties of the staff members in smaller branches for the purposes of internal control. The larger the branch is, the easier it will be to divide the duties of the staff members, thus ensuring that sound internal control is possible at all times. Internal control may be exercised over sales, purchases and the bank account as follows:

**2.2.1 Internal control over sales**

Invoices are usually issued by the branch; however the sales can be made in the name of the branch *or* in the name of the head office. In instances where sales are made in the name of the head office, it is the responsibility of the head office to collect amounts due by debtors. In this case, the branch is also required to deposit all moneys received from cash sales or payments received from debtors directly into the bank account of the head office.

**2.2.2 Internal control over purchases**

When purchases are made in bulk, the discount received from suppliers will be high. As a result, the head office would usually make all purchases of trading stock itself in order to receive this quantity discount from suppliers. Thereafter stock supplied by the head office to the branches is invoiced at the selling price. The branch is then responsible for keeping accurate records of all quantities of stock that has been received from the head office and has subsequently been sold. The information in the records of the branch has to agree with that of the head office.

An added advantage of the purchases being made by the head office is that stock can be divided equally among the branches. If one of the branches urgently needs a particular item of stock, it could enquire from head office or from the other branches, which would then be able to transfer that item to the specific branch.

In certain instances a branch may be allowed to purchase items of stock itself, particularly if there has been an urgent order placed for that item of stock. In this case the branch is required to supply this information to the head office, in order for the stock records of the branch and head office to agree. It is important to separate the stock records of items purchased directly by the branch from that of the stock supplied by the head office, so as to ensure that record keeping is supported.

**2.2.3 Internal control over the bank account**

The head office can presume that all amounts received by the branch are deposited straight into its bank account, and all payments required to be made by the branch are then made by the head office.

However, it is quite common for branches to have a small bank account from where they can make payments for wages, services received at the branch premises and other small expenses. The branch submits vouchers to the head office from time to time for any payments made from their own bank account, and the head office would then supplement the branch’s bank account accordingly. Therefore the only purpose of this bank account will be to receive money from the head office.

On the other hand, the branch can possess its own independent bank account, in which all moneys received from sales made for cash as well as payments received from debtors, are deposited. The branch would then deposit the money into the bank account of the head office from time to time. In this instance the branch may be permitted to pay for its own expenses from this bank account, and subsequently has to submit periodic reports to the head office. The head office would then be able to control the transactions of the branch.

**2.3 Centralised system of branch accounting**

When the centralised system is used, the branches are required to send supporting records of all activities that take place at the branch to the head office. The head office is then completely responsible for handling the accounting records and for the bookkeeping function. Being aware of the financial position and the revenue position of each branch is very important. Furthermore it is necessary for proper co-ordination between the head office accounts and the branch accounts. This is the purpose of branch accounting.

To explain accounting for branches, the following illustrations will be discussed:

**2.3.1 Head office issues goods to branch at cost**

The head office invoices the branch for goods issued to the branch at the price that was paid by the head office when the goods were purchased. Therefore the stock account at the head office is reduced by the same amount as the purchase price when stock is transferred to the branch. The transfer of goods from the head office to the branch is not viewed as a sale; as a result the branch only earns a gross profit when the stock is traded at the selling price.

***2.3.1.1 Goods are sent by the head office to the branch***

When head office transfers goods to the branch, the stock at the head office is reduced by the value of the stock sent to the branch. For this purpose, a *goods to branch* account is used, which is closed off to the head office trade account at the end of the financial period. Only one goods to branch account has to be used, even if the head office transfers stock to more than one branch. Examples of transactions that take place between the head office and its branches are illustrated below.

***Example 2.1***

The head office of Sandton Stationers, with branches in Durban and Richards Bay, delivers goods at cost prices of R 15 375 and R 44 000 respectively to its branches on 18 January 20.9.

You are required to show the entries in the general journal and the general ledger of Sandton Stationers.

General journal of Sandton Stationers – January 20.9 GJ1

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Doc. no. | Day | Details | Fol. | Debit (R) |  | Credit (R) |  |
| INV 27 | 18 | Branch stock – Durban | B2 | 15 375 | 00 |  |  |
|  |  | Branch stock – Richards Bay | B3 | 44 000 | 00 |  |  |
|  |  | Goods to branch | N9 |  |  | 59 375 | 00 |
|  |  | (Goods delivered to branches at cost) |  |  |  |  |  |

General ledger of Sandton Stationers

Balance sheet section

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch stock – Durban B2** | | | | | | | | | | |
| Date | | Details | Fol. | Amount | | Date | | Details | Fol. | Amount |
| 20.9 Jan | 18 | Goods to branch | GJ1 | 15 375 | |  |  |  |  |  |
| **Branch stock – Richards Bay B3** | | | | | | | | | | |
| 20.9 Jan | 18 | Goods to branch | GJ1 | 44 000 |  | |  |  |  |  |
| Nominal accounts section | | | | | | | | | | |
| **Goods to branch N9** | | | | | | | | | | |
|  |  |  |  |  | 20.9 Jan | | 18 | Branch stock –  Durban | GJ1 | 15 375 |
|  |  |  |  |  |  | |  | Branch stock –  Richards Bay | GJ1 | 44 000 |

***2.3.1.2 Stock is returned by the branch to the head office***

If the branch for some reason returns some of the stock that was delivered by the head office, the entry made would be as follows:

Debit: Goods to branch

Credit: Branch stock

***2.3.1 3 Transfer of stock or assets between branches***

If goods or any other item of assets are transferred from one branch to another, the branch that receives the goods or other asset will be debited and the branch that has transferred the goods or other asset will be credited.

***Example 2.2***

Goods to the value of R 12 500 is transferred from the Sandton Stationers branch in Richards Bay to the branch in Durban on 7 February 20.9. You are required to make the necessary entries in the general journal and the general ledger of the head office of Sandton Stationers.

General journal of Sandton Stationers – February 20.9 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV17 | 7 | Branch stock – Durban | B2 | 12 500 | 00 |  |  |
|  |  | Branch stock – Richards Bay | B3 |  |  | 12 500 | 00 |
|  |  | (Stock transferred from Richards Bay to Durban) |  |  |  |  |  |

General ledger of Sandton Stationers

Balance sheet section

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch stock – Durban B2** | | | | | | | | | |
| 20.9 Feb | 7 | Branch stock –  Richards Bay | GJ2 | 12 500 |  |  |  |  |  |
| **Branch stock – Richards Bay B3** | | | | | | | | | |
|  |  |  |  |  | 20.9 Feb | 7 | Branch stock –  Durban | GJ2 | 12 500 |

***2.3.1.4 Branch expenditure paid by head office***

It may be possible that the head office would pay some or all of the expenses of all of the branches. In this case the expenses paid by the head office on behalf of the branches must be offset against the respective branch.

***Example 2.3***

The head office of Sandton Stationers pays all of the water and electricity of all of its branches every month. The total expenditure for water and electricity for March 20.9 amounted to R 120 500, R 30 375 of which is paid on behalf of the branch in Durban. You are required to show the entries in the books of the head office for the water and electricity paid on behalf of the Durban branch.

General journal of Sandton Stationers – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV22 | 31 | Branch water and electricity – Durban | N6 | 30 375 | 00 |  |  |
|  |  | Head office water and electricity | N9 |  |  | 30 375 | 00 |
|  |  | (Water and electricity paid on behalf of Durban branch) |  |  |  |  |  |

General ledger of Sandton Stationers

Nominal accounts section

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch water and electricity – Durban N6** | | | | | | | | | |
| 20.9 Mar | 31 | Head office water  and electricity | GJ3 | 30 375 |  |  |  |  |  |
| **Head office water and electricity N9** | | | | | | | | | |
| 20.9  Mar | 31 | Head office bank | CPJ3 | 120 500 | 20.9 Mar | 31 | Branch water and  electricity – Durban | GJ3 | 30 375 |

***2.3.1.5 The branch pays its own expenditure from its own bank account***

Certain expense, such as wages and telephone, can be paid by the branch from its own bank account.

Once the expenses have been paid by the branch and supportive documentation have been submitted to the head office, the head office will then transfer the amount paid into the bank account of the branch.

***Example 2.4***

Sandton Stationer’s Richards Bay branch pays the telephone bill of R 1 250, as well as for some repairs to their air conditioner to the amount of R 2 875 from its own bank account on 23 April 20.9. You are required to show the entries for these expenses in the books of the head office.

