**Unit III: Departmental Accounting Branch Accounts**

**. Departmental Accounting:** Meaning – Need – Advantages – Distinction between Departments and Branches – Methods and Techniques of Departmental Accounting.

**Branch Accounts:** Meaning –objects - Types of Branches - Dependent Branches-Accounting respect of Dependent Branches - Final Accounts System –Independent Branches

**Introduction:**

An organisation may produce or buy and sell several products or perform different services under the same roof or from the same premises. The modern practice is to divide the organisation into independent departments, each of which may deal in a particular class of goods or render specialized type of service. For example: readymade garments firm may be divided into tailoring and selling departments.

**Need for departmental accounting:**

Accounts which reveal expenses, incomes, sales, stocks, gross profit and net profit separately for each department are needed:

* To compare the results of each department with the results of previous years and ascertain the trend.
* To know the comparative results of different departments in the same year.
* To assess the position of stocks in each department.
* To identify areas of weakness for cost control and improvement of efficiency.
* To decide upon expansion, discontinuation and investment policies.

**Advantages of departmental accounting:**

**(1) Ascertainment of profit:** Gross profit ad net profit can be ascertained for each department separately on a reliable basis.

**(2) Comparative performance:** The results of different departments can be compared in terms of profit, expenses, inventories, percentage of growth, return on investment etc.

**(3) Appraisal of personnel:** Individuals responsible for improved results or decline in performance can be identified. This is useful in implementing incentive systems.

**(4) Remedial measures:** Areas of poor performance can be identified for implementing remedial measures. If situation warrants, decision to discontinue some products or closing a department may be taken accurately.

**(5) Expansion and diversification:** Decisions to expand and diversify profitable lines of business become easier.

**(6) Policy formulation:** Management policies towards inventories, extending credit, additional investment etc are facilitated.

**Distinction between departments and branches:**

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| --- | --- | --- |
| **Points of difference** | **Departments** | **Branches** |
| Location | All the departments are located within single premises. | Branches are located in different geographical areas, physically separated from the head office and one another. |
| Growth | Departments are confined to local business and can grow vertically with same roof. | Branches cater to a wider market and can expand and grow geographically. |
| Accounting | All the accounting records are centralized and maintained within the same premises for all the departments. | Branches keep records of their operations separately. The head office consolidates the accounts of all the branches. |
| International operations | Departments are confined to a single place unless similar organisations are opened elsewhere. | Branches can be started anywhere in the world. So, there can be local and foreign branches. |

**Methods and techniques of departmental accounting:**

(i) When accounts are finalized, departmental trading and profit and loss account is prepared in columnar form to find gross profit and net profit of each department.

A general profit and loss account is also prepared to find the overall profit or loss of the firm. The balance sheet is common and shows the position of the business as a whole.

**(ii) Maintenance of records:**

Firms with huge turnover and large number of transactions can maintain separate subsidiary books for each department. Medium and small sized firms can maintain purchases book, sales book and the returns books will appropriate columns for each department. Even the cash book can be similarly bifurcated. In the ledger separate accounts are opened for sales, purchases, wages etc of each department. Closing stock can be separately ascertained at the time of stock taking.

**(iii) Departmentalization of expenses:**

In order to find out profit or loss of each department apart from sales, purchases, returns and stocks, various expenses must be charged to the departments appropriately. Business expenses are usually divided into two types – Direct expenses and indirect expenses

**(a) Direct expenses:** Expenses which can be directly identified with or incurred for particular departments are called direct expenses. Examples are wages, carriage inwards, salary to the departmental staff and insurance of stock.

These expenses are charged directly to the respective departments, either in the trading account or in the profit and loss account as the case may be.

**(b) Indirect expenses:** Expenses which cannot be identified with a particular department, but incurred for their common benefit are called indirect expenses. Indirect expenses are further divided into

**(i) Expenses which cannot be apportioned:** Expenses which have no connection with the departments or those which have no reasonable basis for apportionment mush be shown in the general profit and loss account. Any forces division of such expenses will distort the results of the departments unnecessarily. Examples: Debenture interest, dividends paid income tax, director’s fees, bank charges, legal expenses etc.

