Branch (including Foreign Branch) and Departmental Accounts

6

This Module Includes

Branch (including Foreign Branch) and Departmental Accounts

SLOB Mapped against the Module

To equip oneself with the detail understanding of accounting of certain special transactions to determine surplus, ensure control on resources, for divisional performance evaluation or acquisition of assets through deferred payments. (CMLO 2a, 4c)

Module Learning Objectives:

After studying this module, the students will be able to:

- Do the accounting of domestic branches.
- Understand the accounting of foreign branches.
- Get the knowledge for preparation of Departmental Income Statement.

Branch Accounting 6.1

Branch is an extended location of an organisation, other than its head office, where businesses of similar or related to the organisation are conducted. Usually a organisation opens branches for the following purposes:

- **For profit making organisations:** Through opening a branch organisation can offer visibility and brand exposure which can positively influence its profits.
- **For non-profit making organisations:** To satisfy a large number of stakeholders needs by increasing its outreach.

The typical characteristics of a branch are:

- A branch is not a separate legal entity, but rather an extended unit of an organisation.
- All branches are controlled by their head office; hence a branch is completely dependent on its head office for its operation and decision making.
- An organisation can open a branch in the same country where it is registered or in any other country.
- Branches are opened by both profit making organisations (viz. departmental stores, hotels etc.) and non-profit making organisations (viz. charitable institutions) as well.

Classification of Branches

On the basis of geographical area of operation branches are of two types

- **Domestic Branch:** Domestic branch is mainly opened and operated in the same country where the organisation is registered and has its head office.

  Example: State bank of India and its different branches all over the India
- **Foreign Branch:** Foreign branch is opened and operated in a country other than the country where the organisation is registered and has its head office.

  Example: Dubai branch of State bank of India.

Moreover, depending on the level of control between the branch and head office, a domestic branch can be further classified into the following two types:

- **Dependent Branch:** This type of branch is completely dependent on its head office in respect of its operation, administration and further maintenance of its accounts.
- **Independent Branch:** It maintains its own books of accounts and records its transactions independently.

Branch Accounting

- Branch accounting refers to the recording and maintenance of each transaction taken place by a branch to determine the financial results and also get to know the financial position of a branch.

- For the dependent branch, accounting is done by the H.O and while for an independent branch the accounting is done at the branch itself.
- Branch accounting is based on 'Responsibility Accounting' system, where the branches act as a 'Revenue Centre' in addition to being 'Cost Centre'.
- The transactions between branch and head office are recorded; and branch and other parties. At the end of each financial period it ascertains the financial result of each branch viz. profit and loss.

Some of the common transactions that are usually involved in branch accounting include goods sent by the H.O and return of the goods, if any, assets sent by H.O, cash remitted by H.O for meeting the branch expenses, sales effected by branch, branch proceeds sent to H.O at time intervals, Goods sent by the H.O for sale; such goods may be sent either at cost price or invoice price:

Methods of Branch Accounting

Accounting for Dependent Branches: The recording of transactions take place at branch and maintenance of accounts of each branch is done by the H.O. Any dependent branch follows any of the following four methods of accounting:

1. Debtors Method or Synthetic Method.
2. Stock Debtors method or Analytical Method.
3. Final Accounts Method (Cost Basis)
4. Final Accounts Method (on Whole Sale Price Basis).

Debtor Method or Synthetic Method

Under this method of accounting, head office maintains separate branch account for each branch which appears as 'Debtor' in the books of the H.O; hence the H.O has the right to claim the money arising out of the operations carried out by the branch after meeting the necessary expenses of branch. Primarily H.O adopts Debtor Method or Synthetic Method for its dependent branch accounting which generally small scale and size. This method is also called the '**Synthetic Method**'

The typical characteristics of this method of accounting for dependent branches are:

- Two ledger accounts are maintained for recording the transactions, namely Branch Account and Goods Sent to Branch Account.
- In the Branch Account only the transactions between the H.O and branch are to be recorded.
- Under this method, all transactions relating to a branch are recorded and maintained in the Branch Account.

The Branch Account is by nature a nominal account which ascertains the net profit or loss of the branch.

When goods are sent by H.O to branch at 'Cost' that are to be accounted at cost price whereas, when goods sent by H.O at 'Invoice Price' that are to be accounted at Invoice Price and load thereof has to be cancelled to ensure the proper result. The journal entries of the various transactions under this method are:

- Common for Cost or Invoice Price

1. Goods sent to branch by the head office	Branch A/c To Goods sent to branch A/c	Dr.

2. Cash sent to branch by head office for meeting different expenses.	Branch A/c Dr. To Bank/Cash A/c
3. Cash remitted by branch to head office on account of sale.	Bank/Cash A/c Dr. To Branch A/c
4. Goods returned by branch to the head office.	Goods sent to branch A/c Dr. To Branch A/c
5. Abnormal loss in the branch.	Abnormal Loss A/c Dr. To Branch A/c
6. Claim received from insurance company on account of abnormal loss.	Bank/Cash A/c Dr. To Abnormal Loss A/c
7. Actual loss due to abnormal loss.	General P&L A/c Dr. To Abnormal Loss A/c

- Additional entries (Only if goods sent at invoice price)

1. To reduce load on opening stock.	Stock Reserve A/c Dr. To Branch A/c
2. To reduce load on goods sent to branch by the head office.	Goods sent to branch A/c Dr. To Branch A/c
3. To reduce load on goods returned by branch to the head office.	Branch A/c Dr. To Goods sent to branch A/c
4. To reduce load on abnormal loss in the branch	Branch A/c Dr. To Abnormal Loss A/c
5. To reduce load on closing stock.	Branch A/c Dr. To Stock Reserve A/c

Transactions which do not appear in Branch Account

The following transactions do not appear in the Branch Account:

(a) Expenses incurred by Branch out of cash, since either reduced cash balance at the end is decreased or the liability at the end is increased.

(b) Purchase of Goods/Fixed Assets by Branch, since book value of Goods/Fixed assets at the end is increased and either the amount of remittances is reduced or the Creditors at the end are increased.

(c) Sale of Goods/Fixed Assets by Branch since book value of Goods/Fixed assets at the end is decreased and either the amount of remittances is increased or the Debtors at the end are increased.

(d) Bad debts, discount allowed, sales returns by customers to branch, cash received by Branch from Branch Debtors, etc., since the debtors at the end appear at the adjusted figure.

(e) Depreciation and Profit/Loss on sale of fixed assets since fixed assets at the end appear at the adjusted figure.

(f) Abnormal Losses since stock at the end appears at the adjusted figure.

Illustration 1

DK Traders of Assam has a branch at Mumbai. The branch receives all supply of goods from the head office (Assam). From the following particulars relating to Mumbai Branch for the year ending Mar.31, 2023. Prepare a Branch Accounts and a Goods Sent to Branch Account in the books of the Head office.

Particulars	(₹)	Particulars	(₹)
Stock at Branch on 1.04.2022 (at cost):	8400	Bills Receivable received from Debtor	20,000
Branch Debtor on 1.04.2022	6200	Cash sent to branch for exp.	
Petty Cash at Branch on 1.04.2022:	200	- Salaries	3,800
Goods Sent to Branch		- Petty exp.	400
during the year (at cost):	80,000	Stock at Branch on 31.3.2023 (at cost)	6,400
Goods returned by the branch	800	Petty Cash at Branch on 31.3.2023	300
Cash Sales during the year	72,000	Branch Debtor on 31.3.2023	?
Credit Sales during the year	46,000		
Cash received from Debtor	18,800		

Solution: **Books of DK Traders (Assam H.O.)**

Dr. **Mumbai Branch Account** **Cr.**

Particulars		(₹)	Particulars		(₹)
To Balance b/f:			By Bank A/c [Remittance by branch]		
Stock (at cost)		8,400	Cash Sales	₹ 72,000	
Debtors		6,200	Collection from Debtors	₹ 18,800	90,800
Petty Cash		200	By Goods Sent to Branch A/c		800
To Goods Sent to Branch A/c [at cost]		80,000	[Returned by branch]		
To Bank A/c [Cash sent]			By Balance c/f		
Salaries	₹ 3,800		Stock (at cost)		6,400
Petty Expenses	₹ 400		Debtors [WN:1]		13,400
		4,200	Petty Cash		300
To General P/L A/C [Branch Transfer]		32,700	Bills Receivable		20,000
		1,31,700			**1,31,700**

Dr. **Goods Sent to Branch Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Mumbai Branch A/c	800	By Mumbai Branch A/c	80,000
[Returned by branch]		[Cost of goods sent]	
To Trading/ Purchases A/c [Transfer]	79,200		
	80,000		**80,000**

Working Notes:

1. Closing Balance of Branch Debtors:

Memorandum Branch Debtors Account

Particulars	(₹)	Particulars	(₹)
To Opening Balance	6,200	By Cash collected	18,800
To Credit Sales	46,000	By Bills Receivable Received	20,000
		By Closing Balance [B/fig]	13,400
	52,200		52,200

Illustration 2

S Ltd. Sends goods to Siliguri Branch Account at an invoice price (IP) so as to show 20% profit on such IP. Branch sale are partly on cash and partly on credit. From the following details prepare Branch Account in the books of the Head Office [Fig. in ₹]:

Opening stock at Branch at invoice price	8,000	Cash received from customers	6,50,000
Closing stock at Branch at invoice price	8,500	Discount allowed to customers	20,000
Goods sent to Branch at cost price	4,80,000	Closing balance of Debtor	92,000
Goods returned to H.O at invoice price	40,000	Opening balance of Debtor	1,00,000
Sales:			
Credit – ₹6,80,000			
Cash – ₹1,10,000			
Bad debts	4,000		
Returns from Customers	14,000		
Sundry Branch Exp.	1,50,000		

Solution: **Books of S Ltd. (……H.O.)**

Dr. **Siliguri Branch Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f		By Stock Reserve A/c	1,600
Stock [at IP]	8,000	[Load on opening Stock Reserve: ₹8,000×20%]	
Debtors	1,00,000		
To Goods sent to branch A/c	6,00,000	By Goods sent to branch A/c	1,20,000
[goods sent at IP: ₹4,80,000 × 100/80]		[Load on goods sent: 6,00,000×20%]	
		By Goods sent to branch A/c	
To Goods sent to branch A/c	8,000	[Returns by Branch to H.O: at IP]	40,000
[Load on goods returned : ₹40,000 × 20%]		By Bank A/c [Remittance from branch]	
		Cash sales ₹ 1,10,000	
To Bank A/c	1,50,000	Receipt from customers ₹ 6,50,000	
[Remittance for branch expenses]			7,60,000

Particulars	(₹)	Particulars	(₹)
To Stock Reserve A/c	1,700	By Balance c/f	
[Load on closing Stock Reserve: 8500×20%]		Stock [at IP]	8,500
To General P/L A/c [Branch NP transferred]	1,54,400	Debtors	92,000
	10,22,100		**10,22,100**

Illustration 3

Prepare a Branch account in the books of Head Office from the following particulars for the year ended 31st March, 2023 assuming that H.O. sold goods at cost price 25%.

Particulars	(₹)	Particulars	(₹)
Stock on 1.4.2022 (I.P.)	12,500	Bad Debts	2,000
Debtors (”)	5,000	Allowances to customers	1,000
Petty Cash (”)	1,000	Returns Inwards	1,000
Goods sent to branch (I.P.)	40,000	Charges sent to Bank:	
Goods return to H.O. (I.P.)	5,000	Rates & Taxes	3,000
Cash Sales	12,000	Salaries	8,000
Cash received from Debtors	30,000	Misc. Exps.	1,000
		Stock on 31.03.2023 (I.P.)	15,000
		Debtors (”)	4,000
		Petty Cash (”)	1,000

Solution:

In the books of H.O.

Dr. **Branch Account** **Cr.**

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Balance b/d			By Stock Reserve (Loading)		2,500
Stock	12,500		,, Bank A/c:		
Debtors	5,000		Cash Sales	12,000	
Petty Cash	1,000	18,500	,, Cash Received from Debtors	30,000	42,000
,, Goods sent to branch		40,000	,, Goods sent to branch (Return to H.O.)		5,000
,, Bank A/c:			,, Goods sent to branch		
Rates & Taxes	3,000		(Loading)		8,000

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
Salaries	8,000		By Balance c/d		
Misc. Expenses	1,000	12,000	Stock	15,000	
,, Goods sent to Branch (Loading on returns)		1,000	Debtors	4,000	
			Petty Cash	1,000	20,000
,, Closing Stock Reserve (₹ 15,000 × 1/5)		3,000			
,, General Profit & Loss A/c		3,000			
		77,500			**77,500**

Note: Here, loading is $\frac{25}{125} = \frac{1}{5}$ of invoice price. Hence, loading on opening stock will be ₹12,500 × $\frac{1}{5}$ = ₹2,500 and so on.

Stock-Debtors Method or Analytical Method

Under this method, the two primary assets of a branch namely Stock and Debtors are accounted for in full details. All transactions relating to a branch are recorded and maintained in details through separate accounts; hence it is also called 'Analytical Method'. Under this method, specific sets of following ledger accounts namely are maintained: Branch Stock Account, Branch Debtors Account, Goods Sent to Branch Account, Branch Adjustment Account, Branch Cash Account, Branch Expenses Account, Branch Profit and Loss Account; and Branch Fixed Assets Account. In addition to the above ledger account the Branch Stock Adjustment Account is required to be maintained in case when goods are sent at Invoice Price (IP) to eliminate the 'load factor' arising from IP. Branch Stock Adjustment Account records the transactions relating to stock/goods involving IP, (viz. Opening & Closing Branch Stock, Goods sent to Branch, Goods Returned to Branch Abnormal loss). Branch Stock Adjustment Account reflects the gross Profit/loss of the branch. Thus, this method determines both the gross profit/loss and net profit/loss of a branch.