General journal of Sandton Stationers – April 20.9 GJ4

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV27 | 23 | Branch telephone – Richards Bay | N7 | 1 250 | 00 |  |  |
|  |  | Branch repairs and maintenance – Richards Bay | N12 | 2 875 | 00 |  |  |
|  |  | Branch bank – Richards Bay | B4 |  |  | 4 125 | 00 |
|  |  | (Telephone and repairs paid by branch) |  |  |  |  |  |

General ledger of Sandton Stationers

Balance sheet section

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch bank – Richards Bay B4** | | | | | | | | | |
|  |  |  |  |  | 20.9  April | 23 | Branch telephone – Richards Bay | GJ4 | 1 250 |
|  |  |  |  |  |  |  | Branch repairs  and maintenance – Richards Bay | GJ4 | 2 875 |

Nominal accounts section

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch telephone – Richards Bay N7** | | | | | | | | | |
| 20.9  April | 23 | Branch bank – Richards Bay | GJ4 | 1 250 |  |  |  |  |  |
| **Head office water and electricity N12** | | | | | | | | | |
| 20.9  April | 23 | Branch bank – Richards Bay | GJ4 | 2 875 |  |  |  |  |  |

***2.3.1.6 Stock sold for cash or credit by the branch***

The debtors of the branch are also assets of the head office. Therefore amounts received from branch debtors are either deposited into the branch bank account or into the bank account of the head office. If the amounts received from debtors are deposited into the branch bank account, those amounts will be transferred to the head office bank account at a certain time.

***Example 2.5***

The Richards Bay branch provides Sandton Stationers head office with a report on 30 April 20.9 containing, among other things, the following information:

(Take note that the money received by the branch is deposited into its bank account, and is subsequently transferred to the head office bank account at the end of the month, after an advance of R 2 250 has been retained.)

Cash sales R 270 000

Credit sales R 1 230 750

Amounts received from debtors R 765 000

Discount allowed to debtors R 11 925

You are required to show the entries in the general ledger of the head office of Sandton Stationers.

General ledger of Sandton Stationers

Balance sheet section

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch stock – Richards Bay B3** | | | | | | | | | |
|  |  |  |  |  | 20.9  April | 30 | Branch bank –  Cash sales | GJ4 | 270 000 |
|  |  |  |  |  |  |  | Branch debtors –  Credit sales | GJ4 | 1 230 750 |
| **Branch bank – Richards Bay B4** | | | | | | | | | |
| 20.9  April | 1 | Balance | b/d | 2 250 | 20.9  April | 30 | Head office bank | GJ4 | 1 035 000 |
|  | 30 | Branch stock –  Cash sales | GJ4 | 270 000 |  |  |  |  |  |
|  |  | Branch debtors | GJ4 | 765 000 |  |  | Balance | c/d | 2 250 |
|  |  |  |  | 1 037 250 |  |  |  |  | 1 037 250 |
| 20.9  May | 1 | Balance | b/d | 2 250 |  |  |  |  |  |
| **Branch debtors – Richards Bay B7** | | | | | | | | | |
| 20.9  April | 30 | Branch stock | GJ4 | 1 230 750 | 20.9  April | 30 | Branch bank | GJ4 | 765 000 |
|  |  |  |  |  |  |  | Branch discount | GJ4 | 11 925 |
|  |  |  |  |  |  |  | Balance | c/d | 453 825 |
|  |  |  |  | 1 230 750 |  |  |  |  | 1 230 750 |
| 20.9  May | 1 | Balance | b/d | 453 825 |  |  |  |  |  |
| **Nominal accounts section** | | | | | | | | | |
| **Branch discount – Richards Bay N24** | | | | | | | | | |
| 20.9  April | 30 | Branch debtors | GJ4 | 11 925 |  |  |  |  |  |

***Comprehensive example***

The East London branch of Lazee Stores submitted the following report to its head office on 28 February 20.9. Stock is dispatched to the branch at cost price, and cash received is transferred to the bank account of the head office at the end of each month after an advance of R 3 100 has been retained.

You are required to show the accounts in the general ledger of the head office as well as to calculate the net profit of the branch at the end of each month using the information provided below.

1/2/20.9 28/2/20.9

Branch stock 16 275 28 365

Branch debtors 20 770 ?

Branch bank 3 100 3 100

Goods dispatched to branch 79 515

Goods returned to head office 3 565

Cash transferred to the head office bank account ?

Repairs paid by head office 2 635

Cash sales 35 805

Credit sales 65 875

Cash received from debtors 53 010

Stock returned by debtors 620

Bad debts written off 310

Discount allowed 465

Salaries paid by branch 12 865

Wages paid by branch 2 325

General ledger of Lazee Stores

Balance sheet section

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch stock B3** | | | | | | | | | |
| 20.9  Feb | 1 | Balance | b/d | 16 275 | 20.9  Feb | 28 | Goods to branch | GJ2 | 3 565 |
|  | 28 | Goods to branch | GJ2 | 79 515 |  |  | Branch bank | GJ2 | 35 805 |
|  |  | Branch debtors | GJ2 | 620 |  |  | Branch debtors | GJ2 | 65 875 |
|  |  | Branch profit and loss (gross profit) | GJ2 | 37 200 |  |  | Balance | c/d | 28 365 |
|  |  |  |  | 133 610 |  |  |  |  | 133 610 |
| 20.9  Mar | 1 | Balance | b/d | 28 365 |  |  |  |  |  |
| **Branch debtors B4** | | | | | | | | | |
| 20.9  Feb | 1 | Balance | b/d | 20 770 | 20.9  Feb | 28 | Branch bank | GJ2 | 53 010 |
|  | 28 | Branch stock | GJ2 | 65 875 |  |  | Branch stock | GJ2 | 620 |
|  |  |  |  |  |  |  | Branch bad debts | GJ2 | 310 |
|  |  |  |  |  |  |  | Branch discount  allowed | GJ2 | 465 |
|  |  |  |  |  |  |  | Balance | c/d | 32 240 |
|  |  |  |  | 86 645 |  |  |  |  | 86 645 |
| 20.9  Mar | 1 | Balance | b/d | 32 240 |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch bank B5** | | | | | | | | | |
| 20.9  Feb | 1 | Balance | b/d | 3 100 | 20.9  Feb | 28 | Branch wages | GJ2 | 2 325 |
|  | 28 | Branch stock | GJ2 | 35 805 |  |  | Branch salaries | GJ2 | 12 865 |
|  |  | Branch debtors | GJ2 | 53 010 |  |  | Head office bank | GJ2 | 73 625 |
|  |  |  |  |  |  |  | Balance | c/d | 3 100 |
|  |  |  |  | 91 915 |  |  |  |  | 91 915 |
| 20.9  Mar | 1 | Balance | b/d | 3 100 |  |  |  |  |  |
| **Nominal accounts section** | | | | | | | | | |
| **Goods to branch N3** | | | | | | | | | |
| 20.9  Feb | 28 | Branch stock | GJ2 | 3 565 | 20.9  Feb | 28 | Branch stock | GJ2 | 79 515 |
|  |  | Head office trading  account | GJ2 | 75 950 |  |  |  |  |  |
|  |  |  |  | 79 515 |  |  |  |  | 79 515 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch repairs N4** | | | | | | | | | |
| 20.9  Feb | 28 | Head office bank | GJ2 | 2 635 | 20.9  Feb | 28 | Branch profit and  loss | GJ2 | 2 635 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch bad debts N5** | | | | | | | | | |
| 20.9  Feb | 28 | Branch debtors | GJ2 | 310 | 20.9  Feb | 28 | Branch profit and  loss | GJ2 | 310 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch discount allowed N6** | | | | | | | | | |
| 20.9  Feb | 28 | Branch debtors | GJ2 | 465 | 20.9  Feb | 28 | Branch profit and  loss | GJ2 | 465 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch salaries N7** | | | | | | | | | |
| 20.9  Feb | 28 | Branch bank | GJ2 | 12 865 | 20.9  Feb | 28 | Branch profit and  loss | GJ2 | 12 865 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch wages N8** | | | | | | | | | |
| 20.9  Feb | 28 | Branch bank | GJ2 | 2 325 | 20.9  Feb | 28 | Branch profit and  loss | GJ2 | 2 325 |
| **Branch profit and loss N9** | | | | | | | | | |
| 20.9  Feb | 28 | Branch repairs | GJ2 | 2 635 | 20.9  Feb | 28 | Branch stock (gross  profit) | GJ2 | 37 200 |
|  |  | Branch bad debts | GJ2 | 310 |  |  |  |  |  |
|  |  | Branch discount  allowed | GJ2 | 465 |  |  |  |  |  |
|  |  | Branch salaries | GJ2 | 12 865 |  |  |  |  |  |
|  |  | Branch wages | GJ2 | 2 325 |  |  |  |  |  |
|  |  | Head office profit  and loss | GJ2 | 18 600 |  |  |  |  |  |
|  |  |  |  | 37 200 |  |  |  |  | 37 200 |
|  |  |  |  |  |  |  |  |  |  |

**Question 2.1**

Cracker Stores invoiced goods to the various branches at cost. The branches sold stock for cash as well as on credit. Additional information on the branch in Marburg is given below.

Debtors 1 March 20.8 R 121 830

Debtors 28 February 20.9 ?