**(ii) Expenses which can be apportioned:** All indirect expenses which are amenable for division on some logical or appropriate basis among the departments should be charged to the departments after dividing them on a suitable basis. Examples: Selling expenses, salaries, rent, depreciation, lighting, power, repairs etc.

|  |  |
| --- | --- |
| **Expenses** | **Basis of apportionment** |
| Selling expenses like sales commission, salesmen’s salaries, advertising, bad debts, carriage outwards etc. | Sales ratio or turnover ratio of different departments. It can be the ratio of sales value or sales quantity. |
| Rent and rates, repairs to buildings, maintenance of premises, building insurance, depreciation etc. | Floor area or space occupied by each department. |
| Depreciation of fixed assets like furniture, fixtures, machinery, fire insurance, repairs on such assets. | Value of each asset possessed by different departments. |
| Lighting | Light points in the departments. If this is not available, floor areas occupied. |
| Power | Consumption as per meter. Otherwise, horse power of the machines and the working time in hours or days. |
| Carriage inward | Purchase value. |
| Workmen’s amenities and welfare expenses | Number of workers in each department. |
| Workmen’s compensation insurance, ESI, PF etc payable by employer. | Wages of each department. |
| Factory manager’s salary | Time devoted to each department. |
| Premium for loss of profits insurance | Profit of each department in the previous year. |

**(iv) Inter – departmental transfers:**

Goods may be transferred from one department to another. Similarly, services of one department may be used by another department. In such cases, the transfer may be made at cost price or at usual selling price.

**(a) Inter departmental transfer at cost price:** For the department which receives the transfer, it is like a purchase or expenditure. The trading account of the receiving department is debited with the value of the transfer.

For the department which makes the transfer, it is like a sale or an income. The trading account of transferring department must be credited with the amount of transfer. No further adjustment is required in relation to the transfer.

**(b) Inter departmental transfer at selling price or loaded price:** When goods or services are transferred at a price above cost, the receiving department must be debited with the amount of transfer in the departmental trading account and the transferring department must be credited in the departmental trading account with the same amount. In case of service rendered no further adjustment is needed. If goods are transferred and all the goods transferred are sold, then also no adjustments are required.

**Branch Accounts:**

Many business concerns now – a – days carry on trading in different establishments scattered far and near. In other words, a business may be and generally is divided into so many divisions. If the various divisions are situates in different places of the same town or in different towns, they are known as branches.

**Objectives of branches:**

(i) To know the profit or loss of each branch separately.

(ii) To ascertain the financial position of each branch on a particular date.

(iii) To know the cash and goods requirements of the various branches

(iv) To evaluated the progress and performance of each branch.

(v) To calculate commission for payment to the managers, if based on profits of branch.

(vi) To know the profitability of each branch and type of business for expansion of the business.

(vii) To give concrete suggestions for the improvement in the working of the various branches

(viii) To meet the requirements of specific enactments as all branches of a company must keep the accounts for audit purposes.

**Types of branches:**

**1. Dependent Branches:** The term dependent branches mean a branch which does not maintain its own set of books. All records have to be maintained by the head office. When the business policies and the administration of a branch are wholly controlled by the head office, its accounts also are maintained by it.

**Features of dependent branch:**

1. This type of branch sells only those goods supplied by the head office. Sometimes the branch may be allowed to make purchase from the local parties for which the payments are made directly by head office.

2. The goods may be supplied to the branch by the head office at cost price or invoice price.

3 .All branch expenses such as rent, salary, advertisement etc. are paid by the head office.

4. The branch manager is provided with a small amount of cash on the imprest system for meeting petty items of expenses.

5. The branch is allowed to make only cash sales though in some cases, it may be allowed to make credit sales to approved customers.

Incase of a dependent branch, the head office may keep accounts of the branch according to any of the following systems.

**a. Debtors system / Synthetic method:** This system is adopted in case of branches of small size. Under this system a branch account is opened separately for each branch in the books of head office. This account is nominal account in nature. The opening balance of stock, debtors, petty cash are debited to the branch account. The cost of goods sent to branch as well as expenses of the branch paid by the head office like salaries, rent, insurance and closing balance of liabilities if any are debited. The opening balance of liabilities if any cash remitted by the branch and the cost of goods returned by the branch are credited. The branch account reveals profit or loss. If the branch account shows a credit balance it is branch profit and if debit balance is shown it is branch loss.

**b. Stock and debtors system / Analytical method:** In this method the head office keeps separate accounts relating to various types of transactions at the branch instead of on branch account. The following accounts are kept in the head office relating to a branch under this system.

**1. Branch stock account:** This account deals with all goods received, returned and sold by the branch. The account helps the head office in maintaining an effective control over the branch stock. It is debited with (a) opening stock (b) Goods sent to branch (c) Goods returned by debtors (d) Surplus in stock. It is credited with (a) credit sales (b) cash sales (c) Goods spoiled and goods lost like loss in weight, loss in transit (d) Goods returned to head office by branch (e) closing stock. It gives information about shortage or surplus of stock and the closing stock at the branch.