Branches having large scale of operations and required detailed recording of transactions adopt Stock-Debtors Method or Analytical Method of Branch Accounting.

Journal Entries

1. For goods sent to branch

   Branch Stock A/c Dr.

   To Goods Sent to Branch A/c

2. For goods returned by branch to head office

   Goods Sent to Branch A/c Dr.

   To Branch Stock A/c

3. For goods received from other branches

   Branch Stock A/c Dr.

   To Goods Sent to Branch A/c.

4. For goods transferred to other branches on advice of head office

    Goods Sent to Branch A/c Dr.

        To Branch Stock A/c

5. For Cash Sales

    Bank A/c Dr.

        To Branch Stock A/c

6. For Credit Sales

    Branch Debtors A/c Dr.

        To Branch Stock A/c

7. For bills accepted by Branch Debtors

    Bills Receivable A/c Dr.

        To Branch Debtors A/c

8. For cash collected from debtors

    Bank A/c Dr.

        To Branch Debtors A/c

9. For bad debts, discount allowed, etc.

    Branch Expenses A/c Dr.

        To Branch Debtors A/c

10. For depreciation on branch fixed assets

    Branch Expenses A/c Dr.

        To Branch Fixed Assets A/c

11. For branch expenses incurred in cash

    Branch Expenses A/c Dr.

        To Cash/Bank A/c

12. For transferring branch expenses to Branch Profit and Loss Account/Branch Adjustment Account

    Branch Profit and Loss A/c Dr.

    Or, Branch Adjustment A/c Dr.

        To Branch Expenses A/c

13. For shortage in stock/pilferage/theft

    (i) Shortage in Stock/Pilferage/Theft A/c Dr.

        To Branch Stock A/c

    (ii) Branch Adjustment A/c Dr.

        Branch Profit and Loss A/c Dr.

        To Shortage in Stock/Pilferage/Theft A/c

14. For loss by fire/loss in transit

(i) Accidental Loss A/c Dr.

To Branch Stock A/c

(ii) Branch Adjustment A/c (Loading) Dr.

Bank A/c (insurance claim received) Dr.

Insurance Company (claim yet to receive) Dr.

General Profit and Loss A/c Dr.

To Accidental Loss A/c

15. For loading on opening stock including stock in transit at the beginning

Stock Reserve A/c Dr.

To Branch Adjustment A/c

16. For loading on net goods sent

Goods Sent to Branch A/c Dr.

To Branch Adjustment A/c

17. For loading on closing stock including stock-in-transit at the end

Branch Adjustment A/c Dr.

To Stock Reserve A/c

[In the Balance Sheet of head office, the Stock Reserve is shown as a deduction from branch stock at the end]

18. For transferring gross profit

(i) Branch Adjustment A/c Dr.

To Gross Profit A/c

(ii) Gross Profit A/c Dr.

To Branch Profit and Loss A/c

19. For transferring net profit of the branch

Branch Profit and Loss A/c Dr.

To General Profit and Loss A/c

(For net loss, reverse entry)

20. For closing Goods Sent to Branch A/c

Goods Sent to Branch A/c Dr.

To Purchases A/c [Trader]

To Trading A/c [Manufacturer]

Illustration 4

M/S C and Sons has a branch at Kolkata where it sends goods at cost plus 50%. From the following particulars regarding the branch, prepare Branch Stock Accounts, Branch Adjustment Account, Branch Debtor Account and Branch Profit & loss Account as would appear in the books of C Ltd.'s head office. [Fig. in ₹]

	(₹)		(₹)
Stock at cost (1.04.2022)	40,000	Sales returned to Branch	6,000
Debtors (1.04.2022)	36,000	Bad Debts	400
Cash (1.04.2022)	10,000	Cash remitted to H.O	1,60,000
Goods sent to Branch (at IP)	1,98,000	Expenses paid by H.O	10,000
Sales: Cash: ₹54,0000 credit:	1,58000	Cash (31.3.2023)	12,000
Normal loss at cost	4,000	Stock at IP (31.03.2023)	54,000
		Debtor (31.03.2023)	60,000

Solution:

Books of M/S C and Sons. (H.O.)

Dr. **Kolkata Branch Stock Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f [at IP ₹ 40,000 × 150/100]	60,000	By Branch Cash A/c [Cash sales]	54,000
To Goods Sent to Branch A/c [at IP]	1,98,000	By Branch Debtors A/c [Credit sales]	1,58,000
To Branch Debtors A/c [Sales return]	6,000	By Branch Adjustment A/c	6,000
To Branch Adjustment A/c	8,000	[Normal loss – at IP (₹4000 × 150/100)	
[Apparent Gross Profit B/fig]		By Balance c/f [at IP] [B/fig]	54,000
	2,72,000		**2,72,000**

NB: The missing figure appearing in the debit-side of Branch Stock A/c has been considered as Apparent Gross Profit and NOT Stock Surplus as the branch has suffered normal loss of stock.

Kolkata Branch Adjustment Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Branch Stock A/c [Normal loss]	6,000	By Balance b/f [Load on opening stock: ₹ 60,000×50/150]	20,000
To Branch P/L A/c	70,000	By Goods Sent to Branch A/c	66,000
[Gross profit transferred - B/fig]		[Load on goods sent: ₹ 1,98,000 × 50/100]	
To Balance c/f [Load on closing stock: ₹ 54,000 × 50/150]	18,000	By Branch Stock A/c [Apparent Gross Profit]	8,000
	94,000		**94,000**

Kolkata Branch Debtors Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f	36,000	By Branch Stock A/c [Sales return]	6,000
To Branch Stock A/c [Credit sales]	1,58,000	By Bad Debts A/c	400
		By Branch Cash A/c	1,27,600
		[Collection from Debtors B/fig]	60,000
		By Balance c/f	
	1,94,000		**1,94,000**

Kolkata Branch Profit & Loss Account

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
To Bad Debts A/c	400	By Branch Stock Adjustment A/c	70,000
To Branch Expenses A/c [WN:1]	39,600	[Gross Profit Transferred]	
To General P/L A/c [Branch Net Profit]	30,000		
	70,000		**70,000**

Working Notes:

1. **Branch expenses paid by branch**

Dr. **Kolkata Branch Cash Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f	10,000	By Bank A/c[Cash remitted to Branch]	1,60,000
To Branch Stock A/c [Cash sales]	54,000	By Branch Expenses A/c [b/fig]	19,600
To Branch Debtors A/c [Collection from debtors]	1,27,600	By Balance figure c/f	12,000
	1,91,600		**1,91,600**

Kolkata Branch expenses for the year

Dr. **Kolkata Branch Expense Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Bank A/c [Paid by H.O]	20,000	By Branch Profit & Loss A/c – B/fig	39,600
To Branch Cash A/c [Paid by Branch-WN1]	19,600	39,600	
	39,600		**39,600**

NB: The drafting of Branch Expenses A/c is not mandatory and the total branch expenses could be ascertained by simple aggregation.

Illustration 5

Green Ltd. with their H.O. at Kolkata, invoiced goods to their Patna Branch at 20% less than the list price, which is Cost plus 100% with instruction that cash sales are made at invoice price and credit price at list price. From following particulars, prepare Branch Stock account and Branch Stock Adjustment Account for the year ended on 31.3.2023

Particulars	(₹)	Particulars	(₹)
Stock at cost (1.4.2022)	4,800	Cash received from Debtors	34,254
Debtors (1.4.2022)	4,000	Expenses at Branch	6,946
Goods received from H.O. (at IP)	52,800	Remitted to H.O	48,000
Goods returned to H.O.	400	Debtor (31.3.2023)	9,746
		Stock at IP (31.3.2023)	7,040
Sales: Credit	40,000		
Cash	18,400		

Solution:

Books of Green Ltd. (Kolkata H.O.)

Dr **Patna Branch Stock Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f [at IP]	4,800	By Goods Sent to Branch A/c	400
To Goods Sent to Branch A/c [at IP]	52,800	[Goods returned (at IP) – assumed]	
To Branch Adjustment A/c	8,000	By Branch Cash A/c	18,400
[Excess Contribution to Gross Profit - WN:3]		By Branch Debtors A/c	40,000
		By Balance c/f [at IP]	7,040
To Stock Surplus A/c [B/fig]	240		
	65,840		**65,840**

NB: Balancing figure appearing in the debit-side of Branch stock A/c has been considered as 'Stock Surplus' as the problem involves 'Excess Contribution to Gross Profit'.

Dr. **Patna Branch Adjustment Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Goods Sent to Branch A/c	150	By Balance b/f [Load on opening stock: ₹4800 × 60/160]	1,800
[Load: 400 × 60/160]		By Goods Sent to Branch A/c	
To Branch P/L A/c	26,900		19,800
[Gross Profit transferred – B/fig]		[Load on goods sent: ₹52,800 × 60/160]	
To Balance c/f [Load on closing stock: ₹7,040 × 60/160]	2,640	By Branch Stock A/c	8,000
		[Excess Contribution to Gross Profit]	
		By Stock Surplus A/c	90
		[Load: ₹240 × 60/160]	
	29,690		**29,690**

Working Notes:

1. **Relation between Cost Price(CP), Invoice Price(IP) and List Price(LP):**

   Considering CP=100, LP=100+100% thereof=200. Hence IP= LP Less 20% thereof = 200 – 20% =160.

2. **Transactions relating to Branch Debtors:**

Dr. **Patna Branch Debtors Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f	4,000	By Bank A/c [Cash received from Debtors]	34,254
To Branch Stock A/c [Credit sales]	40,000	By Balance c/f	9,746
	44,000		**44,000**

3. **Excess Contribution to Gross Profit:**

   Here, the difference between the LP and IP results 'Excess Contribution to Gross Profit'. It arises only out of the credit sales which have been made at list price.

   ∴ Excess Contribution to Gross Profit = ₹ 40,000 × 40/200 = ₹ 8,000

Final Accounts Method

- This method of Branch accounting is applicable for every branch whether dealing with goods or services.
- Features:
  - Under this method, a Branch Trading and Profit & Loss Account and a separate Branch Account for recording branch related transactions are prepared and maintained.
  - Branch Trading and Profit & Loss Account determines both Gross Profit/Loss and Net Profit/Loss
  - This Branch Account follows double entry system which is by nature a personal account.Performa of Branch Trading and Profit & Loss Account

Branch Trading and Profit & Loss Account

Dr. **for the year ended….** **Cr.**

Particulars		(₹)	Particulars		(₹)
To Opening Stock		***	By Sales: Cash	***	
To Goods Sent to Branch	***		Credit	***	
Less: Returns by Branch	**		Less: Returns	**	***
To Gross Profit c/d		***	By Goods-in-Transit		***
			By Abnormal Loss		***
			By Closing stock		***
			By Gross Loss c/d (if any)		***
		***			***

Particulars	(₹)	Particulars	(₹)
To Gross Loss b/d	***	By Gross Profit b/d	***
To Salaries	***	By Net Loss (if any)	***
To Rent & Salaries	***		
To Petty Cash Exp.	***		
To Abnormal loss	***		
Less, Insurance claim	***		
To Net Profit	***		
	****		****

Dr. **Branch Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance B/f		By Bank A/c (remittance to H.O.)	***
Stock	***	By Goods Sent to Branch A/c	***
Debtor	***	(Returns by Branch)	***
Petty Cash	***	By General Profit & Loss A/c	***
To Goods Sent to Branch A/c	***		
To Bank A/c (remittance)	***	By Balance c/f	***
To General Profit & Loss A/c	***		
	***		***

Final Accounts Method (on Wholesale Price basis)

- This method of accounting is adopted by those mercantile organisations where both the H.O and Branch sell goods to the customers hence both contributes to the organisation's total profit.
- Here H.O gets the due credit for profit arising out of the 'Goods sent to Branch' and 'Goods sold to Customers'; whereas Branch gets credit for 'Goods sold to Customers' only.
- Under this method, the transactions involving goods movement are valued at different ways in the books of H.O and branch; According to the values different profits take place
  - **At Cost:** Price at which H.O has purchased the goods.
  - **At Retail Price:** It also referred as **List Price** or **Catalogue Price**; the value at which goods are sold by the H.O and Branch to the customers.
    - Profit made by H.O from sale of goods to customers at Retail Price **Retail Profit** = Retail Price (–)Less Cost.
    - Profit made by branch from sale of goods to customers Retail Price, **Retail Profit** = Retail Price (–) Less Wholesale Price.
  - **At Wholesale Price:** It is same as Invoice Price at which Goods are sent by the H.O to its Branch. Profit made by the H.O is, Wholesale Profit = Wholesale Price (–)Less cost.
- **Features:**
  - Under this method, a Branch Trading and Profit & Loss Account and a separate Branch Account for recording branch related transactions are prepared and maintained.

- Branch Trading and Profit & Loss Account determines both Gross Profit/Loss and Net Profit/Loss.
- This Branch Account follows double entry system which is by nature a personal account.

- Values at which the transactions relation to movement of goods are recorded in the books of accounts of the H.O are hereunder:

Transactions	Value
Opening stock of goods	At Cost
Purchase (less Purchase returns)	At Cost
Goods Sent to Branch	At Wholesale Price
Sales by H.O to customers	At Retail Price
Goods lost abnormally	At Cost
Closing stock of goods	At Cost

- Values at which the transactions relation to movement of goods are recorded in the books of accounts of the H.O are hereunder:

Transactions	Value
Opening stock of goods	At Wholesale Price
Goods Sent by H.O to Branch Less Returns	At Wholesale Price
Goods-in-transit	At Wholesale Price
Sales by H.O to customers	At Wholesale Price
Goods lost abnormally	At Wholesale Price
Closing stock of goods	At Wholesale Price

Illustration 6

Blue Ltd has a retail branch at Mumbai. Goods are sold at 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Pune H.O. to Mumbai Branch at wholesale price. From the following particulars ascertain the profit made at H.O. and Branch for the year ended on 31.3.2023. [Fig. in ₹]:

Particulars	H.O	Branch	Particulars	H.O	Branch
Stock on 1.4.2022	7,00,000	-	Sales	42,84,000	14,40,000
Purchases	42,00,000	-	Stock on 31.3.2023	16,80,000	2,52,000
Goods sent to Branch (at IP)	15,12,000	-			

Sales at H.O are made only on wholesale basis and that at Branch only to consumers.

