





FINANCIAL ACCOUNTING

Branch Accounting

Prof. Divyanshu Swarnkar
Department of Commerce
D. P. Vipra College Bilaspur



MEANING AND
OBJECT OF
BRANCH
ACCOUNTING

MEANING OF BRANCH ACCOUNT

- Account which are opened in the book of head office and branches related to branches are called branch account. The main objective of these account is to know the working ability and profit and loss of branches.

OBJECT OF BRANCH ACCOUNTS

1. Profit or loss of each branch can be found out.
2. They help in controlling branch.
3. Actual financial position of the business can be found out on the basis of head office and branch accounting records.
4. Branch requirements of goods and cash can be estimated.
5. Suggestions for increasing the efficiency of the branch can be made on the basis of branch account



NEED FOR
BRACH
ACCOUNTING

NEED FOR BRACH ACCOUNTING

- A branch carries on all its activities under the direction and control of head office. Therefore, to have an effective control, it is desirable that the head office and branch obtain information from either side regularly. It becomes necessary to maintain separate accounts for each branch in order to achieve the following objectives:
 1. To ascertain the profit or loss of each branch so that if any of them is not yielding the desired profits, corrective measures can be undertaken.

NEED FOR BRACH ACCOUNTING

2. To ascertain the financial position of each branch separately at the end of the accounting period.
3. To exercise a proper degree of control on the operation of the branch.
4. To ascertain the requirements of stock and cash for each branch.
5. To coordinate the operations of various branches.
6. To incorporate the profit or loss made by branch and its assets and liabilities in the head office`s final accounts.

CLASSIFICATION OF BRANCHES

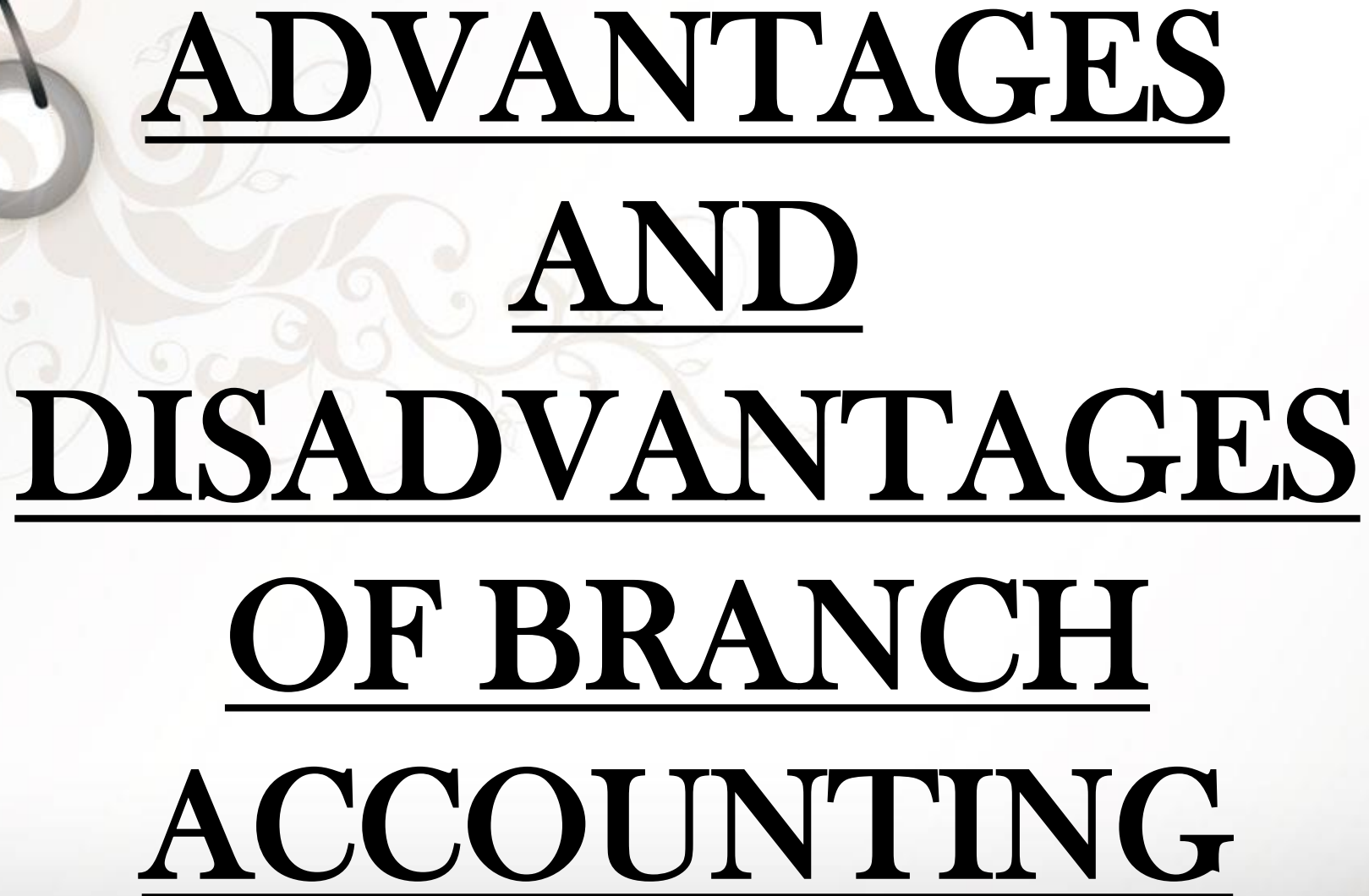
1. **Branches Receiving goods from Head Office at cost price and making cash sales only:** These Branches receive goods from Head Office at cost and make cash sales only. All sale proceeds are sent to head Office . Head Office sends amount separately for the expenses of the Branch.
2. **Branches Receiving Goods from Head Office at cost price and making cash and credit sales.** These Branches are like the first type of Branch, the only difference is that they sell goods on credit also.