Stock 1 March 20.8 R 69 750

Stock 28 February 20.9 R 64 635

Stock received from head office R 236 220

Stock returned to head office R 3 255

Cash sales R 155 775

Credit sales R 279 000

Stock returned by debtors R 2 697

Discount allowed R 11 160

Bad debts R 2 790

Cash received from debtors R 228 780

Rent paid R 23 870

Rates and taxes R 11 625

Salaries and wages R 27 900

Repairs and maintenance R 6 045

Printing and stationery R 6 510

Telephone R 8 339

Required:

Show the accounts of the branch in Marburg, as it would be reflected in the books of the head office.

**Question 2.2**

The following information was sent to the head office of Boxell Stores by its branch in Gauteng. Using this information you are required to draw up the accounts of the Gauteng branch in the books of the head office for the month ending 28 February 20.9, and to calculate the gross profit and the net profit of the branch for the month. In addition you are also required to calculate the amount due to the head office after an advance of R 4 800 has been retained. Note that the stock is sent to the branch at cost.

Branch stock (1/02/20.9) R 58 880

Branch bank (1/02/20.9) R 4 800

Branch accounts receivable (1/02/20.9) R 85 920

Goods sent to branch R 205 600

Credit sales R 240 960

Cash sales R 85 120

Cash paid by debtors into branch bank account R 179 680

Cash paid by debtors into head office bank account R 19 760

Cash transferred from branch bank into head office bank (28/02/20.9) R 80 000

Goods returned to branch by debtors R 16 960

Goods returned by branch to head office R 9 120

Discount allowed R 6 848

Branch salaries paid by head office R 40 576

Branch expenses paid by branch R 2 288

Branch bad debts written off R 576

Branch stock (28/02/20.9) R 40 640

Branch debtors (28/02/20.9) R?

**Question 2.3**

The head office of Sunshine Dealers in Gauteng invoices goods to their branches at cost. The head office keeps a complete set of books for each of its branches.

On 1 April 20.8 the assets held at the Alberton branch were as follows:

Goods at cost R 25 600

Accounts receivable R 8 000

Machinery at cost R 25 600

Accumulated depreciation on machinery R 1 920

Cash in branch bank account R 800

The head office sent goods to the value of R 1 907 200 to the branch in Alberton during the year ending 31 March 20.9. The Alberton branch returned goods to the value of R 19 200 to its head office. In addition, the following transfers occurred between the Alberton branch and other branches of Sunshine Dealers.

Alberton to East London R 2 880

Witbank to Alberton R 4 800

The head office paid salaries on behalf of the Alberton branch, which amounted to R 46 400. In addition the head office paid for the rental of the Alberton branch premises, amounting to R 57 600. Cash transfers from the Alberton branch to its head office bank accounts amounted to R 2 004 800.

During April 20.9 the Alberton branch sent the following summary of its transactions for the year ending

31 March 20.9 to its head office.

Credit sales R 865 280

Cash sales R 1 536 560

Cash received from debtors R 817 120

Discount allowed R 3 680

Bad debts written off R 2 048

Water and electricity paid by branch R 68 160

Wages paid by branch R 168 608

Stationery paid by branch R 12 000

Insurance paid by branch R 19 680

Machinery purchased by branch and paid from branch bank account (30 Sept 20.8) R 25 280

Additional information:

1. Depreciation on machinery is calculated at 10% using the diminishing balance method.
2. Water and electricity amounting to R 4 000 is still outstanding at year end.
3. Goods at the branch on 31 March 20.9 amount to R 39 200.

You are required to prepare the accounts of the Alberton branch in the general ledger of the head office.

**2.3.2 Head office issues goods to branch at selling price**

The head office often issues stock to the branch at selling price, as it is easier to control the stock in this way. The branch then sells this stock to its customers at the price it was received at from the head office.

The monetary value of the stock at the branch should correspond with the value of the stock in the records at the head office. The closing stock of the branch can be calculated by adding the opening stock to the goods received from the head office and then subtracting the goods sold by the branch. If there is any difference between the theoretical closing stock and the actual stock on hand as per a stock take (resulting in either a surplus or a shortage), it must be investigated.

Any one or more of the following factors can result in a difference:

* Errors made during the stocktaking process.
* Deterioration of goods to the extent that it is either unsalable, or saleable but only at a lower price.
* Marking down the price of goods to a lower price for any other reason than deterioration.
* Insignificant but accumulating losses as a result of preparing stocks for sale.
* Shoplifting or any other form of theft.

The stock at the branch must be entered at cost when compiling the financial records of the head office at the end of the financial period. The profit included in the selling price is only recognised as profit after the goods have been sold. Only then is the profit realised. At the financial year end, the unrealised profit should be removed from the closing inventory, and the cost price of the stock should be included in the financial records of the head office.

In the case where goods are invoiced to the branch at selling price, these transactions can be recorded in the books of the head office in one of the following two ways:

* The *branch gross profit account method*– alternatively known as the branch trade account method or the branch adjustment method. According to this method, the transactions involving goods between the head office and the branch are recorded at selling price. When goods are dispatched to and from the branch, the cost price of the goods is entered in the *goods to branch* account and the profit portion is entered in the *branch adjustment* account.
* The *memorandum column* method – with this method the branch gross profit account is removed by adding another column to the branch stock account.

***2.3.2.1 Goods are dispatched to the branch at selling price***

The following example illustrates the entries that have to be made when goods are dispatched to the branch at selling price.

***Example 2.6***

Stock costing R 32 000 is dispatched from the head office to the branch on 28 February 20.9 at a selling price of R 48 000 (invoice number 14).

General journal of Head Office – February 20.9 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| INV 14 | 23 | Branch stock | B5 | 48 000 | 00 |  |  |
|  |  | Goods to branch | B6 |  |  | 32 000 | 00 |
|  |  | Branch adjustment | B7 |  |  | 16 000 | 00 |
|  |  | (Goods transferred to branch at selling price) |  |  |  |  |  |

***2.3.2.2 Goods returned to the head office at selling price***

The following example illustrates the entries that have to be made when goods are returned to the head office at selling price.

***Example 2.7***

The branch returned stock to its head office on 4 March 20.9 (credit note number 56). The cost price of the stock was R 520 and the selling price was R 780.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| C/N 56 | 4 | Goods to branch | B6 | 520 | 00 |  |  |
|  |  | Branch adjustment | B7 | 260 | 00 |  |  |
|  |  | Branch stock | B5 |  |  | 780 | 00 |
|  |  | (Goods returned to head office by branch) |  |  |  |  |  |

***2.3.2.3 Goods sold by branch on credit***

The following example illustrates the entries that have to be made when goods are sold on credit by the branch.

***Example 2.8***

The head office invoices goods to the branch at selling price. R 9 100 of this stock is sold on credit by the branch on 5 March 20.9.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 15 | 5 | Branch debtors | B8 | 9 100 | 00 |  |  |
|  |  | Branch stock | B5 |  |  | 9 100 | 00 |
|  |  | (Branch sold goods on credit at invoiced price) |  |  |  |  |  |

***2.3.2.4 Goods sold by branch for cash***

The following example illustrates the entries that have to be made when goods are sold by the branch for cash.

***Example 2.9***

The branch sold goods with a selling price of R 10 400 for cash on 12 March 20.9.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 17 | 12 | Branch bank | B9 | 10 400 | 00 |  |  |
|  |  | Branch stock | B5 |  |  | 10 400 | 00 |
|  |  | (Branch sold goods for cash) |  |  |  |  |  |

***2.3.2.5 Stock returned to the branch by a debtor***

The following example illustrates the entries that have to be made when a debtor returns stock to the branch.

***Example 2.10***

A debtor returned goods with a selling price of R 650 to the branch on 17 March 20.9.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 19 | 17 | Branch stock | B5 | 650 | 00 |  |  |
|  |  | Branch debtors | B8 |  |  | 650 | 00 |
|  |  | (Debtor returned goods to branch) |  |  |  |  |  |

***2.3.2.6 Head office marks stock down***

The following example illustrates the entries that have to be made when head office marks stock down.

***Example 2.11***

Stock to the value of R 480 was damaged as a result of a flood that took place on 23 March 20.9. The damaged stock was therefore marked down.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 22 | 23 | Branch adjustment | B7 | 480 | 00 |  |  |
|  |  | Branch stock | B5 |  |  | 480 | 00 |
|  |  | (Branch stock marked down) |  |  |  |  |  |

If the selling prices of stock and the profit markup are given, the cost price can be calculated as follows:

Selling price × Profit %/100 + %  = Profit

Selling price × 100/100 + %  = Cost price

***Example 2.12***

The head office invoices stock to the branch at cost plus 10%. On 27 March 20.9 head office transfers stock with a selling price of R 3 300 to the branch.