Solution:

Problem Note:

Blue Ltd. (H.O.)

Trading and Profit & Loss account for the year ended 31.3.2023

Dr. **Cr.**

Particulars	H.O (₹)	Branch (₹)	Particulars	H.O (₹)	Branch (₹)
To Opening Stock	7,00,000	-	By Sales	42,84,000	14,40,000
To Purchase	42,00,000	-	By Goods Sent to Branch	15,12,000	-
To Goods Received from H.O	-	15,12,000	By Closing Stock	16,80,000	2,52,000
To Gross Profit c/d	25,76,000	1,80,000			
	74,76,000	**16,92,000**		**74,76,000**	**16,92,000**
To Stock Reserve [WN:2]	72,000	-	By Gross Profit b/d	25,76,000	1,80,000
To Net Profit	25,04,000	1,80,000			
	25,76,000	**1,80,000**		**25,76,000**	**1,80,000**

Working Notes:

1. **Relationship Between Cost Price (CP), Selling Price (SP) and Wholesale Price (WP)**

   Let CP be ₹100. Thereof SP =₹ (100+60) = ₹160; and WP = (100+40) = 140

2. **Unrealised profit in Unsold stock**

   Unrealised profit on closing stock of branch = ₹ (2,52,000×40/140) = ₹ 72,000

Branch Petty Cash under Imprest System

- H.O allowed its branches to maintain petty cash in respect of small amount of expenses incurred by the concerned branch; such petty cash is reimbursed by the H.O to branch to meet the expenses from time to time. Under 'Imprest System' such petty cash balance has been maintained by the branch-
  - The Imprest balance of petty cash is determined by the H.O and sent to the branch at the beginning of the period.
  - Branch petty expenses are incurred out of the Imprest balance.
  - This method ensures the maintenance of original balance of Branch Petty Cash.

Accounting for Independent Branch

When there are voluminous transactions in a Branch, they prepare the accounts independently. They purchase and sell goods independently and also sell the goods which are sent by H.O.. As the branches are owned by H.O., the profit or loss so made by the branch is enjoyed by H.O.

These independent branches maintain a complete set of books of account for recording its transactions. They prepare a Trial Balance, Trading and Profit and Loss Account and a Balance Sheet at the end of the year. As such, they maintain a Head Office Account and on contrary H.O. maintains a Branch Account. All sorts of transactions, e.g., remittance of cash, transfer of goods etc. are to be passed through these accounts.

Needless to say that where H.O. receives the accounts from the branches, it incorporates profit of the branches as –

Branch A/c Dr.

To Profit & Loss A/c

Sometimes, the balance of branch account in H.O. books and H.O. accounts in branch books do not agree. If that be so, the same must be adjusted accordingly i.e., Goods-in-Transit or Cash-in-Transit etc. At last the Branch Balance Sheet is amalgamated with H.O. Balance Sheet by eliminating inter-branch/H.O. transaction as per the respective heads of assets and liabilities.

At the Branch Level all transactions that take place in the branch are recorded in the books of Branch like Cash Book, Subsidiary Books etc.). All necessary ledger accounts and after that the trial balance are prepared and maintained by the Branch itself. The independent branch may at times draft its final accounts and send it to the H.O At the H.O transaction between branch and H.O are also recorded in the books of the H.O. Moreover, the H.O also maintains 'Goods Sent to Branch Account' and 'Branch Account' separately for each independent branch.

The relevant journal entries are:

Sl. No.	Transaction	HO Books	Branch Books
1.	Goods sent by H.O. to Branch	Branch A/c Dr. To Goods Sent to Branch A/c	Goods Recd. from H.O. A/c. Dr. To H.O. A/c
2.	Goods returned by Branch to H.O.	Goods Sent to Branch A/c Dr. To Branch A/c	HO A/c. Dr. To Goods Recd. From H. O. A/c
3.	Branch Expenses incurred at Branch Office	—	Expenses A/c Dr. To Cash / Bank A/c
4.	Branch expenses paid for by the Head Office	Branch A/c Dr. To Cash/Bank A/c	Expenses A/c. Dr. To H.O. A/c
5.	Purchases made from parties other than H.O. by Branch	—	Purchases A/c Dr. To Bank/ Creditors A/c
6.	Sales effected by the Branch		Cash/Debtors A/c Dr. To Sales A/c
7.	Collection from Debtors received directly by the H.O.	Cash/Bank A/c Dr. To Branch A/c	H.O. A/c Dr. To Sundry Debtors A/c
8.	Payment by H.O. for Purchase made by the Branch	Branch A/c Dr. To Bank A/c	Purchases/Creditors A/c Dr. To H.O. A/c
9.	Purchase of Asset by Branch	—	Sundry Assets A/c Dr. To Bank/Liability

Sl. No.	Transaction	HO Books	Branch Books
10.	Asset account maintained at H.O. and asset purchased by Branch	Branch Asset A/c Dr. To Branch A/c	H.O. A/c Dr. To Bank/Creditors A/c
11.	Depreciation when asset account is maintained by H.O.	Branch A/c Dr To Branch Asset A/c	Depreciation A/c Dr. To H.O. A/c
12.	Remittance of Funds by H.O. to Branch	Branch A/c Dr. To Bank A/c	Bank A/c Dr. To H.O. A/c
13.	Remittance of Funds to H.O. by Branch	Bank A/c Dr. To Branch A/c	H.O. A/c Dr. To Bank A/c
14.	Transfer of Goods between different branches	Recipient Branch A/c Dr. To Supplying Branch A/c	i. Supplying Branch A/c Dr. To Goods recd. from H.O. A/c ii. Goods recd. from H.O. A/c Dr. To H.O. A/c
15.	Charging the Branch service charges by H.O.	Branch (Expenses) A/c Dr. To Service Charges A/c	Expense A/c Dr. To H.O. A/c
16.	Cash-in-transit	Cash-in-transit A/c. Dr. To Branch A/c.	Cash-in-transit A/c. Dr. To H.O. A/c.
17.	Goods-in-transit	Goods-in-Transit A/c. Dr. To Branch A/c.	Goods-in-Transit A/c. Dr. To H.O. A/c.

Illustration 7

Journalise the following transactions in the books of Kolkata Head Office, Delhi Branch and Agra Branch :

(a) Goods worth ₹ 50,000 are supplied by Delhi Branch to Agra Branch under the instructions of Head Office.

(b) Delhi Branch draws a bill receivable for ₹ 40,000 on Agra Branch which sends its acceptance.

(c) Delhi Branch received ₹ 10,000 from Agra Branch.

(d) Goods worth ₹ 20,000 were returned by a customer of Agra Branch to Delhi Branch.

(e) Agra Branch collected ₹ 20,000 from a customer of Delhi Branch.

Solution :

Books of Kolkata Head Office

Dr. **Journal** **Cr.**

Particulars		L.F.	Dr. (₹)	Cr. (₹)
(a) Agra Branch A/c	Dr.		50,000	
To Delhi Branch A/c				50,000
(Being the goods supplied by Delhi Branch to Agra Branch)				
(b) Delhi Branch A/c	Dr.		40,000	
To Agra Branch A/c				40,000
(Being a B/R drawn by Delhi upon Agra Branch)				
(c) Delhi Branch A/c	Dr.		10,000	
To Agra Branch A/c				10,000
(Being Cash sent by Agra Branch to Delhi Branch)				
(d) Delhi Branch A/c	Dr.		20,000	
To Agra Branch A/c				20,000
(Being the goods returned by customer of Agra Branch to Delhi Branch)				
(e) Agra Branch A/c	Dr.		20,000	
To Delhi Branch A/c				20,000
(Being the Cash collected by Agra Branch from a customer of Delhi Branch				

Books of Delhi Branch

Dr. **Journal** **Cr.**

Particulars		L.F.	(₹)	(₹)
(a) Kolkata H.O. A/c	Dr.		50,000	
To Goods sent to Branch A/c				50,000
(Being the goods supplied to Agra Branch)				
(b) Bills Receivable A/c	Dr.		40,000	
To Kolkata H.O. A/c				40,000
(Being the acceptance of a B/R received from Agra Branch)				

Particulars		L.F.	(₹)	(₹)
(c) Cash A/c	Dr.		10,000	
To Kolkata H.O. A/c				10,000
(Being the cash received from Agra Branch)				
(d) Goods Sent to Branch A/c	Dr.		20,000	
To Kolkata H.O. A/c				20,000
(Being the goods received from a customer of Agra Branch)				
(e) Kolkata H.O. A/c	Dr.		20,000	
To Debtors A/c				20,000
(Being the cash collected by Agra Branch from our customer)				

Books of Agra Branch

Dr. **Journal** **Cr.**

Particulars		L.F.	(₹)	(₹)
(a) Goods sent to Branch A/c	Dr.		50,000	
To Kolkata H.O. A/c				50,000
(Being the goods received from Delhi Branch)				
(b) Kolkata H.O. A/c	Dr.		40,000	
To Bill Payable A/c				40,000
(Being a B/P accepted for Delhi Branch)				
(c) Kolkata H.O. A/c	Dr.		10,000	
To Cash A/c				10,000
(Being cash paid to Delhi Branch)				
(d) Kolkata H.O. A/c	Dr.		20,000	
To Debtors A/c				
(Being the goods returned by customer of Delhi Branch)				20,000
(e) Cash A/c	Dr.		20,000	
To Kolkata H.O. A/c				
(Being the Cash received from a customer of Delhi Branch)				20,000

Illustration 8

X Ltd. of Assam has a Branch at Darjeeling. From the given information, reconcile Darjeeling Branch Current A/c with Assam H.O. Current A/c by preparing Branch Current A/c in the books of H.O.

Particulars	Assam H.O.		Darjeeling Branch	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Goods sent to branch	-	13,02,400	-	-
Goods received by branch	-	-	12,80,400	-
Cash sent by branch	-	-	-	1,86,500
Cash received by H.O.	1,00,000	-	-	-
Darjeeling Branch Current A/c	4,11,100	-	-	-
Assam H.O. Current A/c	-	-	-	3,02,600

Solution:

Books of X Ltd. (Assam H.O.)

Dr. Darjeeling Branch Current Account Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/f	4,11,100	By Goods-in-Transit A/c [WN:1]	22,000
		By Cash-in-Transit A/c [WN:2]	86,500
		By Balance c/f [B/fig]	3,02,600
	4,11,100		**4,11,100**

NB: The Darjeeling Branch Current A/c (in the books of H.O.) Assam H.O. Current A/c (in the Branch books) reflects the same but opposite balance; hence H.O. can proceed with incorporation of the Branch accounts in its books.

Working Notes

Assam H.O. Current Account			
Goods sent to Branch	13,02,400	Journal Entry:	
Less: Goods received by Branch	12,80,400	Goods-in-Transit A/c Dr.	22,000
	22,000	To Darjeeling Branch A/c	22,000

Cash-in-Transit Account			
Cash sent to Branch	1,86,500	Journal	
Less: Cash received by H.O.	1,00,000	Cash-in-Transit A/c……. Dr.	86,500
	86,500	To Darjeeling Branch A/c	86,500

llustration 9

A Delhi head office passes one entry at the end of each month to adjust the position arising out of inter- branch transactions during the month. From the following inter-branch transactions in March 2023, make the entries in the books of Delhi Head office.

(a) Kolkata Branch :

(i) Received goods from Patna branch ₹ 9,000 and Ahmedabad branch ₹ 6,000.

(ii) Sent goods to Ahmedabad branch ₹ 15,000 and Patna branch ₹ 12,000.

(iii) Sent acceptances to Patna branch ₹ 6,000 and Ahmedabad branch ₹ 3,000.

(b) Kanpur branch [apart from (a) above] :

(i) Sent goods to Ahmedabad branch ₹ 9,000.

(ii) Recived B/R from Ahmedabad branch ₹ 9,000.

(iii) Recived cash from Ahmedabad branch ₹ 5,000.

Solution:

Books of H.O.

Journal

Particulars		L.F.	Dr. (₹)	Cr. (₹)
Kanpur Branch A/c	Dr.		5,000	
Patna Branch A/c	Dr.		9,000	
Ahmedabad Branch A/c	Dr.		7,000	
To Kolkata Branch A/c				21,000

Statement of Inter-branch Transactions

Particulars	Kolkata		Kanpur		Patna		Ahmedabad	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr (₹)
Goods Received	15,000	–	–	–	–	9,000	–	6,000
Goods Sent	–	27,000	–	–	12,000	–	15,000	–
Acceptance	–	9,000	–	–	6,000	–	3,000	–
Goods Sent	–	–	–	9,000	–	–	9,000	–
B/R Received	–	–	9,000	–	–	–	–	9,000
Cash	–	–	5,000	–	–	–	–	5,000
	15,000	36,000	14,000	9,000	18,000	9,000	27,000	20,000
Balance	21,000	–	–	5,000	–	9,000	–	7,000
	36,000	36,000	14,000	14,000	18,000	18,000	27,000	27,000

Incorporation of Branch Trial Balance in Head Office Books

An branch prepares its own trial balance and the same is sent to the H.O. for incorporation. As such, after receiving the same from the branch, the H.O. has to incorporate the branch's accounts with that of its own accounts to prepare and ascertain the net financial result of the concern. There are two methods for incorporating branch trial balance in H.O. Book:

(a) First Method

All revenue items are passed through Branch Trading and Profit & Loss Account and Profit or Loss so made (in the Profit and Loss Account) together with assets and liabilities are passed through Branch Account for the purpose of preparing consolidated Balance Sheet in the Books of H.O.