CLASSIFICATION OF BRANCHES

3. Branches Receiving Goods from Head Office at setting price or Invoice Price and making cash and Credit sales. These Branches are like the second type of branches with the only difference that goods to these Branches are sent by the Head Office at Invoice Price which is always above Cost Price .
4. Independent Branches: These Branches receive goods from the Head Office and may manufacture or purchase goods from the market also. They are independent in all respects except that they are under the control of Head Office and thus they have to follow the instructions of Head Office.

CLASSIFICATION OF BRANCHES

5. Foreign Branches: These Branches may be of any type discussed above. They are known as Foreign Branches because they work in foreign countries.



ADVANTAGES
AND
DISADVANTAGES
OF BRANCH
ACCOUNTING

ADVANTAGES

1. Provides financial information about the business.
2. Provides assistance to management.
3. Helps in comparison of financial results.
4. Comparison of its own results of different years.
5. Comparison of financial results with other firms in the industry.

DISADVANTAGES

1. Accounting ignores non monetary transactions
2. Accounting information is sometimes based on estimates which may be unrealistic.
3. Window dressing may lead to faulty results.
4. Accounting information can be manipulated and thus can not be considered as the true test of performance.



BRANCH DEBTORS SYSTEM

BRANCH DEBTORS SYSTEM

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

Head office may send goods to branch either at “cost price” or “selling price”. The head office can prepare the “branch account” in its books adopting the “cost price approach” or the “invoice price approach”. The accounting procedure in these two cases is slightly different. These are discussed as follows:

JOURNAL ENTRY

a) When the goods are invoiced at cost (Cost Price Approach)

Under this method, the stock transactions/entries such as opening Balance of stock at branch; goods sent to branch; goods returned by branch to head office; loss of stock and closing stock are recorded at cost price.

1) For recording opening balances of assets & liabilities at branch:

a) For Assets - Branch Account Dr

To Branch Stock A/C* (At cost price)

To Branch Debtors A/C

To Branch Cash A/C

To Any other Asset at Branch A/C

b) For Liabilities - Branch Liabilities (individually) A/C Dr.

To Branch Account

2) When goods are supplied by Head Office to branch/ by another branch to Branch:- (These are recorded at cost price)

Branch Account Dr*

To Goods Sent to Branch A/C (At cost price)

3) For return of goods by branch to head office/ branch customers directly to Head Office

Goods Sent to Branch Account Dr*

To Branch Account

JOURNAL ENTRY

4) When expenses are met by the head office or for remittance of cash/ cheque to branch for expenses (e.g. Salaries, rent, petty expenses etc.)