Cost price = 3 300 × 100/110 = 3 000

Profit = Selling price – cost price

= 3 300 – 3 000

= 300

OR

Profit = 3 300 × 10/110 = 300

***2.3.2.7 Branch stock surpluses and deficits***

When entries are made in the branch stock account at selling price, the balance in this branch stock account at the end of the accounting period should be equal to the physical stock that remains at financial year end. However, in practice this is seldom the case and there will be either a surplus or a deficit. This surplus or deficit can be attributed to the following factors:

* Incorrect calculations of profit percentage when goods were issued to the branch.
* Goods sold at higher or lower prices than the indicated price.
* Goods returned not being recorded.
* Stock losses due to shrinkage, theft, damage, etc.
* Inaccurate stocktaking.

The cause of the difference in the branch stock account and the physical stock needs to be established and the following adjustments have to be made:

1. *Mistake that occurred during stocktaking*

The mistake should be corrected against the actual stock statements and no entry is required to be made.

1. *Returns by debtors to branch not recorded*

The following example illustrates the entries that have to be made when a stock returned by debtors to the branch was not recorded.

***Example 2.13***

V. Williamson, a debtor, returned stock to the value of R 520 (selling price) on 28 March 20.9. However, this transaction had not been recorded.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 32 | 28 | Branch stock | B5 | 520 | 00 |  |  |
|  |  | Branch debtors | B8 |  |  | 520 | 00 |
|  |  | (Goods returned by debtor but not recorded) |  |  |  |  |  |

1. *The cause of a loss of stock is known*

The following example illustrates the entries that have to be made when the cause of a stock loss is known.

***Example 2.14***

Stock with a selling price of R 8 800 was damaged in a flood on 29 March 20.9, and as a result had to be written off. Stock is sold at cost plus 10%.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 34 | 29 | Branch profit and loss | N4 | 8 000 | 00 |  |  |
|  |  | Branch adjustment | B7 | 800 | 00 |  |  |
|  |  | Branch stock | B5 |  |  | 8 800 | 00 |
|  |  | (Stock damaged in flood written off) |  |  |  |  |  |

1. *The cause of a loss of stock cannot be determined*

If, during a stock take, it is determined that there is a stock deficit or stock surplus, however

the cause of this deficit or surplus cannot be determined, the entries are to be made as

follows:

1. In the case of a deficit:

***Example 2.15***

During the stock take held on 31 March 20.9, it was found that there was a stock deficit of R 5 720. However, the cause for this deficit could not be determined.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 35 | 31 | Branch adjustment | B7 | 5 720 | 00 |  |  |
|  |  | Branch stock | B5 |  |  | 5 720 | 00 |
|  |  | (Stock deficit recorded during stocktaking) |  |  |  |  |  |

1. In the case of a surplus:

***Example 2.16***

During the stock take held on the 31 March 20.9 there was found to be a surplus of stock amounting to R 1 600.

General journal of Head Office – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 37 | 31 | Branch stock | B5 | 1 600 | 00 |  |  |
|  |  | Branch adjustment | B7 |  |  | 1 600 | 00 |
|  |  | (Stock surplus recorded during stocktaking) |  |  |  |  |  |

***Comprehensive example***

The head office of Zootie Traders invoiced stock to its Ballito branch at selling price. The selling price is calculated as cost plus 25%.

All money received from cash sales as well as from debtors is deposited into the branch bank account. It is subsequently transferred to the head office bank account at the end of each month, after an amount of R 1 920 has been retained by the branch

You are required to show the general ledger accounts of the branch in the books of the head office, as well as to calculate the net profit of the branch for the period.

On 1 March 20.8 the assets at the branch were as follows:

Stock R 76 800

Accounts receivable R 19 200

Equipment at cost R 64 000

Accumulated depreciation on equipment R 7 680

Cash in branch bank account R 1 920

The head office transferred stock to the value of R 1 536 000 to the branch during the year.

The following report was received from the branch on 28 February 20.9.

Cash sales R 1 280 000

Credit sales R 230 400

Cash received from debtors R 224 000

Bad debts written off R 3 200

Loss due to stock write offs R 12 800

Cash transferred to head office ?

Other expenses paid from the branch bank R 5 120

Stock on hand at selling price R 87 040

Branch debtors ?

The following branch expenses were settled by the head office:

Branch wages R 172 800

Branch rent R 38 400

Depreciation on equipment is calculated at 10% using the straight line method. There were no goods in transit between the branch and its head office during the end of the financial period.

Profit markup = 25% / 125% × selling price

= 20% × selling price

General ledger of Zootie Traders

Balance sheet section

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch stock B3** | | | | | | | | | |
| 20.8  Mar | 1 | Balance | b/d | 76 800 | 20.9  Feb | 28 | Branch bank | GJ | 1 280 000 |
| 20.9  Feb | 28 | Goods to branch | GJ | 1 536 000 |  |  | Branch debtors | GJ | 230 400 |
|  |  |  |  |  |  |  | Branch adjustments (mark downs) | GJ | 12 800 |
|  |  |  |  |  |  |  | Branch adjustments (deficits) | J | 2 560 |
|  |  |  |  |  |  |  | Balance | c/d | 87 040 |
|  |  |  |  | 1 612 800 |  |  |  |  | 1 612 800 |
| 20.9  Mar | 1 | Balance | b/d | 87 040 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Branch adjustments B4** | | | | | | | | | |
| 20.9  Feb | 28 | Branch stock (deficits) | GJ | 2 560 | 20.8  Mar | 1 | Balance (20% of  opening balance of stock) | GJ | 15 360 |
|  |  | Branch stock (mark downs) | GJ | 12 800 | 20.9  Feb | 28 | Goods to branch  (20% of goods sent) | GJ | 307 200 |
|  |  | Branch profit and  loss (gross profit) | GJ | 289 792 |  |  |  |  |  |
|  |  | Balance (20% of  closing balance) | c/d | 17 408 |  |  |  |  |  |
|  |  |  |  | **322 560** |  |  |  |  | **322 60** |
|  |  |  |  |  | 20.9  Mar | 1 | Balance | b/d | 17 408 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch equipment B5** | | | | | | | | | |
| 20.8  Mar | 1 | Balance | b/d | 64 000 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Branch accumulated depreciation on equipment B6** | | | | | | | | | |
|  |  |  |  |  | 20.8  Mar | 1 | Balance | b/d | 7 680 |
|  |  |  |  |  | 20.9  Feb | 28 | Branch depreciation | GJ | 6 400 |
|  |  |  |  |  |  |  |  |  | 14 080 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch bank B7** | | | | | | | | | |
| 20.8  Mar | 1 | Balance | b/d | 1 920 | 20.9  Feb | 28 | Branch sundry expenses | GJ | 5 120 |
| 20.9  Feb | 28 | Branch stock | GJ | 1 280 000 |  |  | Head office bank | GJ | 1 498 880 |
|  |  | Branch debtors | GJ | 224 000 |  |  | Balance | c/d | 1 920 |
|  |  |  |  | **1 505 920** |  |  |  |  | **1 505 920** |
| 20.9  Mar | 1 | Balance | b/d | 1 920 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Branch debtors B8** | | | | | | | | | |
| 20.8  Mar | 1 | Balance | b/d | 19 200 | 20.9  Feb | 28 | Branch bank | GJ | 224 000 |
| 20.9  Feb | 28 | Branch stock | GJ | 230 400 |  |  | Branch bad debts | GJ | 3 200 |
|  |  |  |  |  |  |  | Balance | c/d | 22 400 |
|  |  |  |  | **249 600** |  |  |  |  | **249 600** |
| 20.9  Mar | 1 | Balance | b/d | 22 400 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Nominal accounts section** | | | | | | | | | |
| **Goods to branch N3** | | | | | | | | | |
| 20.9  Feb | 28 | Branch adjustment | GJ | 307 200 | 20.9  Feb | 28 | Branch stock | GJ | 1 536 000 |
|  |  | Head office trading  account | GJ | 1 228 800 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| **Branch sundry expenses N4** | | | | | | | | | |
| 20.9  Feb | 28 | Branch bank | GJ | 5 120 | 20.9  Feb | 28 | Branch profit and  loss | GJ | 5 120 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch wages N5** | | | | | | | | | |
| 20.9  Feb | 28 | Head office bank | GJ | 172 800 | 20.9  Feb | 28 | Branch profit and  loss | GJ | 172 800 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch rent N6** | | | | | | | | | |
| 20.9  Feb | 28 | Head office bank | GJ | 38 400 | 20.9  Feb | 28 | Branch profit and  loss | GJ | 38 400 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch bad debts N7** | | | | | | | | | |
| 20.9  Feb | 28 | Branch debtors | GJ | 3 200 | 20.9  Feb | 28 | Branch profit and  loss | GJ | 3 200 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch depreciation N8** | | | | | | | | | |
| 20.9  Feb | 28 | Branch accumulated depreciation | GJ | 6 400 | 20.9  Feb | 28 | Branch profit and  loss | GJ | 6 400 |
|  |  |  |  |  |  |  |  |  |  |
| **Branch profit and loss N9** | | | | | | | | | |
| 20.9  Feb | 28 | Branch wages | GJ | 172 800 | 20.9  Feb | 28 | Branch adjustment (gross  profit) | GJ | 289 792 |
|  |  | Branch rent | GJ | 38 400 |  |  |  |  |  |
|  |  | Branch depreciation | GJ | 6 400 |  |  |  |  |  |
|  |  | Branch bad debts | GJ | 3 200 |  |  |  |  |  |
|  |  | Branch sundry  expenses | GJ | 5 120 |  |  |  |  |  |
|  |  | Head office profit  and loss (branch  net profit) | GJ | 63 872 |  |  |  |  |  |
|  |  |  |  | 289 792 |  |  |  |  | 289 792 |
|  |  |  |  |  |  |  |  |  |  |

The branch trading account is not required as the gross profit is calculated in the branch adjustment account.