**2. Branch debtor’s account:** This account is prepared to record all the transactions relating to branch debtors and ascertain either the closing balance of debtors or credit sales.

**3. Branch expenses account:** This account is prepared to disclose branch expenses, losses on account of discount on debtors, allowances, bad debts and other charges etc incurred at the branch. All expenses incurred by branch are recorded in the debit side of this account and balance of this account is transferred to branch profit and loss account.

**4. Branch adjustment account:** When the goods are sent to branch at cost price, this account need not be prepared. Instead, when the goods are supplied to branch at invoice price, it must be prepared to ascertain gross profit made by the branch. Balance of this account indicates gross profit or gross loss which is transferred to branch profit and loss account.

**5. Branch profit and loss account:** this account is prepared to ascertain the net profit made by the branch. Balance of the account indicates net profit or net loss which is transferred to general profit and loss account.

**6. Goods sent to branch account:** This account is prepared to find out the net value of goods sent to the branch. Goods sent to branch and goods returned by the branch and loading included in them if any are recorded in this account. Balance of this account is transferred to either purchase account or trading account depending on whether the firm is trading concern or a manufacturing concern respectively.

**c. Wholesale Branch System:** Manufacturers may sell goods to the consumers either through the wholesalers and approved stockists or through their branches. In order to know whether self – retailing through branch is more profitable than wholesaling, it is necessary to make distinction between profit due to wholesale and profit due to retail business of the branch. Wholesale price is always less than retail price. Hence when head office wants to know retail profit of the branch, it charges the branch with wholesale price accordingly branch trading account is debited with:

* The value of opening stock at the branch
* Price of goods sent during the year at wholesale price. It is credited with (a) Sales affected at the branch (b) Closing stock of goods valued at wholesale price.

The Value of goods lost due to accident, theft is also credited to the branch trading account, calculated at the wholesale price. At this stage the branch trading account will reveal the amount of gross profit or loss. It is transferred to the branch profit and loss account.

**d. Final Account System:** The head office can also ascertain the profit or loss of a dependent branch by preparing branch trading and profit and loss account at cost. In such cases the head office may also maintain a branch account. The branch account so prepared is personal account in nature. The branch account prepared by head office in case of debtors system which is of the nature of a nominal account. The balance in the branch account at the end of a particular period represents the net assets at the branch.

**2. Independent branches:** It means a branch which maintains its own set of books and has freedom to operate independently. If a branch is big and carries on manufacturing operations also it is allowed to operate freely within the framework of head office policies.

**Features of independent branches:**

1. Independent Branch keeps a complete set of books. Such Branch gets goods from Head Office and from outside parties. It has its own Bank Account. Thus, the Branch keeps frill system of accounting.

2. It prepares its own Trial Balance, Trading and Profit and Loss Account and Balance Sheet. Copies of these statements are sent to Head Office for incorporating in the Head Office Books.

3. The books contain an Account called “Head Office Account” or “Head Office Current Account” which is credited with everything received from the Head Office and debited with everything sent to Head Office. That is, all transactions relating to Head Office are recorded in this Account. The Head Office Current Account is thus a Proprietorship Account (i.e. Capital Account).

**3. Foreign branches:** These branches are located outside the country. They are operated in the foreign country which has a different currency and, as such, question of rate of exchange will arise. These branches may be of: (i) Dependent Branch or (ii) Independent Branch depending on the method of accounting.

**Distinguish between Branch accounts and Departmental Accounts.**

|  |  |  |
| --- | --- | --- |
| **Basis of difference** | **Branch** | **Departmental** |
| Place | Branch is established by separating them from the head office. | Departments are run by attaching them with the main organisation under a single roof. |
| Geography | Branches are geographically separated. | Departments are not separated rather existed under a same roof. |
| Objective | Branches are the outcome of touch competition and expansion of business. | Department are the result of fast human life. |
| Types | Branches are different types like dependent, independent and foreign. | There is no such classification in department because all are common expenses are a touch job. |
| Common cost | Allocation of branch common expenses does not arise. | Allocation of departmental common expenses is touch job. |
| Reconciliation | Reconciliation is necessary for final result of departments. | No reconciliation is necessary because there is a central account division. |

**1. When the opening balances of assets at the branch:**

Branch A/c Dr.