Incorporation Entries

(a) For all revenue expenses related to Trading A/c — i.e. Opening stock, Purchase, Return Inwards, Wages and other items appearing in the debit side.

Branch Trading A/c ... Dr.

  To Branch A/c

(b) For all revenue incomes related to Trading A/c — i.e. Sales, Closing Stock and Return Outwards and other items that appear in the credit side.

Branch A/c ... Dr.

  To Branch Trading A/c

(c) For gross profit of the Branch

Branch Trading A/c ... Dr.

  To Branch P&L A/c

In case of gross loss, the entry will be reversed.

(d) For all revenue expenses related to P&L A/c — i.e. items that appear in the debit side of the P & L Account.

Branch P & L A/c ... Dr.

  To Branch (All Revenue Expenses) A/c

(e) For all revenue incomes related to P & L A/c — i.e. items that appear in the credit side of the P & L Account.

Branch (All Revenue Incomes) A/c ... Dr.

  To Branch P&L A/c

(f) For net profit of the Branch

Branch P&L A/c ... Dr.

  To General P&L A/c

In case of net loss, the enry will be reversed.

(g) For branch assets.

Branch Assets A/c ....Dr.

  To Branch A/c

(h) For branch liabilities.

Branch A/c ....Dr.

  To Branch Liabilties A/c

(b) Second Method / Abridged Method

This method is applicable only when net profit or net loss is given instead of detailed information about all revenue expense and income. Under this method, only net profit/net loss will be transferred to Branch Account. Branch Assets and Branch Liabilities will not appear in branch account and this branch account will show a balance. The same must be equal to the difference between assets and liabilities, i.e., in other words, net worth of the business.

Illustration 10

SL Corporation presented the following trial balance on 31.03.2023 to the H.O. at New Delhi.

Particulars	Debit (₹)	Particulars	Credit (₹)
Delhi H.O.	6,480	Sales	76,000
Stock 1.4.2022	12,000	Goods supplied to H.O.	12,000
Purchase	35,600	Creditors	3,700
Goods Return From H.O.	18,000		
Salaries	3,000		
Debtors	7,400		
Rent	1,920		
Misc. Expense	940		
Furniture	2,800		
Cash and Bank	3,560		
	91,700		91,700

Additional Information:

The branch account on H.O. books on 31.03.2023 stood at ₹ 920 (Debit).

On 31.03.2023, the, H.O. forwarded goods to the value of ₹ 5,000 to the branch which are received on 3rd July.

A cash remittance of ₹ 2,400 by branch on 29th March 2023, was received by the H.O. on 2nd April 2023. Closing Stock was valued at ₹ 5,400

Show the incorporation entries in the books of H.O. showing separate Branch Trading and Branch Profit and Loss Account, and Prepare Branch Account and Branch Balance Sheet also in H.O. books.

Solution:

(a) First Method

In the Books of H.O.

Journal

Date	Particulars		L/F	Dr. (₹)	Cr. (₹)
31.03.23	Branch Trading A/c	Dr.		65,600	
	To Branch A/c				65,600
	(Items of Br. Trading incorporated) ₹ 12,000 + ₹ 35,600 + ₹ 18,000)				
	Branch A/c	Dr.		93,400	
	To Branch Trading A/c				93,400
	(Items of Br. Trading incorporated i.e., ₹ 76,000 + ₹ 12,000 + ₹ 5,400)				
	Branch Trading A/c	Dr.		27,800	
	To Branch Profit & Loss A/c				27,800
	(Gross Profit transferred) [₹ 93,400 – ₹ 65,600]				
	Branch Profit and Loss A/c	Dr.		5,860	
	To Branch A/c				5,860
	(Item of Branch Profit & Loss incorporated i.e., ₹ 3,000 + ₹ 1,920 + ₹ 940)				
	Branch Profit and Loss A/c	Dr.		21,940	
	To General Profit & Loss A/c				21,940
	(Net Profit Transferred) [₹ 27,800 – ₹ 5,860]				
	Goods-in-Transit A/c	Dr.		5,000	
	To Branch A/c				5,000
	(Goods-in-Transit adjusted)				
	Remittance (Cash)-in-Transit A/c	Dr.		2,400	
	To Branch A/c				2,400
	(Remittance-in-Transit adjusted)				
	Branch Asset A/c	Dr.		19,160	
	To Branch A/c				19,160
	(Branch Asset incorporated) [₹ 2,800 + ₹ 5,400 + ₹ 7,400 + ₹ 3,560]				
	Branch A/c	Dr.		3,700	
	To Branch Liabilities A/c				3,700
	(Branch liabilities incorporated)				

Dr. **Branch Trading and Profit and Loss Account** Cr.

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
To Branch A/c			By Branch A/c		
Stock	12,000		Sales	76,000	
Purchase	35,600		Goods supplied to H.O.	12,000	
Goods from H.O.	18,000	65,600	Closing Stock	5,400	93,400
To Branch Profit and Loss A/c (Gross Profit transferred)		27,800			
		93,400			**93,400**
To Branch A/c			By Branch Trading A/c		27,800
Salaries	3,000		- Gross Profit		
Rent	1,920				
Office Expenses	940	5,860			
To General Profit and Loss A/c (Net Profit transferred)		21,940			
		27,800			**27,800**

Dr. **Branch Account** Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
01.04.22	To Balance b/d	920	31.03.23	By Branch Trading A/c	65,600
				,, Branch P&L A/c	5,860
				,, Goods-in-Transit A/c	5,000
31.03.23	,, Branch Trading A/c	93,400		,, Remittance-in-Transit A/c	2,400
				,, Branch Assets A/c	
	,, Branch Liabilities A/c Creditors	3,700		Furniture 2,800	
				Stock 5,400	
				Debtors 7,400	
				Cash 3,560	19,160
		98,020			98,020

Branch Balance Sheet as at 31st March, 2023

Liabilities	(₹)	Assets	(₹)
H.O. A/c		Furniture	2,800
Opening balance (Dr.) 6,480		Stock	5,400
Less: Net Profit 21,940	15,460	Debtors	7.400
Creditors	3,700	Cash at Bank	3,560
	19,160		**19,160**

(b) Second Method/Abridged Method

Dr. **Branch Account** **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
01.04.22	To Balance b/d	920	31.03.23	By Goods-in-Transit A/c	5,000
				,, Remittance-in-Transit A/c	2,400
31.03.23	,, Branch P&L A/c Net Profit	21,940		,, Balance c/d	15,460*
		22,860			**22,860**

Note: This is the difference between Branch Assets and Branch Liabilities
(₹19,160 – ₹3,700) = ₹15,460.

Closing of Branch Books

Branch closes its accounts at the end of the financial year by passing the following entries: In this situation, accounts can be prepared by two methods.

Method – 1

All revenue items are passed through H.O. Account.

Journal entries

(a) For all revenue expenses that appear in the debit side of Branch Trading A/c		
H.O. A/c To Opening Stock A/c ,, Purchase A/c ,, Goods Received from H.O. A/c ,, All revenue expenses	Dr.	**Actual amount**
(b) For all revenue incomes that appear in the credit side of Branch Trading A/c		
Sales A/c Closing Stock A/c All revenue incomes A/c To H.O. A/c	Dr. Dr. Dr.	**Actual amount**
(c) For all Branch Assets:		
H.O. A/c To Branch Assets A/c	Dr.	**Actual amount**
(d) For all Branch Liabilities:		
Branch Liabilities A/c To H.O. A/c	Dr.	**Actual amount**

Method - 2

In this case, net profit or net loss is transferred to Head Office Account, but treatment of branch assets and branch liabilities will remain the same.

(a) For Net Profit:	
Profit & Loss A/c Dr. To H.O. A/c with the amount of net profit	with the amount of net loss
(b) For Net Loss:	
H.O. A/c Dr. To Profit & Loss A/c	with the amount of net loss

Illustration 11

A Chennai Head Office has an independent Branch at Ahmedabad. From the following particulars, give journal entries to close the books of the Ahmedabad Branch. Show also the Chennai Head Office account in the branch books.

Ahmedabad Branch

Dr. **Trial Balance as at 31st December, 2022** **Cr.**

Particulars	(₹)	Particulars	(₹)
Stock on 1st January	8,200	Creditors	2,700
Purchases	12,800	Sales	34,950
Wages	6,550	Head Office	14,000
Manufacturing Expenses	3,400	Discount	150
Rent	1,700	Purchase Returns	300
Salaries	5,500		
Debtors	4,000		
General Expenses	2,000		
Goods received from H.O.	7,200		
Cash at Bank	750		
	52,100		**52,100**

(a) Closing Stock at Branch ₹ 14,350.

(b) The branch fixed assets maintained at H.O. books were: Machinery ₹ 25,000, Furniture ₹ 1,000 Depreciations are to be allowed at 10% on Machinery and 15% on Furniture.

(c) Rent due ₹ 150.

(d) A remittance of ₹ 4,000 made by the Branch on 29th Dec. 2022 was received by Head Office on 4th January, 2023.

Solution:

Method 1:

In the books of Branch

Journal

Date	Particulars		L/F	Dr. (₹)	Cr. (₹)
31.12.22	Depreciation A/c	Dr.		2,650	
	To Head Office A/c				2,650
	(Depreciation on fixed assets maintained in head office books @ 10% on Machinery and 15% on Furniture)				
	Rent A/c	Dr.		150	
	To Outstanding Rent A/c				150
	(Rent Outstanding)				
	Cash-in-Transit A/c	Dr.		4,000	
	To Head Office A/c				4,000
	(Cash remitted to H.O. but not received within 31st December)				
	Head Office A/c	Dr.		50,150	
	To Opening Stock				8,200
	,, Purchases				12,800
	,, Wages				6,550
	,, Manufacturing Expenses				3,400
	,, Rent (₹ 1,700 + ₹ 150)				1,850
	,, Salaries				5,500
	,, General Expenses				2,000
	,, Goods received from H.O.				7,200
	,, Depreciation				2,650
	(Above items transferred to H.O. A/c)				
	Discount A/c	Dr.		150	
	Sales A/c	Dr.		34,950	
	Purchase Returns A/c	Dr.		300	
	Closing Stock A/c	Dr.		14,350	
	To Head Office A/c				49,750
	(Above items transferred to H.O. A/c)				
	Head Office A/c	Dr.		23,100	
	To Closing Stock A/c				14,350
	,, Debtors A/c				4,000
	,, Bank A/c				750
	,, Cash-in-Transit A/c (Assets transferred to H.O. A/c)				4,000
	Creditors A/c	Dr.		2,700	
	Outstanding Rent A/c	Dr.		150	
	To Head Office A/c				2,850
	(Liabilities transferred to H.O. A/c)				

Head Office Account

Dr. Date	Particulars	(₹)	Date	Particulars	Cr. (₹)
31.12.22	To Sundries- (debit balance of Revenue items)	50,150	1.1.21	By Balance b/d	14,000
				,, Depreciation A/c	2,650
				,, Cash-in-Transit A/c	4,000
	,, Sundry Assets	23,100		,, Sundries –Credit Balance of Revenue items	49,750
				,, Sundry Liabilities	2,850
		73,250			**73,250**

Method 2:

Date	Particulars		L/F	(₹)	(₹)
2022	Depreciation A/c	Dr.		2,650	
Dec. 31	To Head Office A/c				2,650
	(Depreciation on fixed assets @ 10% Monthly and @ 15% or Furniture in H.O. Books.)				
	Rent A/c	Dr.		150	
	To Outstanding Rent A/c				150
	(Rent Outstanding)				
	Cash-in-Transit A/c	Dr.		4,000	
	To Head Office A/c				4,000
	(Cash remitted to H.O. but in transit)				
	Head Office A/c	Dr.		400	
	To Profit & Loss A/c				400
	(Net Loss Transferred.) [₹ 50,150 – ₹ 49,750]				
	Head Office A/c	Dr.		23,100	
	To Closing Stock				14,350
	,, Debtors				4,000
	,, Cash at Bank				750
	,, Cash-in-Transit				4,000
	(Asset transferred to H.O. A/c)				
	Creditors A/c	Dr.		2,700	
	Outstanding Rent A/c	Dr.		150	
	To Head Office A/c				2,850
	(Various Liabilities transferred to H.O. A/c)				

Dr. **Head Office Account** **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
31.12.22	To Profit & Loss A/c	400	31.12.22	By Balance b/d	14,000
	Net Loss			,, Depreciation A/c	2,650
	,, Closing Stock A/c	14,350		,, Cash-in-Transit A/c	4,000
	,, Debtors A/c	4,000		,, Credit A/c	2,700
	,, Cash at Bank	750		,, Outstanding Rent	150
	,, Cash-in-Transit A/c	4,000			
		23,500			**23,500**

Illustration 12

Puskar Enterprise has its H.O. in Ranchi and a branch in Imphal. The following Trial Balance has been extracted from the books of accounts as at 31st March, 2023:

Particulars	Head Office		Branch Office	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Capital	---	16,50,000	---	---
Debtors	3,00,000	---	1,80,000	---
Creditors	---	1,50,000	---	---
Purchases	27,42,000	---	---	---
Sales	---	25,50,000	---	13,11,000
Goods sent to Branch at I.P.	---	11,40,000	11,25,000	---
Fixed Assets (Net)	10,50,000	---	2,00,000	---
Stock (1.4.2022)	24,000	---	60,000	---
Stock Adjustment (Unrealised Profit)	---	12,000	---	---
H.O./Branch Current A/c	5,25,000	---	---	3,60,000
Administrative & Selling Expenses	8,41,500	---	74,500	---
Cash and Bank	46,500	---	39,000	---
Provision for Bad Debts	---	27,000	---	7,500
	55,29,000	**55,29,000**	**16,78,500**	**16,78,500**

Other relevant information:

i. All goods are purchased by the H.O. Goods are sent to branch at cost plus 25%.

ii. Stock 31.3.2023 are valued at:

H.O. ₹ 36,000

Branch ₹ 45,000 (Invoice Price)

iii. Depreciation is to be provided on fixed assets at 10% on book value.

iv. Bad debts provision is to be maintained at 5% on debtors as at the end of the year.

v. Cash-in-transit from branch to H.O. at 31st March 2023 was ₹1,50,000.

vi. Goods-in-transit from H.O. to branch at 31st March, 2023 at invoice price was ₹15,000.