In the event that the branch makes its own purchases, it is advised that the head office accounts for these purchases as its own purchases, and thereafter enter the purchases against the branch at the selling price.

**Memorandum column method**

**Branch stock**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Selling price |  |  | Selling price |  |
| Balance (opening) | 76 800 | 61 440 | Branch bank | 1 280 000 | 1 280 000 |
| Goods to branch | 1 536 000 | 1 228 800 | Branch debtors | 230 400 | 230 400 |
| Branch profit  and loss (gross  profit) |  | 289 792 |  |  |  |
|  |  |  | Goods to branch (mark downs) | 12 800 |  |
|  |  |  | Branch profit and loss (stock differences) | 2 560 |  |
|  |  |  | Balance c/d | 87 040 | 69 632 |
|  | **1 612 800** | **1 580 032** |  | **1 612 800** | **1 580 032** |
| Balance (closing) | 69 632 |  |  |  |  |
|  |  |  |  |  |  |

**Question 2.4**

The head office of Chaka Dealers is situated in Durban. The following information relates to their Darnell branch:

Goods are issued to the branch at selling price. The financial records of the branch are the responsibility of the head office; however the branch keeps a debtors ledger. The branch expenses are paid by the head office on its behalf.

At the end of the financial period, 28 February 20.9, the branch sent the following information to the head office:

Stock at selling price (1/03/20.8) R 349 200

Stock at cost price (1/03/20.8) R 279 000

Debtors (1/03/20.8) R 169 200

Stock at selling price (28/02/20.9) R 322 200

Stock at cost price (28/02/20.9) R 241 200

Stock transferred to branch at selling price R 2 934 000

Stock transferred to branch at cost price R 2 229 300

Stock returned to head office at selling price R 30 600

Stock returned to head office at cost price R 28 800

Credit sales R 1 911 600

Cash sales R 990 000

Stock markdowns R 8 730

Stock markup R 1 530

Cash received from debtors R 1 773 000

Discount allowed R 21 600

Bad debts written off R 19 800

Branch wages R 109 800

Branch rent R 18 900

Branch sundry expenses R 54 900

You are required to draw up the accounts of the branch in the books of the head office, as well as to calculate the gross profit and the net profit of the branch for the year ended 28 February 20.9.

**Question 2.5**

The head office of Standard Dealers transfers goods to its Durban branch at selling price. The head office is responsible for the accounts of the branch and also pays for all the branches expenses.

Use the information given below to complete the general ledger accounts of the Durban branch in the books of the head office for the year ending 28 February 20.9.

Stock on 1 March 20.8 at selling price R 93 120

Stock on 1 March 20.8 at cost price R 74 400

Stock on 28 February 20.9 at selling price R 85 920

Stock on 28 February 20.9 at cost price R 64 320

Stock transferred to branch at selling price R 782 400

Stock transferred to branch at cost price R 594 480

Goods returned to head office at selling price R 8 160

Goods returned to head office at cost price R 7 680

Credit sales R 509 760

Cash sales R 264 000

Debtors on 1 March 20.8 R 45 120

Debtors on 28 February 20.9 ?

Cash received from debtors R 472 800

Discount allowed to debtors R 5 760

Bad debts R 5 280

Branch salaries R 29 280

Branch wages R 5 600

Branch rent R 7 408

Branch consumable stores R 8 288

Branch telephone R 2 272

Branch sundry expenses R 5 040

**Question 2.6**

Singapore Stationers provides its branch in Mumbai with trading stock at the normal selling price. The markup percentage is 331/3%.The branch pays only small expenditure out of petty cash and the rest of its expenses are settled by the head office. All cash collected by the branch is deposited into the head office bank account on a daily basis.

The head office issues the branch with R 1 440 cash for petty cash purposes on the first day of every month.

The following information is available in respect of the Mumbai branch for the year ending 28 February 20.9:

Stock on 1 March 20.8 at selling price R 89 280

Stock on 28 February 20.9 at selling price R 180 576

Stock transferred to branch at selling price R1 006 848

Goods returned to head office at selling price R 5 184

Debtors on 1 March 20.8 R 130 464

Debtors on 28 February 20.9 R 173 952

Cash received from debtors R 590 400

Discount allowed to debtors R 13 248

Bad debts R 11 520

Cash sales R 218 880

Credit sales R 658 656

Petty cash on hand on 1 March 20.8 R 1 296

Petty cash on hand on 28 February 20.9 R 144

Expenses of branch paid by head office:

Salaries R 49 968

Rent R 34 560

Water and electricity R 21 456

Insurance R 26 640

Telephone R 27 540

Expenditure of branch paid out of petty cash:

Wages R 1 440

Stationery R 720

Postage R 630

Donations R 360

Additional information:

1. During the financial period the branch held a sale. During this time goods with a cost price of

R 25 920, were sold at 20% below the normal selling price.

1. The difference in the petty cash is due to refreshments being provided to the staff at the branch.

Required:

Prepare the general ledger accounts of the branch in the books of the head office for the year ending 28 February 20.9. You are also required to calculate the gross profit and the net profit of the branch for the financial period.

**Question 2.7**

Kwa-Zulu Natal Dealers provides its branch in Durban with trading stock at the normal selling price. The markup percentage is 50%. All cash collected by the branch is deposited into the head office bank account periodically.

The following information is available in respect of the Durban branch for the year ending 28 February 20.9:

Stock at selling price on 1 March 20.8 R 345 600

Debtors – 1 March 20.8 R 132 480

Stock issued by head office at selling price R 1 152 000

Stock returned to head office R 23 040

Stock at selling price at 28 February 20.9 R 229 248

Cash sales R 744 960

Credit sales R 480 000

Trade discount allowed R 19 200

Discount allowed to debtors R 9 216

Cash received from debtors R 531 456

Bad debts written off R 5 840

Expenses of branch paid by head office:

Salaries R 192 000

Wages R 46 080

Rental of branch premises R 48 000

Rates and taxes R 22 720

Telephone R 19 808

Required:

Prepare the general ledger accounts of the branch in the books of the head office for the year ending 28 February 20.9 in order to calculate the gross profit and the net profit of the branch for the financial period.

**Question 2.8**

Dummy Dealers provides its branch in Durban with trading stock at the normal selling price, being cost plus 25%.

The following information is available in respect of the Durban branch for the year ending 28 February 20.9:

Stock at selling price on 1 March 20.8 R 25 000

Debtors – 1 March 20.8 R 12 500

Stock issued by head office at selling price R 225 000

Stock returned to head office R 750

Cash sales R 113 500

Credit sales R 100 000

Trade discount allowed R 1 500

Cash received from debtors R 97 500

Debtors – 28 February 20.9 R 15 000

Stock on hand at year end R 34 376

Required:

Use the information provided to draw up the following accounts for the Durban branch in the books of the head office for the year ending 28 February 20.9:

1. Branch stock account
2. Goods to branch account
3. Branch adjustment account
4. Branch debtors account

**Question 2.9**

The head office of Panda Stores provides its branch in Marburg with trading stock at the normal selling price (cost plus 331/3%). All cash collected by the branch is deposited into the head office bank account periodically.

The following information is available in respect of the Marburg branch for the year ending 28 February 20.9:

Stock at branch - 1 March 20.8 R 86 400

Debtors - 1 March 20.8 R 28 800

Branch petty cash – 1 March 20.8 R 3 300

Goods transferred to branch by head office R 799 200

Goods returned to head office by branch R 4 320

Cash sales R 418 680

Credit sales R 360 000

Discount allowed on selling prices R 2 304

Cash received from debtors R 347 400

Discount allowed to debtors R 3 780

Bad debts written off R 2 550

Cash transferred by head office to branch R 25 950

Debtors – 28 February 20.9 R 35 070

Stock on hand – 28 February 20.9 R 100 800

Expenses of branch paid by head office:

Branch rent R 15 120

Branch wages R 86 400

Branch consumable stores R 10 680

Expenses paid by branch from petty cash:

Petrol R 15 780

Insurance R 7 800

Donations R 1 800

Administration expenses R 3 690

Additional information:

1. Consumable stores of R 945 and petrol of R 360 are on hand on 28 February 20.9.

2. The insurance premium was paid up to 31 March 20.9.

3. Provision for bad debts needs to be accounted for at 5% of the debtors balance, and the provision for

discount allowed for at 2% of the debtors balance.