To Opening Stock A/c

To Opening Petty Cash A/c

To Opening Balance of Other Assets

(For opening balances at the branch)

**2. For opening Creditors and outstanding:**

Opening Creditors A/c Dr.

Outstanding Liabilities A/c Dr.

To Branch A/c

(Being opening balance of liabilities at the Branch)

**3. For goods supplied by the Head office to the branch:**

Branch A/c Dr.

To Goods Supplied to Branch A/c

(For goods supplied to branch)

**4. For expenses at the branch met by the head office:**

Branch A/c Dr.

To Cash or Bank A/c

(For amounts sent to branch for expenses)

**5. For goods returned by the branch to the Head Office:**

Goods Supplied to Branch A/c

To Branch A/c

(For goods returned by Branch)

**6. For amount sent to branch for petty expenses:**

Branch A/c Dr.

To Cash A/c

(For amount sent to branch for petty expenses)

**7. For remittances received from branch:**

Cash A/c Dr.

To Branch A/c

(For cash received from branch)

**8. When the closing balances of assets at the branch:**

Closing Stock A/c Dr.

Closing Petty Cash A/c Dr.

Closing Balances of Other Assets Dr.

To Branch A/c

(For closing balances at the branch)

**9. For loss at the branch (if debit side is bigger)**

General Profit & Loss A/c Dr.

To Branch A/c

(For loss transferred to general profit and loss A/c)

**10. For transfer of balancing goods to supplied to branch Account:**

Goods Supplied to Branch A/c Dr.

To Trading A/c

(For balancing goods supplied to branch A/c transferred to trading A/c)

**In the books of Head Office**

**Branch Account**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particular** | **Amount** | **Particular** | **Amount** |
| **To Balance b/d**  Stock  Petty cash  Furniture  Prepaid  Debtors  To Goods sent to Bank A/c  **To Cash A/c**  Rent  Salaries  Other exp  **To Balance c/d** Creditors  Outstanding exp.  To General P&L | Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx | **By Balance b/d**  Creditors  Outstanding exp  **By Cash**  Cash sales  Cash from Debtor  By Goods Return to H.O  **By Balance c/d**  Stock  Petty Cash  Furniture  Prepaid Exp.  Debtors | Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx  Xxx |

**Problems:**

1. From the details prepare departmental trading accounts.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Dept A** | **Dept B** |
| Opening Stock | 9,000 | 8,400 |
| Total Purchase | 27,000 | 21,600 |
| Total Sales | 42,000 | 36,000 |
| Closing Stock | 10,800 | 4,800 |
| Credit Purchase | 17,000 | 10,600 |
| Credit Sales | 5,000 | 6,000 |

**Solution: Departmental Trading Account for the year ending**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **Dept A** | **Dept B** | **Particulars** | **Dept A** | **Dept B** |
| To opening stock | 9,000 | 8,400 | By sales | 42,000 | 36,000 |
| To purchase | 27,000 | 21,600 | By closing stock | 10,800 | 4,800 |
| **To Gross profit c/d (bal.fig)** | **16,800** | **10,800** |  |  |  |
|  | **52,800** | **40,800** |  | **52,800** | **40,800** |

2. Following is the Trial balance of Mr.Rajan as on 31.12.2002

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | | **Dr (Rs)** | **Cr (Rs)** |
| Capital A/c |  |  | 40,000 |
| Drawings A/c |  | 1,500 |  |
| Opening stock | Dept A | 8,500 |  |
| Dept B | 5,700 |  |
| Dept C | 1,200 |  |
| Purchases | Dept A | 22,000 |  |
| Dept B | 17,000 |  |
| Dept C | 8,000 |  |
| Sales | Dept A |  | 54,000 |
| Dept B |  | 33,000 |
| Dept C |  | 21,000 |
| Sales Returns | Dept A | 4,000 |  |
| Dept B | 3,000 |  |
| Dept C | 1,000 |  |
| Freight and carriage | Dept A | 1,400 |  |
| Dept B | 800 |  |
| Dept C | 200 |  |
| Wages | Dept A | 800 |  |
| Dept B | 550 |  |
| Dept C | 150 |  |
| Furniture & fixture | | 4,600 |  |
| Plant and Machinery | | 20,000 |  |
| Bills receivable | | 4,200 |  |
| Bills payable | |  | 8,000 |
| Motor vehicles | | 40,000 |  |
| Sundry debtors | | 8,000 |  |
| Sundry creditors | |  | 7,000 |
| Salaries | | 4,500 |  |
| Power and water | | 1,200 |  |
| Telephone charges | | 2,100 |  |
| Bad debts | | 750 |  |
| Rent & Taxes | | 6,000 |  |
| Insurance | | 1,500 |  |
| Printing & stationery | | 2,000 |  |
| Advertising | | 3,500 |  |
| Bank overdraft | |  | 12,000 |
| Cash in hand | | 850 |  |
| **Total** | | **1,75,000** | **1,75,000** |