Branch A/C Dr
To Cash/Bank A/C

(Amount sent to branch for expenses)

5) For cash/received by the Head Office from Branch (cash sales plus collection from debtors) Or Branch customers directly

Cash/Bank A/C Dr
To Branch A/C

(actual amount sent including cash sent directly to H.O. by branch debtors)

6) For recording 'closing Balances of assets' at branch

(Closing stock, closing Balance of petty cash, branch debtors and any other asset)

(Individual)

Branch Assets account Dr
To Branch Account

7) For recording 'closing Balances of liabilities' at the branch

Branch A/C Dr
To Liabilities (Individual) Account

8) For credit sales

(No entry)

JOURNAL ENTRY

9) For normal loss

(No entry)

10) For goods returned by customers to Branch

(No entry)

11) For abnormal loss

Abnormal Loss Account Dr (Total Loss)

To Branch Account

12) Branch expenses paid by branch; bad debts; discount allowed to debtors:

(No Entry)

13) When remittances are sent by the Branch but not received by the Head Office till the end of the accounting year

Cash-in- transit A/C Dr.

To Branch A/C

14) When goods are supplied by the Head Office but not received by the Branch till the end of accounting year

Goods-in-transit A/C Dr.

To Branch A/C

15) When “ branch account” discloses a profit:

Branch Account Dr.

To General P&L A/C

JOURNAL ENTRY

16) When “branch account” discloses a loss:

General P & L A/C Dr.

To Branch Account

17) For closing “Goods Sent to Branch A/C”

Goods Sent to Branch A/C Dr.

To Trading A/C or Purchases A/C

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

BRANCH ACCOUNT

DEBIT SIDE

To Balance B/D Opening Balances)
Stock (At Cost Price)
Petty Cash/Imprest Cash
Prepaid Expenses
Sundry Debtors
Fixed Assets In Beginning
To Cash (Local Purchases By Branch)
To Goods Sent To Branch Account (At Cost Price)
To Goods Sent By Other Branches
To Bank (Remittance By Head Office & Expenses Paid By Head Office)
To Balance C/D(closing Balances Of Liabilities At The End)
To General Profit & Loss A/C (Profit) (Balancing Figure)

CREDIT SIDE

By Balance B/D (Opening Balances Of Liabilities, If Any)
By Goods Sent To Branch A/C :
-Goods Returned By Branch To H.O.
-Goods Returned By Branch Customers Directly To Head Office
By Bank A/C (Remittances Received From Branch)
By Balance C/D : (Closing Balances Of Assets At The End)
Stock (At Cost Price)
Petty Cash/Imprest Cash
Sundry Debtors
Prepaid Expenses
Cash-in-transit
Goods-in-transit
Fixed Assets At The End
By General Profit & Loss A/C (Loss) (Balancing Figure)

BRANCH ACCOUNT

The Items Mentioned Below Are Not Recorded In Branch Accounts Under This Method:

1. **Petty Expenses paid by the Branch:** Petty expenses paid by the branch are not shown in the Branch Account. The Branch Account is debited with the opening balance of petty cash and the amount of petty cash sent by the Head office and is credited with the closing balance of petty cash. For calculating closing balance of petty cash, all petty expenses paid by the branch are taken into consideration. Therefore, these should not be shown separately in the Branch Account.
2. Credit sales, sales returns, bad debts, discount allowed etc. are not shown in the Branch Account. These items are related to Debtors Account. For calculating closing balance of debtors all these items are taken into consideration. Thus, there is no need to show them separately in Branch Account.

BRANCH ACCOUNT

The Items Mentioned Below Are Not Recorded In Branch Accounts Under This Method:

3. Depreciation, Profit /Loss on sale of fixed assets: Branch Account shows the opening and closing balances of fixed assets which automatically take care of depreciation, profit /loss on sale of fixed assets. Moreover, if an asset is sold for cash, the Branch Account will be credited with the remittances. If it is sold on credit, the Branch account will be credited with the Debtor for sale of an asset. Therefore, at the time of preparing Branch Account, these items are not shown separately.
4. Normal and Abnormal loss of stock is not shown in the Branch Account since stock at the end appears at the adjusted figure.