4. The rental for the branch premises was increased from R 1 350 to R 1 485 from 1 December 20.8. Rental for February 20.9 has not been paid yet.

Required:

Complete the following accounts in the books of the head office for the year ending 28 February 20.9:

1. Branch stock account
2. Goods to branch account
3. Branch adjustment account
4. Branch debtors account
5. Branch petty cash account
6. Branch profit and loss account
7. Head office bank account

**2.4 Decentralised system of branch accounting**

In this system of branch accounting, each branch keeps its own complete set of books using the double-entry system. Therefore the branch is able to prepare a complete trial balance, as well as the final accounts and a statement of financial position. As a result, there is no need for the head office to record the transactions of the branch in its books. Only the final results are recorded in the books of the head office.

**2.4.1 Recording transactions between the head office and the branch, in the books of the branch**

The branch will open up an account called ‘head office account’, in which it will record all transactions that take place between the branch and the head office. This account shows all the current transactions that took place between the head office and the branch.

A few typical transactions that can be expected to take place between a head office and its branch are explained below:

***2.4.1.1 Head office supplies cash to branch***

The following example illustrates the entries that have to be made when head office supplies cash to the branch.

***Example 2.17***

The head office of Poppy Stores issues an advance of R 25 000 on 1 February 20.8 to its Richards Bay branch, to be used to pay general expenses of the branch during the month. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 3 | 1 | Bank | B3 | 25 000 | 00 |  |  |
|  |  | Head office account | B6 |  |  | 25 000 | 00 |
|  |  | (Advance received by branch) |  |  |  |  |  |

***2.4.1.2 Branch purchased assets with advance from head office***

The following example illustrates the entries that have to be made when the branch purchases assets with the advance received from the head office.

***Example 2.18***

The branch purchased computer equipment to the value of R 32 500 on 5 February 20.8 with the advance it had received from the head office. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 7 | 5 | Computer equipment | B5 | 32 500 | 00 |  |  |
|  |  | Bank | B3 |  |  | 32 500 | 00 |
|  |  | (Computer equipment purchased for cash) |  |  |  |  |  |

***2.4.1.3 Head office provides branch with assets***

The following example illustrates the entries that have to be made when the branch receives assets from the head office.

***Example 2.19***

The head office provides its branch with a delivery vehicle to the value of R 56 800 on 13 February 20.8. You are required to disclose this in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 8 | 13 | Vehicles | B8 | 56 800 | 00 |  |  |
|  |  | Head office account | B6 |  |  | 56 800 | 00 |
|  |  | (Delivery vehicle provided to branch by head office) |  |  |  |  |  |

***2.4.1.4 Goods supplied to branch by head office at cost***

The following example illustrates the entries that have to be made when goods are supplied to the branch by the head office at cost.

***Example 2.20***

On 17 February 20.8 the head office supplied its branch with stock to the value R 89 000 at cost price.

You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 12 | 17 | Merchandise from head office | N3 | 89 000 | 00 |  |  |
|  |  | Head office account | B6 |  |  | 89 000 | 00 |
|  |  | (Goods received from head office at cost) |  |  |  |  |  |

***2.4.1.5 Branch returns goods to head office***

The following example illustrates the entries that have to be made when the branch returns goods to the head office.

***Example 2.21***

On 21 February 20.8 the branch returned defective stock items to the value of R 2 340 to its head office. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 13 | 21 | Head office account | B6 | 2 340 | 00 |  |  |
|  |  | Merchandise from head office | N3 |  |  | 2 340 | 00 |
|  |  | (Defective goods returned to head office) |  |  |  |  |  |

***2.4.1.6 Branch purchases goods on credit***

The following example illustrates the entries that have to be made when the branch purchases goods on credit.

***Example 2.22***

The Richards Bay branch purchased stock to the value of R 36 770 on credit form Jolly Good Dealers (one of their preferred suppliers), on 24 February 20.8. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 16 | 24 | Purchases | N4 | 36 770 | 00 |  |  |
|  |  | Jolly Good Dealers | C4 |  |  | 36 770 | 00 |
|  |  | (Stock purchased on credit) |  |  |  |  |  |

***2.4.1.7 The branch purchases goods for cash***

The following example illustrates the entries that have to be made when the branch purchases goods for cash.

***Example 2.23***

On 26 February 20.8 the branch purchased stock valued at R 45 890 for cash. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 17 | 26 | Purchases | N4 | 45 890 | 00 |  |  |
|  |  | Bank | B3 |  |  | 45 890 | 00 |
|  |  | (Branch purchased stock for cash) |  |  |  |  |  |

* + - 1. ***Branch sold stock for cash***

The following example illustrates the entries that have to be made when the branch sells stock for cash.

***Example 2.24***

The branch sold goods to the value of R 3 400 for cash on 27 February 20.8. Show this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 18 | 27 | Bank | B3 | 3 400 | 00 |  |  |
|  |  | Sales | N1 |  |  | 3 400 | 00 |
|  |  | (Goods sold for cash) |  |  |  |  |  |

* + - 1. ***Branch sells goods on credit***

The following example illustrates the entries that have to be made when the branch sells stock on credit.

***Example 2.25***

The branch sells stock to the value of R 6 900 on credit to J. Jack, a debtor, on 27 February 20.8.

You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 19 | 27 | J. Jack | D3 | 6 900 | 00 |  |  |
|  |  | Sales | N1 |  |  | 6 900 | 00 |
|  |  | (Goods sold on credit) |  |  |  |  |  |

***2.4.1.10 Payments received from debtors***

The following example illustrates the entries that have to be made when the branch receives payment from debtors.

***Example 2.26***

On 28 February 20.8 the branch received a payment from J. Jack for the amount of R 3 000. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 22 | 28 | Bank | B3 | 3 000 | 00 |  |  |
|  |  | J. Jack | D3 |  |  | 3 000 | 00 |
|  |  | (Payment received from debtor) |  |  |  |  |  |

***2.4.1.11 Expenses paid by branch***

The following example illustrates the entries that have to be made when expenses are paid by the branch.

***Example 2.27***

On 28 February 20.8 the branch paid the water and electricity account of R 3 700 and the wages of staff members of R 4 500, by cheque. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 25 | 28 | Water and electricity | N7 | 3 700 | 00 |  |  |
|  |  | Wages | N9 | 4 500 | 00 |  |  |
|  |  | Bank | B3 |  |  | 8 200 | 00 |
|  |  | (Expenses paid by cheque) |  |  |  |  |  |

***2.4.1.12 Expenses of branch paid by head office***

The following example illustrates the entries that have to be made when the head office pays the expenses of the branch.

***Example 2.28***

On 28 February 20.8, the head office paid the telephone account of the branch amounting to R 5 670. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 28 | 28 | Telephone | N12 | 5 670 | 00 |  |  |
|  |  | Head office account | B6 |  |  | 5 670 | 00 |
|  |  | (Telephone account of branch paid by head office) |  |  |  |  |  |

***2.4.1.13 Branch makes payments to creditors***

The following example illustrates the entries that have to be made when the branch pays its creditors.

***Example 2.29***

The branch paid R 4 500 to VW Motors (a creditor), by cheque on 28 February 20.8. You are required to disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 32 | 28 | VW Motors | C5 | 4 500 | 00 |  |  |
|  |  | Bank | B3 |  |  | 4 500 | 00 |
|  |  | (Payment made to creditor) |  |  |  |  |  |

***2.4.1.14 Payments made to head office***

The following example illustrates the entries that have to be made when the branch makes payment to the head office.

***Example 2.30***

On 28 February 20.8, the branch deposited R 15 000 into the head office bank account. Disclose this transaction in the journal of the branch.

General journal of Branch – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 35 | 28 | Head office account | B6 | 15 000 | 00 |  |  |
|  |  | Bank | B3 |  |  | 15 000 | 00 |
|  |  | (Cash deposited into head office bank account) |  |  |  |  |  |

**Question 2.10**

The Highland Dealers head office is situated in Transkei. They have a branch in Amanzimtoti. The Amanzimtoti branch prepares its own complete set of financial records.