**Solution: Departmental Trading A/c of Mr.Rajan for the year ending 31.12.2002**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Dept A** | **Dept B** | **Dept C** | **Particulars** | **Dept A** | **Dept B** | **Dept C** |
| To opening stock | 8,500 | 5,700 | 1,200 | By sales | 54,000 | 33,000 | 21,000 |
| To Purchase | 22,000 | 17,000 | 8,000 | L**ess:** Sales Return | 4,000 | 3,000 | 1,000 |
| To freight & carriage | 1,400 | 800 | 200 | Net Sales | 50,000 | 30,000 | 20,000 |
| To Wages  Add: Wages due | 800 | 700 | 200 | By Closing Stock | 3,500 | 2,000 | 1,500 |
| To power & water (sales ratio = 5:3:2) | 600 | 360 | 240 |  |  |  |  |
| To Gross profit | 20,200 | 7,440 | 11,660 |  |  |  |  |
|  | **53,500** | **32,000** | **21,500** |  | **53,500** | **32,000** | **21,500** |

**Profit & Loss A/c of Mr.Rajan for the year ending 31.12.2002**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Dept A** | **Dept B** | **Dept C** | **Particulars** | **Dept A** | **Dept B** | **Dept C** |
| To salaries (5,000) | 2,500 | 1,500 | 1,000 | By Gross profit |  |  |  |
| To telephone charges | 1,050 | 630 | 420 | By Net Loss | - | 735 | - |
| To bad debts | 375 | 225 | 150 |  |  |  |  |
| To rent & taxes | 3,000 | 1,800 | 1,200 |  |  |  |  |
| To insurance | 750 | 450 | 300 |  |  |  |  |
| To printing & stationery | 1,000 | 600 | 400 |  |  |  |  |
| To advertising | 1,750 | 1,050 | 700 |  |  |  |  |
| To Depreciation on plant & machinery (20,000 \* 10/100 = 2,000) | 1,000 | 600 | 400 |  |  |  |  |
| To depreciation on motor vehicles (40,000 \* 10/100 = 4,000) | 2,000 | 1,200 | 800 |  |  |  |  |
| To provision for debtors (8,000 \* 5/100 = 400) | 200 | 120 | 80 |  |  |  |  |
| To Net Profit | 6,575 | - | 6,210 |  |  |  |  |
|  | **20,200** | **8,175** | **11,660** |  | **20,200** | **8,175** | **11,660** |

**Balance sheet of Mr.Rajan as on 31.12.2002**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Rs** | **Assets** | **Rs** | **Rs** |
| Capital | 40,000 |  | Fixture & furniture |  | 4,600 |
| **Less:** Drawing | 1,500 |  | Plant & Machinery | 20,000 |  |
|  | **38,500** |  | **Less:** Depreciation | 2,000 | 18,000 |
| **Add:** Net Profit (6,575 + 6,210) | 12,785 |  | Motor Vehicles | 40,000 |  |
|  | **51,285** |  | **Less:** Depreciation | 4,000 | 36,000 |
| Less: Net loss (Dept B) | 735 | 50,550 | Bills receivable | 4,200 |  |
| Salary due |  | 500 | Sundry Debtors | 8,000 |  |
| Outstanding wages:  (Dept B + Dept C = 150 + 50 = 200) |  | 200 | **Less:** 5% Provisi  on | 400 | 7,600 |
| Bills payable |  | 8,000 | Cash in hand |  | 850 |
| Sundry creditors |  | 7,000 | Closing Stock:  Dept A  Dept B  Dept C | 3,500  2,000  1,500 | 7,000 |
| Bank overdraft |  | 12,000 |  |  |  |
|  |  | **78,250** |  |  | **78,250** |

**Calculation of sales ratio:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Dept A** | **Dept B** | **Dept C** |
| Sales | 54,000 | 33,000 | 21,000 |
| **Less:** Sales return | 4,000 | 3,000 | 1,000 |
| Net Sales | 50,000 | 30,000 | 20,000 |
| **Sales ratio** | **5** | **3** | **2** |

3. From the Following Particulars Prepare a Branch Account Showing the Profit or Loss at the Branch? i) Opening Stock at the Branch -Rs. 15,000; ii) Goods Sent to the Branch -Rs.45,000; iii) Sales -Rs. 60,000; iv) Salaries -Rs. 5,000; v) Other Expenses -Rs.2,000; Closing Stock could not be ascertained but it is known that the branch usually sells at cost plus 20%. The Branch Manager is entitled to a Commission of 5% on the Profit of the Branch before charging such Commission.