B) When Goods Are Invoiced At Invoice Price (Invoice Price Approach)

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

ADJUSTMENT ENTRIES

4. Following adjustment entries are required for this purpose:

1. For adjustment of excess price of the opening stock:

Stock Reserve A/C Dr.
 To Branch A/C



2. For adjustment of excess price of goods sent to branch:-

Goods Sent to Branch A/C Dr.
 To Branch A/C

3. Goods returned by Branch to H.O. is deducted out of the goods sent to Branch

4. For adjustment of excess price of closing stock:

Branch A/C Dr.
 To Stock Reserve A/C



STOCK
AND
DEBTOR
SYSTEM

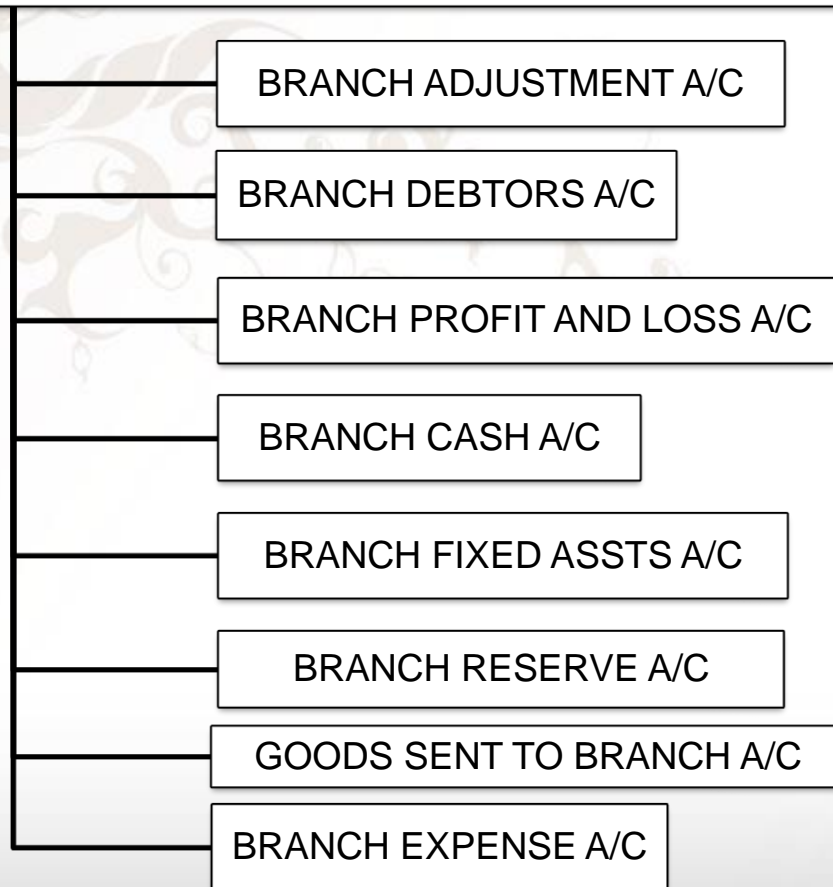
STOCK AND DEBTORS SYSTEM

Stock And Debtors System is generally applied if the Head Office desires to exercise a greater control over the working of the Branches .In it goods are sent to the Branch at invoice price and size of the Branch is large

STOCK AND DEBTORS SYSTEM

A/Cs

ACCOUNTS MAINTAINED BY HEAD OFFICE FOR BRANCH



BRANCH STOCK ACCOUNT

This is a very important Account prepared to have a control over to Stock of the Branch. It is always prepared at invoice price and follows the rule of Real Account

BRANCH STOCK A/C(INVOICE PRICE)

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Balance b/d	XXX	By Goods Sent To Branch	
To Branch Stock A/C	XXX	A/C	XXX
To Goods Sent To Branch		By Stock Reserve A/C	XXX
A/C	XXX	By Branch Profit And Loss	
To Stock Reserve A/C	XXX	A/C(loss)	XXX
To Branch Profit And Loss			
A/C(Gross Profit)	XXX		

BRANCH ADJUSTMENT ACCOUNT

This account is prepared to ascertain the gross profit or loss of the business .The balance of this account is transferred to Branch Profit Or Loss Account