Prepare in Columnar from, the branch and H.O. Trading and Profit and Loss Accounts for the year ended 31st March, 2023 and a combined Balance Sheet of Puskar Enterprises as on that date.

Solution:

In the books of H.O.

Columnar Trading and Profit and Loss Account

Dr. **for the year ended March 31, 2023** **Cr.**

Particulars	H.O. (₹)	Branch (₹)	Particulars	H.O. (₹)	Branch (₹)
To Opening Stock	24,000	60,000	By Sales	25,50,000	13,11,000
,, Purchases	27,42,000	---	,, Goods Sent to Branch	11,40,000	---
,, Goods from H.O.	---	11,25,000	,, Closing Stock	36,000	45,000
,, Gross Profit c/d	9,60,000	1,71,000			
	37,26,000	**13,56,000**		**37,26,000**	**13,56,000**
To Adm. & Selling Exp.	8,41,500	74,500			
,, Depreciation	1,05,000	20,000	By Gross Profit b/d	9,60,000	1,71,000
,, Stock Adjustment (for closing) 20% of (45,000 + 15,000)	12,000	---	,, Stock Adjustment (for opening)	12,000	---
,, Provision for Bad Debts (new)	15,000	9,000	,, Provision for Bad Debts (old)	27,000	7,500
Net Profit	25,500	75,000			
	9,99,000	**1,78,500**		**9,99,000**	**1,78,500**

Balance Sheet (Combined) as at March 31, 2023

Liabilities	(₹)	(₹)	Assets	(₹)	(₹)
Capital	16,50,000		Fixed Assets	12,50,000	
Add: Net Profit (25,500 + 75,000)	1,00,500	17,50,500	Less: Depreciation	1,25,000	11,25,000
	5,25,000		Current Assets		
Current A/c – H.O.			Stock		
Less: Branch (Cr.) 3,60,000			H.O.	36,000	

Liabilities		(₹)	(₹)	Assets	(₹)	(₹)
Cash-in-transit	1,50,000			Branch	45,000	
Goods-in-transit	15,000	5,25,000			81,000	
			Nil	Less: Stock Adj.	12,000	69,000
Creditors			1,50,000			
				Goods-in-Transit		15,000
				Debtors		
				H.O.	3,00,000	
				Branch	1,80,000	
					4,80,000	
				Less; Prov. for Bad Debts	24,000	4,56,000
				Cash at Bank		
				H.O.	46,500	
				Branch	39,000	
				Cash-in-transit	1,50,000	2,35,500
			19,00,500			**19,00,500**

Foreign Branch

Foreign branch is opened and operated in a country other than the country where the organisation is registered and has its head office. Example: Dubai branch of State bank of India.

A foreign branch maintains its own books of accounts. It drafts the trial balance (in foreign currency) and sends the same to the head office. The H.O. converts the items of the trial balance in the domestic currency of the H.O. and thereafter drafts the final accounts. The branch trial balance is converted into H.O. currency under the following methods:

1. **Net Investment Method:** As per this method, all items of the trial balance except H. O. Account are converted using closing rate. H.O. Account is represented at the figure at which Branch Account appears in H.O. books, subject to adjustment for goods and cash-in-transit.
2. **Current and Non-current Method:** In this case, different rates are applied for current assets and liabilities, and fixed assets and liabilities. For current assets and current liabilities closing rate is used, and historical rates are applied on fixed assets and long-term liabilities.
3. **Temporal Method:** This method is considered applicable when exchange rate is fluctuating.

Differences between foreign branch and domestic branch:

	Domestic Branch	Foreign Branch
Location	A domestic branch is established and carried out in the same country where its H.O is situated.	A foreign branch is always established and carried out its operations in a country other than the country of its H.O
Nature	It can be either dependent or independent.	It's always independent.
Currency	H.O and Branch both follow the same currency for recording the transactions and preparing accounts.	Whereas the transactions and accounting for foreign branches happen to be different than its H.O.

Illustration 13

SS Textiles Ltd. have a branch in Auckland, New Zealand. The trail balance of the branch as on 31.03.2023 was as given below:

	Dr. (NZ $)	Cr. (NZ $)
Head Office Account		18,000
Sales		1,20,000
Goods from the Head Office Account	90,000	
Opening Stock	15,000	
Office furniture	20,000	
Cash	100	
Bank	1,900	
Expenses outstanding		2,000
Salaries	6,000	
Taxes & Insurance	500	
Rent	2,000	
Debtors	4,500	
	1,40,000	**1,40,000**

The Branch Account in the head office showed a debit balance of ₹ 13,20,000 and 'Goods sent to Branch Accounts' a credit balance of ₹ 80,00,000.

Office furniture were acquired in 2005 when NZ $1 = ₹ 80.

The exchange rates were (NZ $1): 01-04-2022 - ₹ 88; 31-03-2023 - ₹ 92; Average – ₹ 90.

The stock at branch on 31-03-2023 was valued at NZ $9,000.

Convert the Branch Trial Balance into rupees and prepare the Branch Trading and Profit and Loss Account for 2023, and the Branch Account in Head Office books. Depreciation is to be written off the office furniture @ 10%.

Solution:

Auckland Branch Trial Balance as at 31st March, 2023

Item	Rate (₹)	Dr. (NZ $)	Cr. (NZ $)	Dr. (₹)	Cr. (₹)
H.O. Account	-		18,000		13,20,000
Sales	90		1,20,000		108,00,000
Goods from H.O. A/c	-	90,000		80,00,000	
Stock on 01-04-2022	88	15,000		13,20,000	
Office Furniture	80	20,000		16,00,000	
Cash	92	100		9,200	
Bank	92	1,900		1,74,800	
Expenses outstanding	92		2,000		1,84,000
Salaries	90	6,000		5,40,000	
Taxes & Insurance	90	500		45,000	
Rent	90	2,000		1,80,000	
Debtors	92	4,500		4,14,000	
		1,40,000	**1,40,000**	**1,22,83,000**	**1,23,04,000**
Difference in exchange				21,000	
				123,04,000	123,04,000
Closing stock	92	9,000		**8,28,000**	

Auckland Branch Trading and Profit & Loss Account

Dr. **for the year ended 31st March, 2023** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Opening Stock	13,20,000	By Sales	108,00,000
To Goods from H.O.	80,00,000	By Closing Stock	8,28,000
To Gross Profit c/d	23,08,000		
	116,28,000		**116,28,000**
To Salaries	5,40,000	By Gross Profit b/d	23,08,000
To Taxes & Insurance	45,000		
To Rent	1,80,000		
To Difference in exchange	21,000		
To Depreciation	1,60,000		

Particulars	(₹)	Particulars	(₹)
To Net Profit	13,62,000		
	23,08,000		**23,08,000**

Dr. **Auckland Branch Account** **Cr.**

Particulars		(₹)	Particulars		(₹)
To Balance b/d		13,20,000	By Branch Trading A/c	(₹)	
To Branch Trading A/c	(₹)		Opening stock	13,20,000	
Sales	108,00,000		Goods from H.O.	80,00,000	93,20,000
Stock	8,28,000	116,28,000			
			By Branch P & L A/c		9,46,000
			(Sundry expenses)		
			By Balance c/d		26,82,000
		1,29,48,000			**1,29,48,000**

Departmental Accounting

6.2

For effective operation, efficient management and adequate control, many big organisations that deal with various products or services or multiple types of specialized activities, consider each product, service or specialized activities as separate segments or units of the entities. The concerned entity in order to record the details of segments or units rationally split into a few segments or units which are technically referred to as Departments.

Industry	Illustrative Departments
Bank	Forex, Underwriting, credit card
Hospitals	Rooms, medical store, cafeteria
Hotels	Rooms, restaurants, confectionary, gym and spa
Departmental store	Stationery, electronics, grocery
Two-wheelers	Motorcycles, scooters
Automobile	Hatchback, Sedan, SUV, EVs

Management of the concerned entity wants to evaluate the operating results (profit/loss) for each department. Hence, on the basis of system of Responsibility Accounting, the idea of Departmental Accounting has emerged and has been widely implemented.

Responsibility Accounting: For better performance and control, responsibility and authority are decentralized to each department. A manager or supervisor is assigned to each department to whom the targets and budgets are provided for carrying out the operations. Although all departments are "Cost Centres", all may not be "Revenue Centres". At the end of certain period, the performance of the Department/Centre is assessed and suitable measures are taken for betterment.

Concept note: Branch vs Department		
Points of Difference	**Department**	**Branch**
Concept	A segment or unit into which an entity is rationally divided.	Establishment of a large organisation that is located at different places
Purpose	Enhancement of effective operations, efficient management and proper control.	Primary objective is to boost up the sales revenue of the entity.

Points of Difference	Department	Branch
Location	Generally, Departments are not separated geographically.	Each branch is set up at different geographical location.
Interrelation	A department can never have a branch on its own.	A branch may consists of numerous departments.

Departmental Accounting

Concept of Departmental Accounting

Although traditional accounting reflects the overall financial performance (profit/loss) of an entity, it fails to provide the operating performances of each department. To ensure adequate managerial control and proper decision-making, it is necessary to ascertain the operating results of each department. The branch of accounting that gives emphasis on the assessment of the financial performance of each department of a large organisation is referred to as **Departmental Accounting**.

Features of Departmental Accounting

- In the books of accounts, transactions are recorded department-wise. All expenses and incomes are recognized separately for each department.
- It is an application of Responsibility Accounting system.
- Each department is considered as Responsibility Centre.
- Both external as-well-as internal transactions are recorded.
- It provides information to internal stakeholders of the entity.
- It involves the drafting of Departmental Trading & Profit & Loss Account.

Objectives of Departmental Accounting

- To get an analytical idea about the affairs of each department.
- To ascertain the true operating result and efficiency of each department (department profit/loss).
- To compare the financial performance among different departments.
- To provide data and information to the management for decision-making and policy-formulation.

Methods of Maintaining Departmental Accounts

Two approaches are usually followed for obtaining the individual figures of the various items of expenses and incomes. An organisation can follow any one of them.

- Maintenance of same set of books; or
- Maintenance of separate set of books

Maintenance of same set of books	The amounts of various items of expenses and incomes, etc. are gathered by maintaining the books of accounts in the tabular or columnar format. Hence, this method is referred to as Columnar or Tabular Method. Accounting Department, centralized in nature, maintains the entire records. This method is widely accepted because of it is comparatively less expensive.

Maintenance of separate set of books	Individual figures of various items of expenses and incomes, etc. are obtained by keeping the books of each department separately. Hence, this method is referred to as Unitary Method. Each concerned department maintains their records independently. Although the method is very expensive, large-sized firms usually practice it.

Preparation of Departmental Final Accounts

Components of Departmental Final Accounts

Departmental Trading Account: This account is drafted in columnar format where each column represents each department. It is prepared for ascertaining Departmental Gross Profits/Gross Loss of individual departments. In this account, the direct expenses are debited and direct incomes are credited.

Departmental Profit & Loss Account: This account is also drafted in columnar format where each column represents each department. It is prepared for ascertaining Departmental Net Profits / Net Loss of individual departments. In this account the indirect expenses are debited and allocated indirect incomes are credited, after considering Gross Profit/Gross Loss of individual departments.

General Profit & Loss Account: This account is drafted for the determination of Overall Net Profit/ Net Loss of the entity. Indirect expenses and Indirect incomes that cannot be rationally apportioned between the departments are debited and credited respectively, after considering departmental Net Profits/ Net Loss. The format of this account is like the normal income state i.e no Department specific columns are there.

Format of Departmental Trading Account, Departmental Profit & Loss Account and General Profit & Loss Account

Departmental Trading & Profit & Loss Account

Dr. **for the year ended...** **Cr**

Particulars	Dept. I	Dept. II	Particulars	Dept. I	Dept. II
To Opening Stock	xx	xx	By Sales	xx	xx
To Purchases	xx	xx	By Transfer	xx	xx
To Wages	xx	xx	By Closing Stock	xx	xx
To Other Direct Expenses	xx	xx			
To Transfer	xx	xx			
To Gross Profit c/d	xx	xx			
	xxx	xxx		xxx	xxx
To Rent	xx	xx	By Gross Profit b/d	xx	xx
To Salaries	xx	xx	By Indirect Incomes	xx	xx
To Depreciation and amortisation	xx	xx			
To Other Indirect Expenses	xx	xx			
To General P/L A/c	xx	xx			
[Dept. Net Profit Transferred]					
	xxx	xxx		xxx	xxx

General Profit & Loss Account

Dr. **for the year ended...** **Cr**

Particulars	(₹)	Particulars	(₹)
To General Expenses	xx	By Departmental P/L A/c [Net Profit]	xx
To Stock Reserve [Provision on Stock]	xx		
To Capital A/c [Net Profit transferred]	xx		
	xxx		xxx

Steps for Preparation of Departmental Final Accounts

Step I. Determination of Departmental Gross Profit/ Loss

Items	Treatment
Directly allocable Direct Expenses	Debited to Departmental Trading A/c
Direct Expenses that cannot be directly allocated	Apportion the expenses on some suitable basis and debit them to Departmental Trading A/c.
Directly Allocable Direct Incomes	Credited to Departmental Trading A/c
Goods transferred from one department to other department	Debited to Transferee(Receiving) Department and credited to Transferor (Sending)Department. (Journal: Transferee Department A/c Dr. To Transferor Department A/c)
After determining Departmental Gross Profit/Loss, it is transferred to Departmental Profit & Loss A/c.	