**Solution: Computation of closing stock**

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| Opening stock | 15,000 |
| **Add:** Goods sent to branch | 45,000 |
|  | 60,000 |
| **Less:** Cost of goods sold  (Sales \* 100/120 = ( 60,000 \* 100/120) | 50,000 |
| **Cost of closing stock** | **10,000** |

**In the books of Head office:**

**Branch Accounts**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To opening Stock | 15,000 | By cash (sales) | 60,000 |
| To goods sent to branch | 45,000 | By closing stock | 10,000 |
| To cash (salary) | 5,000 |  |  |
| To cash (other expenses) | 2,000 |  |  |
| To manager’s commission  (3,000 \* 5/100) | 150 |  |  |
| To Net profit – transferred to General P & L A/c | 2,850 |  |  |
|  | **70,000** |  | **70,000** |

4. Loyal Shoe company opened a branch at Madras on 1.1.2010. From the following particulars, the Madras Branch accounts for the years 2009 & 2010

|  |  |  |
| --- | --- | --- |
| **Particulars** | **2009** | **2010** |
| Goods sent to branch | 15,000 | 45,000 |
| Cash Sent to branch for:  Rent  Salaries  Other expenses | 1,800  3,000  1,200 | 1,800  5,000  1,600 |
| Cash received from the branch | 24,000 | 60,000 |
| Stock on 31st December | 2,300 | 5,800 |
| Petty cash in hand on 31st December | 40 | 40 |

**Solution:**

**In the books of head office:**

**Madras Branch A/c for 2009**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Rs** | **Date** | **Particulars** | **Rs** |
| Jan 1 | To balance b/d | Nil |  | By Cash | 24,000 |
|  | To goods sent to branch | 15,000 | Dec31 | By Balance c/d  Stock  Petty cash | 2,300  40 |
|  | To cash:  Rent 1,800  Salaries 3,000  Other expenses 1,200 | 6,000 |  |  |  |
|  | To general P & L A/c (profit) | 5,340 |  |  |  |
|  |  | **26,340** |  |  | **26,340** |

**Madras Branch A/c for 2010**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Rs** | **Date** | **Particulars** | **Rs** |
| Jan 1 | To Balance c/d  Stock  Petty cash | 2,300  40 |  | By Cash | 60,000 |
|  | To goods sent to branch | 45,000 | Dec31 | By Balance c/d  Stock  Petty cash | 5,800  30 |
|  | To cash:  Rent 1,800  Salaries 5,000  Other expenses 1,600 | 8,400 |  |  |  |
|  | To general P & L A/c (profit) | 10,090 |  |  |  |
|  |  | **65,830** |  |  | **65,830** |

5. The Kanpur Shoe Company opened a Branch at Delhi in 2008. From the Following particulars Prepare Delhi Branch A/c for the Year 2008. i) Goods Sent to Branch -Rs. 15,000; ii) Cash Sent to Branch for Expenses - Rs. 6,000; iii) Cash Received from the Branch -Rs. 24,000; iv) Stock on 31.12.2008 - Rs. 2,300; v) Petty Cash in Hand -Rs. 40

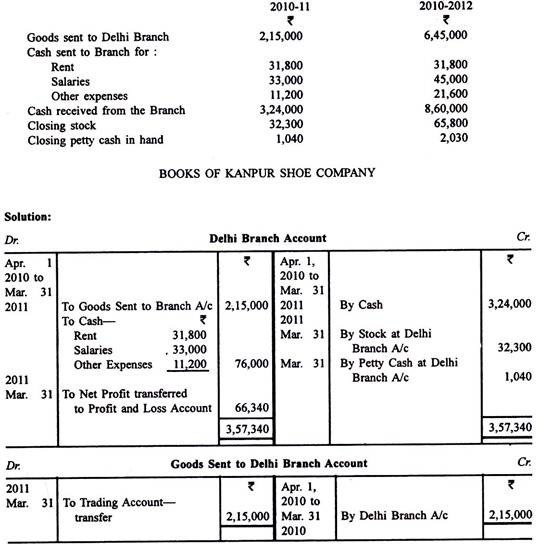
**Solution: In the books of head office:**