BRANCH ADJUSTMENT ACCOUNT

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Branch Stock A/C	XXX	By Branch Stock A/C	XXX
To Goods Sent To Branch A/C	XXX	By Goods Sent To Branch A/C	XXX
To Stock Reserve A/C	XXX	By Stock Reserve A/C	XXX
To Branch Profit & Loss A/C (Gross Profit)	XXX	By Branch Profit & Loss A/C(Gross Loss)	XXX

BRANCH PROFIT & LOSS ACCOUNT

This account is prepared to determine the net profit or loss of the branch .The Gross Profit Or Gross Loss is transferred from Branch Adjustment Account to Branch Profit & Loss Account

BRANCH PROFIT & LOSS A/C



PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Branch Adjustment A/C	XXX	By Branch Adjustment A/C	XXX
To Branch Stock A/C	XXX	By Branch Stock A/C	XXX
To Branch Expenses A/C	XXX	By Branch Cash A/C	XXX
To General P & L A/C		By Insurance Co. A/C	XXX
(Profit)	XXX	By General P & L A/C	
		(Loss)	XXX

BRANCH EXPENSES ACCOUNT

This account records all Cash as well as Non Cash Expenses of the Branch .The Balance Of this account is transferred to Branch Profit And Loss Account and thereby closed

BRANCH EXPENSES ACCOUNT

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Branch Adjustment A/C	XXX	By Branch Adjustment A/C	XXX
To Branch Stock A/C	XXX	By Branch Stock A/C	XXX
To Branch Expenses A/C	XXX	By Branch Cash A/C	XXX
To General P & L A/C	XXX	By Insurance Co. A/C	XXX
		By General P & L A/C	XXX



FINAL ACCOUNT SYSTEM

FINAL ACCOUNT SYSTEM

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

FEATURES OF FINAL ACCOUNT SYSTEM

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

ILLUSTRATION 1

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

PARTICULAR	AMT.	PARTICULAR	AMT.
Stock On 1.1.2009	22,000	Allowances To Customers	500
Debtors On 1.1.2009	200	Returns Inward	1,000
Petty Cash On 1.1.2009	200	Cheques Sent To Branch:	
		Rent	1,200
		Wages	400
		Salaries	1,800
Cash Sales	5,300	Stock On 31.12.2009	26,000
Goods Sent To Branch	40,000	Debtor On 31.12.2009	4,000
Collections On Ledger Accounts	42,000	Petty Cash On 31.12.2009 (Including Miscellaneous Income Not Remitted Rs. 50)	250
Goods Returned To Head Office	600	Bad Debts	600

ILLUSTRATION 2

Prepare The Branch Account And The Branch Trading And Profit And Loss Account For The Year Ending 31.12.2009 In The Head Office Books.

SOLUTION

PARTICULAR	AMT.	PARTICULAR	AMT.
To Balance B/D:		By Cash Sales	5,300
Stock	22,000	By Collections From Debtors	42,000
Debtors	200	By Goods Sent To Branch A/C(return)	600
Petty Cash	200	By Stock Reserve A/C	4,400
To Goods Sent To Branch A/C	40,000	By Goods Sent To Branch A/C	7,880
To Bank A/C (Remittance)		By Balance C/D	
Rent	1,200	Stock	26,000
Wages	400	Debtor	4,000
Salaries	1,800	Petty Cash	250
To Stock Reserve A/C	5,200		
To General Profit & Loss A/C	19,430		
	<u>90,430</u>		<u>90,430</u>

ILLUSTRATION 3

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



SOLUTION

PARTICULAR	AMT.	PARTICULAR	AMT.
To Balance B/D:		By Cash Sales	5,300
Stock	22,000	By Collections From Debtors	42,000
Debtors	200	By Goods Sent To Branch A/C(return)	600
Petty Cash	200	By Stock Reserve A/C	4,400
To Goods Sent To Branch A/C	40,000	By Goods Sent To Branch A/C	7,880
To Bank A/C (Remittance)		By Balance C/D	
Rent	1,200	Stock	26,000
Wages	400	Debtor	4,000
Salaries	1,800	Petty Cash	250
To Stock Reserve A/C	5,200		
To General Profit & Loss A/C	19,430		
	<u>90,430</u>		<u>90,430</u>