The following information is available in respect of the Amanzimtoti branch for the year ending 28 February 20.9:

Stock supplied to the branch by head office at cost R 290 640

Cash received from head office R 129 360

Machinery bought for cash by branch R 40 320

Delivery vehicle provided by head office R 34 440

Goods purchased by branch:

For cash R 70 560

On credit R 226 800

Goods sold by branch:

For cash R 399 840

On credit R 339 360

Payments to creditors made by branch R 204 120

Cash received from debtors R 303 240

Discount granted by creditors R 5 040

Discount granted to debtors R 6 720

Bad debts written off R 3 780

Rent paid by branch R 51 800

Stationery purchased by branch R 3 920

Consumable stores purchased by branch R 3 864

Water and electricity paid by head office R 23 520

Rates and taxes of branch paid by head office R 7 000

Deposits into head office bank account R 367 080

Stock at branch on 28 February 20.9 at cost R 36 120

Required:

Draw up the following accounts for the Amanzimtoti branch for the year ending 28 February 20.9:

1. The general ledger accounts of the branch.
2. The pre-closing trial balance of the branch.
3. The branch ‘trading account’ as well as the branch ‘profit and loss’ accounts.
4. The statement of financial position (and its notes) of the branch as on 28 February 20.9.

**2.4.2 The branch account in the financial records of the head office**

In a decentralised system, where the branch keeps its own financial records, there will be only one account in the books of the head office showing all the transactions between the branch and the head office. This is the branch account. It is acceptable for the head office to open specific accounts for certain transactions taking place during the year, for example the transfer of goods to the branch. However, at the end of the year the balances in all these accounts will be transferred to the branch account. The head office treats the branch account in their books in a similar way to an ordinary debtors account.

Below are a few transactions that you are likely to encounter in a decentralised system:

***2.4.2.1 Head office transfers cash or other assets to its branch***

The following example illustrates the entries that have to be made when the head office transfers cash or other assets to its branch.

***Example 2.31***

On 23 February 20.8 the head office of Bleiberg Dealers transferred cash of R 55 000 as well as furniture to the value of R 34 560 to its branch in Durban. You are required to show this transaction in the journal of the head office.

General journal of Head Office – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 3 | 23 | Branch – Durban | B3 | 89 560 | 00 |  |  |
|  |  | Bank | B6 |  |  | 55 000 | 00 |
|  |  | Furniture and fittings | B8 |  |  | 34 560 | 00 |
|  |  | (Cash and furniture supplied to branch) |  |  |  |  |  |

***2.4.2.2 Goods supplied to branch at cost***

The following example illustrates the entries that have to be made when the head office supplies goods to the branch at cost.

***Example 2.32***

The head office supplied goods to the value of R 46 200 to its branch in Durban on 24 February 20.8.

You are required to disclose this transaction in the journal of the head office.

General journal of Head Office – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 5 | 24 | Branch – Durban | B3 | 46 200 | 00 |  |  |
|  |  | Goods to branch | N1 |  |  | 46 200 | 00 |
|  |  | (Goods supplied to branch) |  |  |  |  |  |

***2.4.2.3 Branch returns goods to head office***

The following example illustrates the entries that have to be made when the branch returns goods to the head office.

***Example 2.33***

On 28 February 20.8 the Durban branch returned goods to the value of R 5 600 to the head office because it was defective. You are required to show this transaction in the journal of the head office.

General journal of Head Office – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 7 | 28 | Goods to branch | N1 | 5 600 | 00 |  |  |
|  |  | Branch – Durban | B3 |  |  | 5 600 | 00 |
|  |  | (Defective stock returned by branch) |  |  |  |  |  |

***2.4.2.4 Branch transfers cash to head office***

The following example illustrates the entries that have to be made when the branch transfers cash to the head office.

***Example 2.34***

On 28 February 20.8 the branch deposited R 42 000 into the account of the head office, for payment of its account. You are required to show this transaction in the journal of the head office.

General journal of Head Office – February 20.8 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 9 | 28 | Bank | B6 | 42 000 | 00 |  |  |
|  |  | Branch – Durban | B3 |  |  | 42 000 | 00 |
|  |  | (Branch made payment to head office) |  |  |  |  |  |

The interest that the head office has in the branch is represented by the balance in the branch account.

The head office will receive a copy of the final accounts and the statement of financial position of the branch from the branch at the end of the year. The head office will then integrate these with its own final accounts and statement of financial position.

If the branch realises a profit at the end of the year, this would mean that the head office’s interest in the branch has increased.

**Question 2.11**

The Durban branch of Fanatic Dealers is independent of its head office and keeps its own set of books.

The following information is available in respect of the Durban branch for the year ending 28 February 20.9:

Goods transferred to the branch by head office R 448 000

Goods returned to head office R 38 640

Goods purchased by branch:

For cash R 126 000

On credit R 635 600

Rent of branch paid by head office R 50 400

Postage paid for by head office R 7 196

Expenses paid by branch:

Stationery R 9 100

Rates and taxes R 37 520

Repairs and maintenance R 17 920

Telephone R 14 840

Bank charges R1 288

Goods sold by branch:

For cash R 756 000

On credit R 924 000

Machinery purchased by branch on 1/11/20.8 for cash R 28 000

Cash transferred from head office R 64 400

Cash received from debtors R 784 000

Discount allowed to debtors R 6 552

Bad debts written off R 12 040

Payments made to creditors R 266 000

Payments made to head office R 756 000

Additional information:

1. Stationery on hand at year end amounts to R 364.

2. Rates and taxes of R 840 is still outstanding.

3. The rent has been paid up to the end of May 20.9.

4. Provision for depreciation on machinery is 10% p.a.

5. Stock on hand at year end amounts to R 168 000.

6. Create a provision for bad debts of 5% of debtors.

Required:

Draw up the following accounts for the Durban branch of Fanatic Dealers for the year ending 28 February 20.9:

1. The general ledger accounts of the branch
2. The ‘branch account’ and the ‘goods to branch’ account in the books of the head office

**Question 2.12**

Wonderland Stores has its head office in Gauteng. Wonderland’s branch in Durban keeps its own books, however its sends reports to the head office on a regular basis. It also sends its final accounts to the head office at the end of each financial year.

Account balances of the Durban branch at the beginning of the year are as follows:

Machinery at cost R 160 000

Accumulated depreciation on machinery R 31 600

Land and buildings R 90 600

Stock at cost R 352 000

Debtors control R 158 600

Provision for bad debts R 6 000

Provision for discount allowed R 4 800

Creditors control R 68 000

Head office account (credit) R 742 200

Bank R 91 400

The following information is available in respect of the Durban branch for the year ending 28 February 20.9:

Goods transferred to branch by head office R 551 200

Goods purchased by branch:

For cash R 688 800

On credit R 821 640

Goods returned to head office R 20 400

Goods returned to creditors R 48 200

Discount received from creditors R 7 600

Goods sold by branch:

For cash R 1 341 560

On credit R 1 400 280

Goods returned by customers R 21 740

Cash returns of stock by customers R 10 760

Expenses of branch paid by head office:

Insurance R 49 600

Rates and taxes R 69 400

Expenses paid by branch:

Water and electricity R 52 400

Stationery R 26 500

Salaries R 134 800

Wages R 24 600

Rent received by branch R 70 400

Payments made to creditors R 821 000

Cash received from debtors R 1 375 200

Discount allowed R 20 360

Bad debts written off R 28 400

Cash received from head office R 40 700

Cash paid to head office R 896 800

Additional information:

1. Depreciation needs to be provided for on machinery at 5% p.a. using the diminishing balance method.

2. The closing balance of stock at year end amounted to R 360 600.

3. Stationery on hand at year end amounted to R900.

4. Salaries still due at year end amounted to R 3 000.

5. Repairs to machinery costing R 1 000 were carried out, however were not recorded in the books.

6. Provision for bad debts as well as discount allowed need to be adjusted to 5% of debtors.

7. The tenant still owes rent for February. The rent was increased by 10% on 1 February 20.9.

Required:

Using the information given above, draw up the following:

1. The general ledger accounts in the books of the branch.
2. The ‘goods to branch account’ and the ‘branch account’ in the books of the head office.

**2.5 Merchandise and cash still in transit at year-end**

It will almost always be the case that goods or cash might still be in transit from the head office to the branch or from the branch to the head office on the last day of the financial period. Since the entries in the branch account in the books of the head office, and the entries in the head office account in the books of the branch are the same (except that what is on the debit side of the branch account will be on the credit side of the head office account), it stands to reason that the same entries that reflect in the books of the head office should also reflect in the books of the branch. However this might not be the case, because the head office might have sent goods or cash to the branch and thus recorded this in its books. However, it maybe has yet to reach the branch and therefore the branch has not yet recorded this in its books, or vice versa. These goods and cash in transit must be brought into account when drawing up the final accounts.

Below are a few examples of how to account for this type of scenario:

***Example 2.35***

The Pietermaritzburg branch of Rand Dealers sent cash of R84 000 and goods to the value of R56 000 to its head office on 26 February 20.9. The accountant closed off the accounts on 28 February 20.9, however the cash and goods had not yet reached the head office. As a result the balances of the accounts of the head office and branch did not agree. To rectify the accounts the following entry is made in the books of the head office:

General journal of Head Office – February 20.9 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 2 | 28 | Cash in transit | B6 | 84 000 | 00 |  |  |
|  |  | Stock in transit | B3 | 56 000 | 00 |  |  |
|  |  | Branch account – Durban | B7 |  |  | 140 000 | 00 |
|  |  | (Cash and goods in transit at year end) |  |  |  |  |  |

When the items recorded as being in transit are finally received, the following entry is made:

The head of Rand Dealers received the money on 3 March 20.9 and the goods on 5 March 20.9.