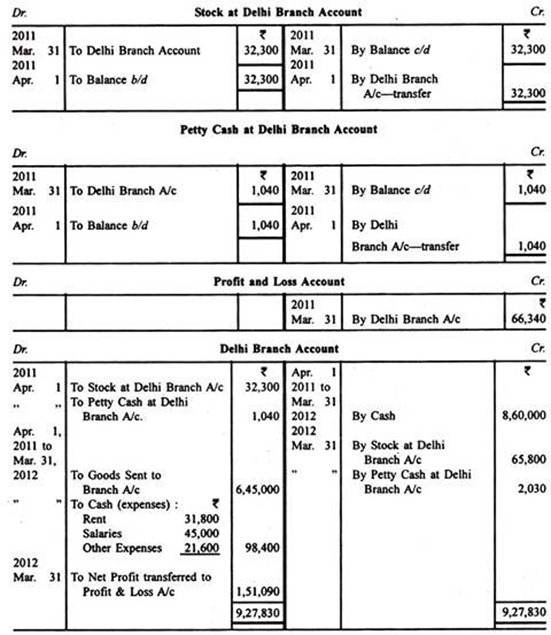
**Delhi Branch A/c for 2008**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To goods sent to branch | 15,000 | By cash received from the branch | 24,000 |
| To Cash sent to branch for expenses | 6,000 | By stock on 31.12.2008 | 2,300 |
| To general P & L A/c (profit) | 5,340 | By petty cash in hand | 40 |
|  | **26,340** |  | **26,340** |

6. The Nagpur Shoe Company opened a branch at Delhi on 1st April 2010. From the following figures, prepare all the necessary accounts for the year ended 31st March, 2011 and Delhi Branch Account for the year ended 31st March 2012: i) Goods Sent to Delhi Branch -Rs. 2,15,000; ii) Cash Sent to Branch for: Rent - Rs. 31,800; Salaries -Rs. 33,000; Other Expenses -Rs. 11,200; iii) Cash Received from the Branch -Rs. 3,24,000; iv) Closing Stock -Rs. 32,300; v) Closing Petty Cash in Hand -Rs. 1,040.

**Solution:**





7.A Madras Head Office has a Branch at Salem to which goods are invoiced at Cost Plus 20%. From the Following particulars prepare Branch Account in the Head Office Books: i) Goods Sent to Branch -Rs.2,11,872; ii) Total Sales - Rs. 2,06,400; iii) Cash Sales -Rs. 1,10,400; iv) Cash Received from Branch Debtors -Rs. 88,000; v) Branch Debtors on 1-1-2006 - Rs. 24,000; vi) Branch Stock on 1-1-2006 -Rs. 7,680; vii) Branch Stock on 31-12-2006 -Rs. 13,440.

**Solution: In the books of head office:**

**Delhi Branch A/c for 2008**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To Balance b/d:  Stock  Debtors | 7,680  24,000 | By bank:  Cash sales 1,10,400  Cash received  form debtors 88,000 | 1,98,400 |
| To goods sent to branch | 2,11,872 | By stock reserve (7.680 \* 20/100) | 1,280 |
| To stock reserve  (13,440 \* 20/100) | 2,240 | By goods sent to branch:  Loading (2,11,872 \* 20/100) | 35,312 |
| To profit transferred to general P& L A/c | 34,640 | By balance c/d  Stock  Debtors | 13,400  32,000 |
|  | **2,80,432** |  | **2,80,432** |
| **Calculation of closing debtors: Branch Debtors A/C** | | | |
| To balance b/d | 24,000 | By cash | 88,000 |
| To sales – credit (2,06,400 – 1,10, 400) | 96,000 | By balance c/d (bal. fig) | 32,000 |
|  | **1,20,000** |  | **1,20,000** |

8. From the Following Particulars ascertain the Profit or Loss from the Branch: a) Opening Stock at the Branch -Rs. 45,000 b) Goods Sent to the Branch - Rs. 1,35,000 c) Sales at the Branch -Rs. 1,80,000 d) Salaries -Rs. 15,000 e) Other Expenses -Rs. 6,000. The Branch Manager is Entitled to a Commission of 5% before charging such Commission. Closing Stock could not be ascertained, but it is known that the branch usually sells at cost plus 20%.