SOLUTION

P/L APPROPRIATION A/C

PARTICULARS	AMT.	PARTICULAR	AMT.
To Opening Stock (22,000-4,400)	17,600	By Sales: Cash 5,300 Credit 47,900 Less: Returns Inward 1,000	52,200
To Goods Sent To Branch(cost) 32,000 Less: Return To H.O 480	31,520	By Closing Stock (26000-5200)	20,800
To Wages	400		
To Gross Profit C/D	23,480		
	<u>73,000</u>		<u>73,000</u>
To Rent	1200	By Gross Profit B/D	23,480
To Salaries	600	By Misc. Income	50
To Bad Debts	500		
To Allowances To Customers	19,430		
To General Profit & Loss A/C			
	<u>23,530</u>		<u>23,530</u>



WHOLESALE
BRANCH
SYSTEM

WHOLESALE SYSTEM

- Manufacturing concerns usually sell their goods through agents or middlemen or intermediaries, known as wholesalers and/or retailers.
- These retail outlets are supplied with goods at the price at which they are sent to the middlemen, that is, the wholesaler. Such price is cost plus a percentage of profit, and is known as wholesale price

EXPECTATION OF BRANCH

The branch is expected to sell the goods at retail prices that are higher than the wholesale price. The real profit earned by the branch is the excess of the final selling price (also called as retail price) over the wholesale price.

For example, the cost price of an article is Rs. 100, the whole sale price is Rs. 125 and the retail price is Rs. 160. If an article sold by the branch, the actual profit is $\text{Rs } 160 - \text{Rs } 100 = \text{Rs } 60$ but the branch's real profit is $\text{Rs } 160 - \text{Rs } 125 = \text{Rs } 35$.

CREATION OF RESERVE

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

JOURNAL ENTRY

✓ The following journal entry is passed at the year end:

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

 To Stock Reserve account

(Amount of difference between wholesale price and cost price)

ENTRY IN BALANCE SHEET

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

Stock Reserve Account

Dr.

To Profit and Loss account (Head office)

ILLUSTRATION 1

- XYZ Ltd. operates a number of retail shops. Goods are invoiced at wholesale price which is cost plus 25%. Shops sell the goods at the list price which is cost plus 100%.
- From the following particulars, prepare:
 - (a) Branch Stock Account (at wholesale price)
 - (b) Branch Profit and Loss Account
 - (c) Stock Reserve Account
 - (d) An extract of Head Office Profit and Loss Account

ILLUSTRATION 1

- XYZ Ltd. operates a number of retail shops. Goods are invoiced at wholesale price which is cost plus 25%. Shops sell the goods at the list price which is cost plus 100%.
- From the following particulars, prepare:
 - (a) Branch Stock Account (at wholesale price)
 - (b) Branch Profit and Loss Account
 - (c) Stock Reserve Account
 - (d) An extract of Head Office Profit and Loss Account

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

SOLUTION

In the Books of XYZ Ltd.

Dr. **Branch Stock Account (at Wholesale Price)** Cr.

<u>PARTICULARS</u>	<u>AMOUNT</u>	<u>PARTICULARS</u>	<u>AMOUNT</u>
To Balance b/d	2,000	By Sales	5,20,000
To Goods sent to shops	8,00,000	By Goods returned by shops	8,000
To Sales returns	20,000	By Goods destroyed by fire (note 2)	4,000
To Gross profit c/d (note1)	1,87,500	By Balance c/d	4,77,500
Total	10,09,500	Total	10,09,500

SOLUTION

Branch Profit and Loss Account

<u>PARTICULARS</u>	<u>AMOUNT</u>	<u>PARTICULARS</u>	<u>AMOUNT</u>
To Expenses at the shops	1,01,500	By Gross Profit b/d	1,87,500
To Goods destroyed by fire (note 2)	4,000		
To Net Profit (transferred to H.O. Profit & Loss Account)	82,000		
Total	1,87,500	Total	1,87,500