Step II: Determination of Departmental Net Profit/Loss

Items	Treatment
Directly allocable Indirect Expenses	Debited to Departmental Profit & Loss A/c
Indirect Expenses that cannot be directly allocated	Apportion the expenses on some suitable basis and debit them to Departmental Profit & Loss A/c.
Directly Allocable Indirect Incomes	Credited to Departmental Profit & Loss A/c
Indirect Incomes that cannot be directly allocated	Apportion the Incomes on some suitable basis and credit them to Departmental Profit & Loss A/c.
After determining Departmental Net Profit/Loss, it is transferred to General Profit & Loss A/c.	

Step III: Determination of Overall Net Profit/Loss of the concern

Items	Treatment
Indirect Expenses that could not be allocated to departments	Debited to General Profit & Loss A/c.

Items	Treatment
Indirect Incomes that could not be allocated to departments	Credited to General Profit & Loss A/c.
Provision for Unrealised Profit (if any)	On Closing Inventory, debit them to General Profit & Loss A/c and on Opening Inventory, credit them to .General Profit & Loss A/c
By, Balancing General Profit & Loss A/c, Consolidated or Overall Net Profit / Loss is ascertained.	

Certain Specific Transactions

Items of Income

- Incomes which are directly allocable to a specific department are credited to the respective department.
- Incomes which are common for more than one department are apportioned rationally over all departments.

Income Items common for more than one department	Basis of Apportionment
Discount Received	Net Purchases i.e Purchases less Returns Outward (if any)
Sales Commission	Net Sales i.e Sales less Returns Inward (if any)

Other Indirect Incomes which are of financial in nature viz. Dividend received, Interest earned on Deposits, Profit on sale of fixed assets are credited of General P/L A/c, as these items relate the organisation as whole and cannot be apportioned over the departments.

Items of Expenses

- Expenses which are directly allocable to a specific department are debited to the respective department.
- Expenses which are common for more than one department are apportioned rationally over all departments.

Expense Items common for more than one department	Basis of Apportionment
Commission to Purchase Manager, Carriage inwards	Purchases
Selling expense, Commission to salesman, bad debts, Discount allowed	Sales
Depreciation, Insurance, Repairs and Maintenance	Value of Fixed Assets
Rent and rates, Insurance, Heating	Floor area occupied
Power	Horse power (HP) or HP × Hours Worked

Other indirect expenses which are of general nature viz. General charges, Sundry charges, MD's Remuneration, Miscellaneous expenses etc. as well as expenses which are of financial in nature viz. Bank Charges, Interest on loan/debentures, are debited to General P/L A/c as these items relate the organisation as whole and cannot be apportioned over the departments.

Illustration 14

M/s Unique is a departmental store having three departments – X, Y and Z. Information regarding three departments for the year ended March 31, 2023 are given below:

Particulars	X (₹)	Y (₹)	Z (₹)
Opening Stock	72000	48000	40000
Furniture	40,000	40,000	20,000
Purchases	2,64,000	1,76,000	88,000
Sales	3,60,000	2,70,000	1,80,000
Closing stock	90,000	35,000	42,000
Sundry Debtors	30,000	20,000	20,000
Floor area occupied by each department (in sq. ft)	6,000	5,000	4,000
Number of employees	50	40	30
Electricity Consumed (in units)	600	400	200

The Balances of other revenue items in the books for the year given below (in ₹)

Particulars	(₹)	Particulars	(₹)
Carriage Inwards	6,000	Discount Received	3,600
Carriage Outwards	5,400	Employees Welfare Expenses	4,800
Discount Allowed	4,500	Rent, Rates &Taxes	15,000
Advertisement	5,400	Electricity charges	6,000
Wages	96,000	Depreciation on furniture	2,000

After providing Provision for Bad Debts at 5%, prepare Departmental Trading and Profit and Loss Account

Solution

M/s Unique
Departmental Trading and Profit & Loss Account
Dr. for the year ended 31.03.2023 Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Opening Stock	72,000	48,000	40,000	By Sales	3,60,000	2,70,000	1,80,000
To Purchases	2,64,000	1,76,000	88,000	By Closing Stock	90,000	35,000	42,000
To Carriage Inwards (WN:1)	3,000	2,000	1,000				
To Gross Profit c/d	1,11,000	79,000	93,000				
	4,50,000	**3,05,000**	**2,22,000**		**4,50,000**	**3,05,000**	**2,22,000**
To Rent, Rates & Taxes (WN:1)	6000	5000	4000	By Gross Profit b/d	1,11,000	79,000	93,000
To Wages (WN:1)	40,000	32,000	24,000				
To Carriage Outwards (WN:1)	2,400	1,800	1,200	By Discount Received	1800	1200	600
To Discount Allowed (WN:1)	2,000	1,500	1,000				
To Electricity Expenses	3,000	2,000	1,000				

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Advertisement (WN:1)	2,400	1,800	1,200				
To Depreciation (WN:1) (WN:1)	800	800	400				
To Employees Welfare Expenses (WN:1)	2000	1600	1200				
To Provision for Bad Debt (WN:2)	1500	1000	1000				
To General P/L A/c (Dept. NP transferred)	52,700	32,700	58,600				
	1,12,800	**80,200**	**93,600**		**1,12,800**	**80,200**	**93,600**

Working Notes

1. Allocation of unallocated income and expenses

Item of Expenses	(₹)	Basis	Ratio	X (₹)	Y (₹)	Z (₹)
Carriage Inwards	6000	Purchases	3:2:1	3,000	2,000	1,000
Rent, Rates & Taxes	15,000	Floor area	6:5:4	6,000	5,000	4,000
Wages	96,000	Number of employees	5:4:3	40,000	32,000	24,000
Carriage Outwards	5,400	Sales	4:3:2	2,400	1,800	1,200
Discount Allowed	4,500	Sales	4:3:2	2,000	1,500	1,000
Electricity expenses	6,000	Electricity consumed	3:2:1	3,000	2,000	1,000
Advertisement	5,400	Sales	4:3:2	2,400	1,800	1,200
Depreciation on Furniture	2,000	Value of Furniture	2:2:1	800	800	400
Employees Welfare Expenses	4,800	Number of employees	5:4:3	2,000	1,600	1,200
Discount Received	3,600	Purchases	3:2:1	1,800	1,200	600

2. Provision for Bad Debt

Dept. X: ₹ 30,000 × 5% = ₹ 1,500,

Dept. Y: ₹ 20,000 × 5% = ₹ 1,000, Dept. Z: ₹ 20,000 × 5% = ₹ 1,000

Inter-Departmental Transfer

When goods/services are transferred from one department (Transferor Department) to another department (Transferee Department), it is known as Inter-Departmental Transfer and such transfers are considered to be as "Purchases" of the Transferee Department and "Sales" of the Transferor Department.

Valuation of Transfer: It can be done on of the following three basis

At Cost	• Transferor Department transfers goods/services to Transferee Department at "Cost to the Transferor Department". • If part of goods transferred remains in the closing inventory of Transferee Department, then the creation of "Provision for Unrealised Profit" is not required.

At Cost plus Profit	Transferor Department transfers goods/services to Transferee Department at a value higher than the Cost. Hence, it is referred as 'Cost plus Profit'. Departments which produce or render intermediate goods/services usually follows this method to ensure that the Transferor Department gets due credit (in the form of profit-booking) out of such transfer. If part of goods transferred remains in the closing inventory of Transferee Department, then the creation of "Provision for Unrealised Profit" is required.
At Normal Selling Price	Transferor Department transfers goods/services to Transferee Department at 'Normal Selling Price' i.e prevailing Market Price. Departments which produce or render marketable goods/services usually follows this method to ensure that the Transferor Department gets due credit (in the form of profit-booking) out of such transfer. Actual profit earning capacity remains undisclosed to the stakeholders. If part of goods transferred remains in the closing inventory of Transferee Department, then the creation of "Provision for Unrealised Profit" is required.

Provision for Unrealised Profit

Based on the concept of Responsibility Accounting, more often than not, departments are considered as 'Profit Centres' and hence, goods are transferred from Transferor Department to Transferee Department at a value which is higher than the cost. The value may be Normal Selling Price or may be higher/lower than Selling Price, but the value will definitely include an element of profit to ensure that the Transferor Department gets due credit (in the form of profit booking). After receiving the goods, Transferee Department carry out necessary processes and eventually transfer/sell them to other department/market. At the end of certain period, it may be found that the closing inventory of Transferee Department holds a part of goods which were earlier received from Transferor Department. It means that part of goods which were transferred from Transferred Department has remained unsold although the profit on it has been booked by the Transferor Department. This leads to the concept of Unrealised Profit.

Unrealised Profit refers to the profit booked (but not earned) by the transferor department out of inter-departmental transfers. Although the due credit is given to Transferor Department and the profit is reflected in the Transferor Department's Profit, this profit cannot be considered as earned/realized by the entity as it is not yet earned from any outside party.

As per the Concept of Prudance, unrealized profit is needed to be adjusted. Hence, "Provision for Unrealised Profit" is maintained both on closing stock as well as on the subsequent opening stock. Moreover, it needs to noted that such Provision is required to be created on goods received at higher than cost from all predecessor departments and not only the immediately preceding department.

Steps for calculation of amount of Provision for Unrealised Profit

Step I: Identification of the 'Value of Transferred Stock' included in the Closing Stock of the Transferee Department

Step II: Ascertainment of the Gross Profit Rate (GP Rate) on Sales of the Transferor Department

Step III: Apply the GP Rate to the 'Value of Transferred Stock'

Provision for Unrealised Profit = Value of Transferred Stock (of Transferor Dept.) × GP Rate(of Transferee Dept.)

Accounting of Transfer:

Transactions	Journal Entry
On transfer of goods/ services	Transferee Department A/c Dr. To Transferor Department A/c
Creation of Provision for Unrealised Profit	**On Closing Stock** General Profit & Loss A/c To Provision for Unrealised Profit A/c
	On Opening Stock (in subsequent period) Provision for Unrealised Profit A/c To General Profit & Loss A/c

Illustration 15

A firm has two departments – Raw Materials and Manufacturing. The finished goods are produced by the Manufacturing Department with raw materials supplied by Raw Materials department at selling price. Using the following information prepare Departmental Trading and Profit and Loss Account for the year ended on 31st March 2023.

	Raw Materials Dept. (₹)	Manufacturing Dept. (₹)
Opening Stock	1,20,000	20,000
Purchases	8,00,000	6,000
Sales	8,80,000	1,80,000
Manufacturing Expenses	--	24,000
Selling Expenses	1,600	800
Raw Materials transferred to Manufacturing Dept.	1,20,000	--
Closing Stock	80,000	24,000

Cost of the closing stock of the manufacturing department consists of 25% for manufacturing expenses and 75% for raw materials. In the preceding year Raw Materials Department earned gross profit at the rate of 10%. Salaries of ₹ 5,000 and Insurance Premium of ₹ 1,600 are allocated between the two departments on the basis of sales ratio. Find out the Net Profit of the firm as a whole.

Solution :

Dr. Departmental Trading and Profit & Loss Account for the year ended 31.3.2023 Cr.

Particulars	Raw Materials	Manufacturing	Particulars	Raw Materials	Manufacturing
To Opening Stock	1,20,000	20,000	By Sales	8,80,000	1,80,000
To Purchases	8,00,000	6,000	By Transfer (Transferred to MF)	1,20,000	-
To Transfer (Received from RM)	-	1,20,000	By Closing Stock	80,000	24,000
To Manufacturing Expenses	-	24,000			

Particulars	Raw Materials	Manufac-turing	Particulars	Raw Materials	Manufac-turing
To Gross Profit c/d	1,60,000	34,000			
	10,80,000	**2,04,000**		**10,80,000**	**2,04,000**
To Salaries (44:9)	4,150	850	By Gross Profit b/d	1,60,000	34,000
To Selling Expenses	1,600	800			
To Insurance Premium (44:9)	1328	272			
To General P/L A/c (Dept. Net Profit transferred)	1,52,922	32,078			
	1,60,000	**34,000**		**1,60,000**	**34,000**

Dr. General Profit & Loss Account for the year ended 31.3.2023 Cr.

Particulars	(₹)	Particulars	(₹)
To Stock Reserve (WN:1)	1380	By Departmental Profit & Loss A/c	1,52,922
To Capital A/c (NP transferred)	1,83,620	By Raw Materials Manufacturing	32,078
	1,85,000		**1,85,000**

Working Notes:

1. **Unrealized Profit in unsold stock:**

   Profit rate on transferred goods = GP rate of Raw Materials Dept.

   = {Gross profit /(Sales + Transfer)} × 100

   = {1,60,000 / (8,80,000 + 1,20,000)} × 100

   = 16%

   Value of the goods of Manufacturing dept. included in the Closing stock of Raw Materials Dept.

   = ₹ 24,000 × 75% = ₹ 18,000

   Unrealized Profit in Closing Stock = ₹ 18,000 × 16% = ₹ 2,880

   Value of the goods of Manufacturing dept. included in the Opening stock of Raw Materials Dept.

   = ₹ 20,000 * 75% = ₹ 15,000

   Unrealised Profit in Opening Stock = ₹ 15,000 × 10% = ₹ 1,500

   Net Stock Reserve = ₹ 2,880 – ₹ 1,500 = ₹ 1,380

Illustration 16

A & Co. has two departments P & Q. department P sells goods to department Q at normal selling prices. From the following particulars, prepare departmental Trading & PL account for the year ended 31.03.2023 and also ascertain the net profit to be transferred to Balance Sheet:

Particulars	Department P (₹)	Department Q (₹)
Opening stock	5,00,000	NIL
Purchases	28,00,000	3,00,000
Goods from P	NIL	8,00,000
Wages	3,50,000	2,00,000
Travelling expenses	20,000	1,60,000
Closing stock at cost to the department	8,00,000	2,09,000
Sales	30,00,000	2,00,0000
Printing & Stationery	30,000	25,000

The following expenses incurred for both the departments were not apportioned between the departments:

Salaries ₹ 33,000, advertisement expenses ₹ 1,20,000,General expenses ₹ 5,00,000,Depreciation is to be charged @30% on the machinery worth ₹ 96,000.