**Solution: Computation of closing stock**

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| Opening stock | 45,000 |
| **Add:** Goods sent to branch | 1,35,000 |
|  | 1,80,000 |
| **Less:** Cost of goods sold  (Sales \* 100/120 = ( 1,80,000 \* 100/120) | 1,50,000 |
| **Cost of closing stock** | **30,000** |

**In the books of Head office:**

**Branch Accounts**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To opening Stock | 45,000 | By cash (sales) | 1,80,000 |
| To goods sent to branch | 1,35,000 | By closing stock | 30,000 |
| To cash (salary) | 15,000 |  |  |
| To cash (other expenses) | 6,000 |  |  |
| To manager’s commission  (9,000 \* 5/100) | 450 |  |  |
| To Net profit – transferred to General P & L A/c | 8,550 |  |  |
|  | **2,10,000** |  | **2,10,000** |

9. Manian Limited of Calcutta has a Branch at Patna. Goods are invoiced to the Patna Branch, the selling price being cost plus 25%. The Patna Branch keeps its own Sales Ledger and transmits all Cash Received to Calcutta. All Expenses are paid from Calcutta. From the Following Details Prepare the Patna Branch Account for the Year 2009. i) Stock (1.1.2009) -Rs. 1,250; ii) Stock (31.12.2009) -Rs. 1,500; iii) Debtors (1.1.2009) -Rs. 700; iv) Debtors (31.12.2009) -Rs. 900; v) Cash Sales for the Year -Rs. 5,400; vi) Credit Sales for the Year -Rs. 3,500; vii) Goods invoiced from Calcutta -Rs. 9,100; viii) Rent -Rs. 400; ix) Wages -Rs. 340; x) Sundry Expenses -Rs. 80

**Solution: In the books of Manian Ltd head office:**

**Patna Branch A/c for 2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To Balance b/d:  Stock  Debtors | 1,250  700 | By bank:  Cash sales 5,400  Cash received  form debtors 3,300 | 8,700 |
| To goods sent to branch | 9,100 | By stock reserve ( 1,250\* 25/125) | 250 |
| To Bank:  Rent  Wages  Sundry expenses | 400  340  80 | By goods sent to branch:  Loading (9,100\* 25/125) | 1,820 |
| To stock reserve  ( 1,500\* 25/125) | 300 | By balance c/d  Stock  Debtors | 1,500  900 |
| To profit transferred to general P& L A/c | 1,000 |  |  |
|  | **13,170** |  | **13,170** |
| **Calculation of cash received from debtors: Branch Debtors A/C** | | | |
| To balance b/d | 700 | By cash (bal.fig) | 3,300 |
| To sales – credit | 3,500 | By balance c/d | 900 |
|  | **4,200** |  | **4,200** |

10. Naga of Trichy has a branch at Madras. Goods are sent by Head Office at Invoice Price which is the Profit of 20% on Cost Price. All expenses of the branch are paid by Head Office. From the Following Particulars, Prepare Branch Account in the Head Office Books. i) Opening Balances: Stock at Invoice Prices -Rs. 11,000, Debtors -Rs. 1,700, Petty Cash -Rs. 100, Goods sent to Branch at Invoice Branch - Rs. 20,000, (ii) Expenses paid by Head Office: Rent -Rs. 600, Wages -Rs. 200, Salary -Rs.900, iii) Remittance made to Head Office: Cash Sales- Rs. 2,650, Cash Collected from Debtors -Rs. 21,000, Goods returned by branch at invoice price -Rs. 400, iv) Balances at the End: Stock at Invoice Price -Rs. 13,000, Debtors -Rs. 2,000, Petty Cash -Rs. 25.

**Solution: In the books of Naga Trichy head office:**

**Madras Branch A/c**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To Balance b/d:  Stock  Debtors  Petty cash | 11,000  1,700  100 | By bank:  Cash sales 2,650  Cash received  form debtors 21,000 | 23,650 |
| To goods sent to branch | 20,000 | By Goods sent branch (Return to H.O) | 400 |
| To Bank:  Rent  Wages  Salary | 600  200  900 | By stock reserve ( 11,000\* 20/120) | 1,833 |
| To stock reserve  (13,000 \* 20/120) | 2,167 | By goods sent to branch:  Loading (19,600\* 20/120)  (20,000 – 400 = 19,600) | 3,267 |
| To profit transferred to general P& L A/c |  | By balance c/d  Stock  Debtors  Petty cash | 13,000  2,000  25 |
|  | **44,175** |  | **44,175** |