SOLUTION

STOCK RESERVE ACCOUNT

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To H.O. Profit and Loss A/C (transfer)	400	By Balance b/d (note 3)	400
To Balance c/d	95,500	By H.O. Profit and Loss A/C (reserve required- note 3)	95,500
Total	95,900	Total	95,900

HEAD OFFICE PROFIT AND LOSS ACCOUNT

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To Stock Reserve (note 3) (reserve on closing stock)	95,500	By Branch Profit and Loss A/C	82,000
		By Stock Reserve (note 3) (reserve on opening stock)	400

WORKING NOTES :

(1) Calculation of gross profit

	Rs.
Cost price	100
Add: Profit @ 25%	<u>25</u>
Wholesale Price (A)	<u>125</u>
Cost Price	100
Add: Profit @ 100%	<u>100</u>
Retail Price (B)	<u>200</u>
Gross Profit at the shops (B-A)	75

Gross Profit = Rs.500,000 x 75/200 = Rs 18,7500

(Gross profit has been calculated on net sales Rs.5,20,000-
Rs.20,000=Rs.5,00,000)

WORKING NOTES

(2) Calculation of Wholesale Value of Goods Destroyed by Fire

When retail price is Rs.200 the wholesale price is Rs.125

When retail price is Re.1 the wholesale price is Rs125/200

When retail price is Rs.6400 the wholesale price is $\text{Rs.}125/200 \times \text{Rs.}6400 = \text{Rs.}4000$

(3) Calculation of Stock Reserve

On opening stock = $\text{Rs.}2000 \times 25/125 = \text{Rs.}400$

On closing stock = $\text{Rs.}4,77,500 \times 25/125 = \text{Rs.}95,500$

(4) Wholesale retail branch is treated as independent profit center.

Therefore, goods destroyed by fire have been charged to wholesale branch profit and loss account

ILLUSTRATION 2 :

White Ltd. has a retail branch at Gurgaon. Goods sold on 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Kolkata head office to Gurgaon branch at wholesale price. From the following particulars, ascertain the profit made at head office and branch for the year ended 31.12.2010:

	H.O (Rs.)	Branch (Rs.)
Stock on 1.1.2010	1,75,000	-----
Purchases	10,50,000	-----
Goods sent (invoice price)	3,78,000	-----
Expenses (selling)	56,000	7,000
Sales	10,71,000	3,50,000
Stock on 31.12.2010	4,20,000	63,000

HEAD OFFICE AND BRANCH TRADING & P&L A/C (FOR THE YEAR ENDING 31ST DECEMBER, 2010)

PARTICULARS	H.O.	GURGAON	PARTICULARS	H.O.	GURGAON
To Opening stock	1,75,000	-----	By Sales	10,71,000	3,50,000
To Purchases	10,50,000	-----	By Goods Sent to Branch	3,78,000	-----
To Goods sent to Branch	-----	3,78,000	By Closing Stock	4,20,000	63,000
To Gross Profit c/d	6,44,000	35,000			
Total	18,69,000	4,13,000	Total	18,69,000	4,13,000
To Selling Expenses	56,000	7,000	By Gross Profit b/d	6,44,000	35,000
To Stock Reserve A/C (note 1)	18,000	-----			
To Net Profit	5,70,000	28,000			
	6,44,000	35,000		6,44,000	35,000

WORKING NOTES

Goods sent to branch at invoice price should be treated as sale of the head office. Some of the goods are still unsold at the branch. For calculating actual profit of the head office, a stock reserve is to be created by debiting head office Profit and Loss Account.

The amount of loading will be:

$$40/140 \times \text{Rs.}63000 = \text{Rs.}18000$$



ACCOUNTING
FOR
INDEPENDENT
BRANCHES

INDEPENDENT BRANCHES

The Branch which establishes its own Double Entry Book-keeping System quite separate from head office is known as an Independent Branch

FEATURES OF ACCOUNTING FOR INDEPENDENT BRANCHES

1. Maintains separate books of account as required under Double Entry System
2. Maintains “Head Office Account” in which all the transaction that take place between Head Office and Branch are recorded .This account is personal in nature
3. A reciprocal account of the “head office account” is maintained by head office for transaction between head office and branch
4. The branch prepares its “Trading And P/L A/C and sends it to the Head Office
5. The Head Office after receiving Financial Statements reconciles these accounts



Thank You!