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation are to be apportioned in the ratio 2:1 and 1:3 respectively. General expenses are to be apportioned in the ratio 3:1.

Solution:

A & Co.
Departmental Trading and P/L Account
for the year ended 31.03.2023

Dr. **Cr.**

Particulars	Deptt. P (₹)	Deptt. Q (₹)	Total (₹)	Particulars	Deptt. P (₹)	Deptt. Q (₹)	Total (₹)
To Opening Stock	5,00,000	Nil	5,00,000	By Sales	30,00,000	20,00,000	50,00,000
To Purchases	28,00,000	3,00,000	31,00,000	By Goods transferred to Q	8,00,000		
To Goods from P		8,00,000		By Closing Stock	8,00,000	2,09,000	10,09,000
To Wages	3,50,000	2,00,000	5,50,000				
To Gross Profit c/d	9,50,000	9,09,000	18,59,000				
	46,00,000	22,09,000	60,09,000		46,00,000	22,09,000	60,09,000
To Travelling Expenses	20,000	1,60,000	1,80,000	By Gross Profit b/d	9,50,000	9,09,000	18,59,000
To Printing & Stationery	30,000	25,000	55,000				

Particulars	Deptt. P (₹)	Deptt. Q (₹)	Total (₹)	Particulars	Deptt. P (₹)	Deptt. Q (₹)	Total (₹)
To Salaries (2:1)	2,20,000	1,10,000	3,30,000				
To Advertisement Expenses (3:2)	72,000	48,000	1,20,000				
To General Expenses (3:1)	3,75,000	1,25,000	5,00,000				
ToDepreciation (1:3)	7,200	21,600	28,800				
To, Net Profit c/d	2,25,800	4,19,400	6,45,200				
	9,50,000	**9,09,000**	**18,59,000**		**9,50,000**	**9,09,000**	**18,59,000**
To Provision for unrealised profit on closing stock (note 2)			38,000	By Net Profit b/d			6,45,200
To Capital A/c (net profit transferred)			**6,07,200**				

Working notes:

1. Gross profit ratio of department P = ₹ 9,50,000/₹ (30,00,000 + 8,00,000) × 100 = 25%
2. Proportionate P department's stock in department Q

   (Purchase from department P/total purchases of department Q) × total stock of department Q

   = ₹ (8,00,000/11,00,000) × ₹ 2,09,000 = ₹ 1,52,000

   Unrealised profit = 25% of ₹ 1,52,000 = ₹ 38,000

Illustration 17

A Ltd. manufacturing electronic components operates with two departments. Transfer made between the departments of both purchased goods and manufactured finished goods. Goods purchased are transferred at cost and manufactured goods are transferred only at selling price as is the case with open market.

Transactions for the year ended Mar. 31, 2023 are given below:

Particulars	Dept. X (₹)	Dept. Y (₹)
Opening Stock	20,000	15,000
Sales	1,90,000	1,35,000
Wages	12,500	7,500
Purchases	1,00,000	80,000
Closing stock:		
Purchased goods	2,000	5,000
Manufactured goods	7,000	8,000

The following were the transfers from Dept. X to Dept. Y: Purchased goods ₹ 6,000 and finished goods ₹ 20,000; and from Dept. Y to Dept. X: Purchased goods ₹ 5,000 and finished goods ₹ 35,000. Stocks were valued at cost to the department concerned. It is estimated that the closing stock of manufactured goods of Dept. Y consists of 20% for goods received from Dept. X and closing stock of Dept. X consists of 20% for goods received from Dept. Y.

You are required to prepare Departmental Trading Account and A Ltd.'s Trading Account for the year ended Mar. 31, 2022. Also show the reconciliation of the profits ascertained from these accounts.

Solution :

A Ltd.
Departmental Trading Account
Dr. **for the year ended 31.3.2023** **Cr.**

Particulars	X (₹)	Y (₹)	Particulars	X (₹)	Y (₹)
To Opening Stock	20,000	15,000	By Sales	1,90,000	1,35,000
To Purchases	1,00,000	80,000	By Transfer [Goods sent]:		
To Transfer [Goods received]:			Purchased goods	6,000	5,000
Purchased goods	5,000	6,000	Finished goods	20,000	35,000
Finished goods	35,000	20,000	By Closing Stock:		
To Wages	12,500	7,500	Purchased goods	2,000	5,000
To Departmental Profit [Bal. Fig.]	52,500	59,500	Manufactured goods	7,000	8,000
	2,25,000	**1,88,000**		**2,25,000**	**1,88,000**

Trading Account
Dr. **for the year ended 31.3. 2023** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Opening Stock [20,000 + 15,000]	35,000	By Sales [1,90,000 + 1,35,000]	3,25,000
To Purchases [1,00,000 + 80,000]	1,80,000	By Closing Stock:	
To Wages [12,500 + 7,500]	20,000	Purchased goods [2,000 + 5,000]	7,000
To Gross Profit [Bal. Fig.]	1,11,110	Manufactured goods[WN: 1]	14,110
	3,46,110		**3,46,110**

Reconciliation of Profits:

The departmental profits ascertained from the Departmental Trading & P/L A/c and the company's Gross Profit determined from the Company's Trading A/c can be reconciled as under:

Gross Profit of the company = Profit of Dept. X + Profit of Dept. Y – Unrealised profit in Unsold stock

= ₹ 52,500+ ₹ 59,500 – ₹ (490+400) = ₹ 1,11,110

Working Notes:

1. Value of closing stock of manufactured goods:

	Dept. X (₹)	Dept. Y (₹)
'Profit rate of the transferor' on 'transferred goods' $\left[\dfrac{\text{Gross Profit}}{\text{Sales + Transfer of Finished Goods}} \times 100\right]$	$\dfrac{52{,}500}{1{,}90{,}000 + 20{,}000} \times 100 = 25\%$	$\dfrac{59{,}500}{1{,}35{,}000 + 35{,}000} \times 100 = 35\%$
Value of 'transferred goods' included in closing stock	₹ 1,400 [7,000 × 20%]	₹ 1,600 [8,000 × 20%]
Less: Unrealised profits included in closing stock [Transferred goods × Profit rate of transferor]	₹ 490 [1,400 × 35%]	₹ 400 [1,600 × 25%]
∴ Total cost of closing stock of manufactured goods = [7,000 + 8,000] – [490 + 400] = ₹ 14,110		

Illustration 18

Samudra & Co. a partnership firm has three departments viz. K, L, M which are under the charge of the Partners B, C and D respectively. The following Consolidated P&L Account is given below :

Dr. **Profit and Loss Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Opening Stocks (Note i)	81,890	By Sales (Note vii)	4,00,000
To Purchases (Note ii)	2,65,700	By Closing Stocks (Note viii)	89,000
To Salaries and Wages (Note iii)	48,000	By Discounts Received (Note x)	800
To Rent Expenses (Note iv)	10,800		
To Selling Expenses (Note v)	14,400		
To Discount Allowed (Note v)	1,200		
To Depreciation (Note vi)	750		
To Net Profit for the year	67,060		
	4,89,800		**4,89,800**

From the above account and the following additional information, prepare the Departmental P&L Account for the year ended 31st March, 2023.

(i) Break up of Opening Stock Department wise is: K - ₹ 37,890; L - ₹ 24,000 and M - ₹ 20,000.

(ii) Total Purchases were as under: K - ₹ 1,40,700; L - ₹ 80,600; M - ₹ 44,400.

(iii) Salaries and Wages include ₹ 12,000 wages of Department M. The balance Salaries should be apportioned to the three departments as 4:4:1.

(iv) Rent is to be apportioned in the ratio of floor space which is as 2:2:5.

(v) Selling Expenses and Discount Allowed are to be apportioned in the ratio of Turnover.

(vi) Depreciation on assets should be equally charged to the three departments.

(vii) Sales made by the three departments were: K - ₹ 1,80,000; L - ₹ 1,30,000 and M - ₹ 90,000.

(viii) Break up of Closing Stock Department wise is: K - ₹ 45,100; L - ₹ 22,300 and M - ₹ 21,600. The Closing Stock of Department M includes ₹ 5,700 goods transferred from Department K. However, Opening Stock does not include any goods transferred from other departments.

(ix) Departments K and L sold goods worth ₹ 10,700 and ₹ 600 respectively to Department M.

(x) Discounts received are traceable to Departments K, L and M as ₹ 400; ₹ 250 and ₹ 150 respectively.

(xi) Partners are to share the profits as under: (a) 75% of the Profits of Departments K, L and M to the respective Partner in Charge, (b) Balance Profits to be credited as 2:1:1.

Solution:

Dr. Departmental P&L Account for the year ended 31st March, 2023 Cr.

Particulars	K (₹)	L (₹)	M (₹)	Particulars	K (₹)	L (₹)	M (₹)
To Opening Stock	37,890	24,000	20,000	By Sales	1,80,000	1,30,000	90,000
To Purchases	1,40,700	80,600	44,400	By Transfer	10,700	6 0 0	—
To Inter-Dept Trf	—	—	11,300	By Closing Stock	45,100	22,300	21,600
To Wages	—	—	12,000				
To Gross Profit c/d	57,210	48,300	23,900				
	2,35,800	**1,52,900**	**1,11,600**		**2,35,800**	**1,52,900**	**1,11,600**
To Salaries (4:4:1)	16,000	16,000	4,000	By Gross Profit b/d	57,210	48,300	23,900
To Rent (2:2:5)	2,400	2,400	6,000	By Discounts Received	400	250	150
To Selling Exp	6,480	4,680	3,240				
To Disc. (18:13:9)	540	390	270				
To Depreciation	250	250	250				
To Net Profit c/d	31,940	24,830	10,290				
	57,610	**48,550**	**24,050**		**57,610**	**48,550**	**24,050**

Computation of Stock Reserve

From the above profits, Stock Reserve should be eliminated on the Closing Stock.

- GP Rate in Department K = ₹(57,210 × 100) / ₹1,90,700 = 30%.
- Stock Reserve = 30% on ₹ 5,700 = ₹ 1,710.

Dr. Profit and Loss Appropriation Account Cr.

Particulars		(₹)	Particulars	(₹)
To Stock Reserve		1,710	By Profit b/d	67,060
To Profits transferred to Capital:			(31,940 + 24,830 + 10,290)	
B : 75% of 31,940	23,955			
C : 75% of 24,830	18,623			
D : 75% of 10,290	7,718	50,296		
To Balance profits trfd in 2: 1: 1				
B : 50% of 15,054	7,527			
C : 25% of 15,054	3,763			
D : 25% of 15,054	3,764			
(bal.fig)		15,054		
		67,060		**67,060**

Illustration 19

The following details are available in respect of a business for a year.

Department	Opening Stock	Purchase	Sales
X	120 units	1,000 units	1,020 units at ₹ 20.00 each
Y	80 units	2,000 units	1,920 units at ₹ 22.50 each
Z	152 units	2,400 units	2,496 units at ₹ 25.00 each

The total value of purchases is ₹ 1,00,000. It is observed that the rate of Gross Profit is the same in each department. Prepare Departmental Trading Account for the above year.

Solution:

Computation of Closing Stock Quantity (in units)

Particulars	X	Y	Z
Opening Stock	120	80	152
Add: Purchases	1,000	2,000	2,400
Less : Units Sold	(1,020)	(1,920)	(2,496)
Closing Stock	**100**	**160**	**56**

Computation of Gross Profit Ratio

We are informed that the GP Ratio is the same for all departments. Selling Price is given for each department's products but the Sale Quantity is different from that of Purchase Quantity. To find the Uniform GP Rate, the sale value of Purchase Quantity should be compared with the Total Cost of Purchase, as under. Assuming all purchases are sold, the sale proceeds would be

Particulars		(₹)
Department X	1,000 units @ ₹ 20.00	20,000
Department Y	2,000 units @ ₹ 22.50	45,000
Department Z	2,400 units @ ₹ 25.00	60,000
Total Sale Value of Purchase Quantity	**125,000**	
Less : Cost of Purchase	1,00,000	
Gross Profit Amount Gross Profit Ratio	**25,000** 25,000 ÷ 1,25,000	 20% of Selling Price

Computation of Profit and Cost for each article

Department	Selling Price	Profit at 1/5 of SP	Cost = Sales – Profit
Department X	₹ 20.00	1/5 of ₹ 20.00 = 4.00	₹ 16.00
Department Y	₹ 22.50	1/5 of ₹ 22.50 = 4.50	₹ 18.00
Department Z	₹ 25.00	1/5 of ₹ 25.00 = 5.00	₹ 20.00

Dr. Departmental Trading Account for the year ended... Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)	Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
To Op. stock	1,920	1,440	3,040	6,400	By Sales	20,400	43,200	62,400	126,000
To Purchase	16,000	36,000	48,000	100,000	By Cl. stock	1,600	2,880	1,120	5,600
To Gross Profit	4,080	8,640	12,480	25,200					
	22,000	**46,080**	**63,520**	**131,600**		**22,000**	**46,080**	**63,520**	**131,600**

Opening and Closing Stocks are valued at Cost as indicated in WN 3 above. Sale Amount in the Trading Account is computed for the Sale Quantity only. Gross Profit is calculated at 20% of Sale Value.

Illustration 20

M/s Auto Garage consists of three departments: Spares, Services and Repairs. Each department being managed by a departmental manager whose commission was respectively 5%, 10% and 10% of the respective departmental profit. In the absence or inadequacy of profit, a minimum commission of ₹ 3,000 is to be paid to managers. Inter-departmental transfers of goods and services are made on the basis of loaded price given as under:

From Spares to Services 5% above cost

From Spares to Repairs 10% above cost

From Repairs to Services 10% above cost

In respect of the year ended 31st March, 2023 the books has already been closed and positions drawn. Subsequently it was discovered that closing stock of departments had included inter-departmental transferred goods at loaded price instead of the correct cost price. From the following information prepare a revised statement recomputing the departmental profit or loss.