General journal of Head Office – March 20.9 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 2 | 3 | Bank  Cash in transit  (Cash in transit on 28 February received) | B2  B6 | 84 000 | 00 | 84 000 | 00 |
|  | 5 | Goods to branch  Stock in transit  (Stock in transit on 28 February received) | B5  B3 | 56 000 | 00 | 56 000 | 00 |

***Example 2.36***

On 24 February 20.9 the head office of Sunshine Dealers dispatched goods to the value of R 16 500 to its branch in Dundee. On 28 February 20.9, the last day of the financial year, the goods still hadn’t reached the branch. The branch will make provision for the goods in transit as follows:

General journal of Branch – February 20.9 GJ2

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 6 | 28 | Stock in transit | B3 | 16 500 | 00 |  |  |
|  |  | Head office account | B4 |  |  | 16 500 | 00 |
|  |  | (Trading stock in transit) |  |  |  |  |  |

The branch receives the goods on 5 March 20.9 and makes the following entry into its books:

General journal of Branch – March 20.9 GJ3

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 8 | 5 | Goods from head office | B7 | 16 500 | 00 |  |  |
|  |  | Stock in transit | B3 |  |  | 16 500 | 00 |
|  |  | (Stock in transit on 28 February received) |  |  |  |  |  |

***Example 2.37***

Goodwill Stores has its head office in Bloemfontein, with branches throughout South Africa, including Pongola. On 30 April 20.7, the financial year end of Goodwill stores, the following account appeared in the books of the head office:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch - Pongola B8** | | | | | | | | | |
| 20.7  Apr | 1 | Balance | b/d | 36 900 | 20.7  Apr | 30 | Goods to branch | GJ | 4 200 |
| 20.7  Apr | 30 | Goods to branch | GJ | 60 300 |  |  | Bank | CPJ | 30 900 |
|  |  |  |  |  |  |  | Balance | c/d | 62 100 |
|  |  |  |  | **97 200** |  |  |  |  | **97 200** |
| 20.7  May | 1 | Balance | b/d | 62 100 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

On 30 April 20.7 the following account appeared in the book of the branch:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Head office account B5** | | | | | | | | | |
| 20.7  Apr | 30 | Stock from head office | GJ | 4 200 | 20.7  Apr | 1 | Balance | b/d | 36 900 |
|  |  | Bank | CPJ | 37 800 |  | 30 | Stock to head office | GJ | 55 500 |
|  |  | Balance | c/d | 50 400 |  |  |  |  |  |
|  |  |  |  | **92 400** |  |  |  |  | **92 400** |
|  |  |  |  |  | 20.7  May | 1 | Balance | b/d | 50 400 |
|  |  |  |  |  |  |  |  |  |  |

On this day, which is the last day of the year, it was determined that stock to the value of R 4 800 was in transit form the head office to the branch, and at the same time a payment of R 6 900 was in transit from the branch to the head office.

In the books of the head office as well as the books of the branch the above accounts will be reconciled as follows:

**General ledger of Head Office**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Branch - Pongola B8** | | | | | | | | | |
| 20.7  Apr | 1 | Balance | b/d | 36 900 | 20.7  Apr | 30 | Goods to branch | GJ | 4 200 |
|  | 30 | Goods to branch | GJ | 60 300 |  |  | Bank | CPJ | 30 900 |
|  |  |  |  |  |  |  | Balance | c/d | 62 100 |
|  |  |  |  | **97 200** |  |  |  |  | **97 200** |
| 20.7  May | 1 | Balance | b/d | 62 100 | 20.7  May | 1 | Cash in transit | GJ | 6 900 |
|  |  |  |  |  |  |  | Balance | c/d | 55 200 |
|  |  |  |  | **62 100** |  |  |  |  | **62 100** |
|  | 1 | Balance | b/d | 55 200 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

**General Ledger of Branch**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Head office account B5** | | | | | | | | | |
| 20.7  Apr | 30 | Stock from head office | GJ | 4 200 | 20.7  Apr | 1 | Balance | b/d | 36 900 |
|  |  | Bank | CPJ | 37 800 |  | 30 | Stock to head office | GJ | 55 500 |
|  |  | Balance | c/d | 50 400 |  |  |  |  |  |
|  |  |  |  | **92 400** |  |  |  |  | **92 400** |
|  |  |  |  |  | 20.7  May | 1 | Balance | b/d | 50 400 |
|  |  |  |  |  |  |  | Stock in transit | GJ | 4 800 |
|  |  |  |  |  |  |  |  |  | **55 200** |
|  |  |  |  |  |  |  |  |  |  |

**Question 2.13**

On 31 December 20.8, the financial year end of Curly Stores, the head office account in the books of the branch had a credit balance of R 40 000, while the branch account in the books of the head office had a debit balance of R 42 925.

On this day, it was determined that stock to the value of R 1 250 was in transit from the head office to the branch, while a cash payment of R 1 500 as well as stock to the value of R 175 being returned to the head office was in transit.

You are required to indicate how the accounts will be reconciled in the books of the head office and the branch.

**Question 2.14**

On 31 December 20.8, the Durban branch account in the books of the head office of Crazee Stores displayed a debit balance of R 92 000. The head office account in the books of the branch in Durban displayed a credit balance of R 74 240.

The difference in these account were investigated and the following was revealed:

1. Goods to the value of R 10 400 were dispatched to the branch by the head office, however it was still not received by the branch on the last day of the financial year.

2. Goods to the value of R 2 080 were returned to the head office by the branch, but were not yet received by the head office at year end.

3. A payment of R 5 280 was sent to the head office by the branch, but was not yet received by the branch at year end.

Required:

You are required to indicate the entries in the general journal and the general ledger of the head office and branch in order to reconcile the accounts. You are also required to indicate the entries that would be made, assuming that the outstanding stock and payments were received by the respective parties.

**2.6 Transactions between branches**

Businesses often have many branches, and the different branches may also transact with each other.

In order to record these inter-branch transactions, the branches have to open current accounts for each other in their respective books.

Below are a few typical examples of transactions that would take place between branches:

**2.6.1 Stock transferred between branches**

Branches may often request stock from another branch, usually because they have a customer who needs that particular item of stock. In this case the branch that stock is requested from, will need to transfer the stock to the branch that requested the stock.

This type of scenario is explained in the following example:

***Example 2.38***

Transact Dealers has two branches, one in Durban and one in Marburg. On 14 December 20.6 the Durban branch sent stock to the value of R 22 230 to the branch in Marburg, which received it the following day.

This transaction will be entered into the books of the respective branches as follows:

***a. Entry in the books of the branch that is transferring the stock***

General journal of Durban Branch – December 20.6 GJ12

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 12 | 14 | Branch account – Marburg | B2 | 22 230 | 00 |  |  |
|  |  | Stock to branch: Marburg | N3 |  |  | 22 230 | 00 |
|  |  | (Stock transferred to Marburg branch) |  |  |  |  |  |

***b. Entry in the books of the branch receiving the stock***

General journal of Marburg Branch – December 20.6 GJ12

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 7 | 15 | Stock from branch: Durban | N4 | 22 230 | 00 |  |  |
|  |  | Branch account – Durban | B4 |  |  | 22 230 | 00 |
|  |  | (Stock received from Durban branch) |  |  |  |  |  |

**2.6.2 Receivables collected on behalf of another branch**

It is acceptable for the debtors of one branch to make payment on their account at another branch. If this happens, it is necessary for the receiving branch to inform the other branch of this as soon as possible.

This type of scenario is explained in the following example:

***Example 2.39***

On 18 December 20.6, one of the debtors of the Durban branch, R. Rudy, made a payment on his account of R 550 at the Marburg branch.

This transaction will be entered into the books of the respective branches as follows:

***a. The branch that collects payment***

General journal of Marburg Branch – December 20.6 GJ12

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 12 | 18 | Bank | B2 | 550 | 00 |  |  |
|  |  | Branch account – Durban | B4 |  |  | 550 | 00 |
|  |  | (Debtor of Durban branch pays his account) |  |  |  |  |  |

***b. The branch for which the payment is collected***

General journal of Durban Branch – December 20.6 GJ12

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| JV 22 | 18 | Branch account – Marburg | B6 | 550 | 00 |  |  |
|  |  | R. Rudy | D5 |  |  | 550 | 00 |
|  |  | (Debtor pays account at Marburg branch) |  |  |  |  |  |

At the end of the financial year the head office will also need to adjust the branch accounts concerned in its books.