	Spares (₹)	Service (₹)	Repairs (₹)
Net Profit/Loss as per accounts	19,000 (loss)	25,200 (profit)	36,000 (profit)
Inter-departmental transfers included at loaded price in the departmental stocks	---	32,500 (₹ 10,500 from Spares and ₹ 22,000 from Repairs)	2,100 (from spares)

Solution:

Statement showing computation of correct departmental profit:

Particulars	Spares (₹)	Service (₹)	Repairs (₹)
Net Profit/ (Loss) as per accounts	(19,000)	25,200	36,000
Add: Managerial Remuneration: [Spares: Higher of (19,000) × 5/95) and 3,000]	3,000		
[Service: Higher of (22,500 × 10/90) and 3,000]	-	3,000	-
[Repairs:Higher of (36,000 × 10/90) and 3,000]	-	-	4,000
∴ Profits before Managerial Remuneration	(16,000)	28,200	40,000
Less: Unrealised Profits of transferor department [WN:1]	691	-	2,000
	(16,691)	28,200	38,000
Less: Managerial Remuneration: [Spares: Higher of (16,691) × 5%) and 3,000]	3,000	-	-
[Service: Higher of (28,200 × 10%) and 3,000]	-	3,000	-
[Repairs:Higher of (38,000 × 10%) and 3,000]	-	-	3,800
∴ Correct departmental profit	(19, 691)	25,200	34,200

Working Notes:

		Transferee		
		Services (₹)	Repairs (₹)	Total (₹)
Transferor	Spares	500 [10,500 × 5/105]	191 [₹ 2,100 × 10/110]	691
	Repairs	2,000 [22,000 × 10/110]	..	2,000

Solved Case(s)

Pal & Co., is a manufacturer of umbrella with their head office at Kolkata. In order to expand their business, Mr. Sourav Pal, grandson of the founder Mr, Suresh Pal, opened a branch of their business at Bangalore in the southern Indian state of Karnataka in the year 2019-20.

It was decided by Sourav that the goods will be invoiced from Kolkata head office to their Bangalore branch at 20% less than list price, which is cost plus 100%, with instruction that cash sales are made at invoice price and credit sales at list price.

There were not much transactions between the head office and Bangalore branch during the next to financial years due to the lockdown induced by the COVID-19 outbreak. However, the business started with slowly but steadily in 2022-23.

The following particulars have been made available to you for the year ended 31.03.2023:

	(₹)
Stock at Bangalore branch on 01.04.2022 (at invoice price)	24,000
Amount due from debtors on 01.04.2022	20,000
Goods received from head office (at invoice price)	2,64,000
Goods returned to head office (at invoice price)	2,000
Sales:	
Cash	92,000
Credit	2,00,000
Cash received from debtors	1,71,268
Expenses incurred at Bangalore branch	34,732
Remittance from Bangalore branch to Kolkata head office	2,40,000
Amount due from debtors on 31.03.2023	48,732
Stock at Bangalore branch on 31.03.2023 (at invoice price)	30,800

It is further communicated by the branch manager that there has been some stock shortage at their Bangalore branch which were identified in the month of March 2023.

1. Calculate the amount of stock shortage (at invoice price) that occurred at Bangalore branch.
2. Determine the gross profit or loss made by Bangalore branch for the year ended 31.03.2023.
3. Determine the net profit or loss made by Bangalore branch for the year ended 31.03.2023.

Answer:

1. Calculation of stock shortage:

Particulars	(₹)	(₹)
Stock on 1.4.22 at invoice price		24,000
Goods from head office at invoice price		2,64,000
		2,88,000
Less : Returns to head office at invoice price		2,000
		2,86,000
Less : Cash sales	92,000	
Less: Invoice value of credit sales: [160/200 × 2,00,000]	1,60,000	2,52,000
Stock that should have been on 31.12.23 at invoice price ₹34,000		34,000
Less : Actual stock on 31.12.23 at invoice price		30,800
Stock shortage at invoice price		3,200

2.

Dr. **Branch Stock Adjustment Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Goods Sent to Branch A/c		By Balance b/f	
(load on returns from branch) :		(load on opening stock) :	
[60/160 × ₹2,000]	750	[60/160 × ₹ 24,000]	9,000
" Stock Shortage A/c			
(load on stock shortage) :		By Goods Sent to Branch A/c	
[60/160 × ₹3,200]	1,200	(load on goods sent) :	
" Branch Profit and Loss A/c	1,34,500	[60/160 × ₹2,64,000]	99,000
(gross profit transferred)		" Branch Stock A/c	40,000
(balancing figure)		(apparent gross profit)	
" Balance c/f			
(load on closing stock) :			
[60/160 × ₹30,800]	11,550		
	1,48,000		**1,48,000**

3. **Net profit or loss made by Bangalore branch for the year ended 31.03.2023 - ₹97,768**

Dr. **Branch Profit and Loss Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Branch Expenses A/c	34,732	By Branch Stock Adjustment A/c	1,34,500
" Stock Shortage A/c : [100/160 × 3,200]	2,000	(gross profit)	
" General Profit and Loss A/c	97,768		
(branch net profit transferred)			
	1,34,500		**1,34,500**

Working Note:

Dr. **Branch Stock Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f	24,000	By Bank (cash sales)	92,000
01.04.22		" Branch debtors (credit sales)	2,00,000
To Goods Sent to Branch A/c	2,64,000	" Goods Sent to Branch A/c	2,000
" Branch Adjustment A/c	40,000	(returns from branch)	
(apparent gross profit)		" Stock Shortage A/c (see Note 2)	3,200
		" Balance c/f	30,800
	3,28,000		**3,28,000**

Dr. **Branch Debtors Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/f	20,000	By Bank	1,71,268
01.04.22		" Balance c/f	48,732
To Branch Stock A/c (credit sales)	2,00,000		
	2,20,000		**2,20,000**

Working Notes:

(1) When cost price is ₹ 100, list price is ₹ 200 (i.e., cost price plus 100%), and invoice price is ₹ 160 (i.e., list price minus 20%).

Exercise

A. Theoretical Questions:

- **State True or False**

1. In Departmental P&L A/c, insurance on stock should be apportioned based on Average Value of Stock ratio.
2. In the final Balance Sheet closing stock of a department receiving goods from another department at cost plus 10% profit, should be shown at the cost to the receiving department
3. For apparent profit or loss (i.e. difference between sales price and invoice price), journal entry is passed involving Branch Stock A/c and Branch Stock Adjustment A/c.
4. Under Stock Debtors System of Branch Accounting, Branch Stock A/c is maintained at cost price.
5. The objective of keeping Branch Stock A/c at invoice price under Stock Debtors System is to ensure control over stock.
6. Branch Stock Adjustment A/c is used to record the loading on stock and on goods sent and to record the apparent profit or loss.
7. Under Final Accounts method, profit or loss of any branch is ascertained by preparing Branch Profit and Loss Account in place of Branch Account.
8. Under Debtors System of maintaining branch accounts, depreciation does not appear in Branch Account.
9. Stock debtor's system of maintaining branch account is used for independent branch.
10. For independent branch, incorporation of branch trial balance is required.

Answers:

1	**True**	**2**	**False**	**3**	**True**	**4**	**False**	**5**	**True**
6	**True**	**7**	**True**	**8**	**True**	**9**	**False**	**10**	**True**

- **Fill in the Blanks**

1. In branch accounts, in debtor's system, opening balances of assets are ________ to branch account.
2. A branch which keeps complete records of ________ all accounting transactions are called ________.
3. A branch which does not keep the full system of accounting is known as ________.
4. Stock and debtor system is popularly known as ________.
5. Branch account is prepared to ascertain ________ of the branch.
6. The system in which profit and loss made by the branch is determined by preparing branch trading and profit & loss account at cost price is ________ .
7. The account prepared for the ascertaining the amount of gross profit earned by the branch under stock and debtor system is ________
8. The account prepared to adjust the loading included in the value of opening and closing stock at branch is termed as ________.

9. The account prepared in the same way as that when goods are invoice at cost, except that all entries are made at invoice price is termed as ________.

10. The goods sent by the head office may be either at ________ or cost plus profit

Answer:

1	**Debited**	**2**	**Independent branch**
3	**Dependent branch**	**4**	**Analytical Method**
5	**Profit and loss**	**6**	**Final account methods**
7	**Branch adjustment account**	**8**	**Stock reserve and surplus account**
9	**Branch stock account**	**10**	**Cost price**

B. Numerical Questions

Comprehensive Numerical Problems

1. Mr. A, a cloth trader of Kolkata opened a Branch at Nagaon on 1.4.2022. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 25% of the cost price of Head Office. The following are the particulars relating to the transactions of the Nagaon Branch:

Particulars	(₹)
Goods sent to Branch (at cost to H.O.)	4,50,000
Sales : Cash	2,10,000
Credit	3,20,000
Cash collected from Debtors	2,85,000
Return from Debtors	10,000
Discount Allowed	8,500
Cash sent to Branch -	
for Freight	30,000
for Salaries	8,000
for other expenses	12,000
Spoiled clothes written off at invoice price	10,000
Normal loss estimated at	15,000

Prepare Nagaon Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the branch for the year 2022-23.

[**Answer:** Stock Shortage ₹ 17,500; Closing Balance of Branch Debtors Account ₹ 16,500; Gross Profit ₹ 92,000; Net Profit ₹ 20,000]

2. A Nagpur merchant has a branch at Noida to which he charges out the goods at cost plus 25%. The Noida branch keeps its 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: (all figures in ₹)

Stock on 1.1.2023	22000	Allowances to customers	500
Debtors on 1.1.2023	200	Returns inward	1000
Petty cash on 1.1.2023	200	Cheques sent to branch: Rent: ₹ 1,200; Wages: ₹ 400: Salaries : ₹ 1800	
Cash sales	5300		
Goods sent to branch	40000	Stock on 31.12.2023	26000
Collections on ledger accounts	42000	Debtors on 31.12.2023	4000
Goods returned to head office	600	Petty cash on 31.12.2023 (including miscellaneous income not remitted ₹ 50)	250
Bad debts	600		

Prepare the Noida Branch Trading and Profit and Loss Account for the year ending 31.12.2023 in the head office books.

[**Answer:** Gross Profit ₹23,480; General Profit & Loss ₹19,430]

3. A Mumbai head office passes an entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in April, 2023, make the entry in the books of Mumbai head office:

(a) Jaipur branch:

(i) Received goods from Pune branch ₹ 9,000 and Ajmer branch ₹ 6,000.

(ii) Sent goods to Ajmer branch ₹15,000 and Pune branch ₹ 12,000.

(iii) Received bills receivable from Ajmer branch ₹ 9,000.

(iv) Sent acceptances to Pune branch ₹ 6,000 and Ajmer branch ₹ 3,000.

(b) Kolkata branch [apart from (a) above]:

(i) Received goods from Pune branch ₹ 15,000 and Jaipur branch ₹ 6,000.

(ii) Cash sent to Pune branch ₹ 3,000 and Jaipur branch ₹ 6,000.

(c) Pune branch [apart from (a) and (b) above]:

(i) Sent goods to Ajmer branch ₹ 9,000.

(ii) Received bills receivable from Ajmer branch ₹ 9,000.

(iii) Received cash from Ajmer ₹ 5,000.

[**Answer:** Net Adjustment: Jaipur (+) 12,000, Kolkata (-) 12,000, Pune (-) 2,000, Ajmer (+) 2,000]

4. Mr. P is the proprietor of a retail business which has two main departments which sell respectively Computers and Printers. On 31.12.2023, the balances in the books of the business were as follows:

Particulars		Dr. (₹)	Cr. (₹)
Capital			71,000
Sales:	Computers		59,000
	Printers		29,500
Purchases;	Computers	20,000	
	Printers	10,000	
Stock on 1.1.2023:	Computers	2,320	
	Printers	2,136	
Salaries:	Computers	20.560	
	Printers	15,440	
Advertising		615	
Discount allowed:	Computers	400	
	Printers	200	
Drawings		3,000	
Buildings (Cost)		43.000	
Equipment at W.D.V.:	Computers	18,000	
	Printers	7,000	
Debtors and Creditors		10,200	5,319
Bank		5,600	
Rent and Rates		1.580	
Canteen Charges		875	
Heating and Lighting		880	
Insurance of Stock		940	
General Administrative Expenses		2,073	
Total		1,64,819	1,64,819

Additional information —

(i) At 31.12.2023, the following amounts were outstanding:

Salaries — Computers ₹ 250 and Printers ₹ 170; Heating and Lighting ₹ 20.

(ii) The general administrative expenses and the rent and rates included prepayments of ₹ 33 and ₹ 80 respectively.

(iii) Stocks at 31.12.2023 were: Computers ₹ 2,800; Printers ₹ 2,450.

(iv) Depreciation is to be provided on equipment at 10% on W.D.V.

(v) The managers of the Computers and Printers departments are to be paid a commission of 5% of the net profit (prior to the commission payment) of the respective departments.

(vi) In apportioning the various expenses between the two departments due regard is to be given to the following information:

	Number of Workers	Average Stock Levels (₹)	Floor Area (sq.mt)
Hardware	18	5,000	8,000
Electrical	12	4,400	4,000

(vii) The general administrative expenses are primarily incurred in relation to the processing of purchases and sales invoices.

Prepare a Departmental Trading and Profit and Loss Account and the Balance Sheet.

[**Answer:** Net Profit of Computer ₹11,471 and Printers ₹19,814; Total of Balance Sheet ₹86,663]

5. Department A sells goods to department B at a profit of 25% on cost and to department C at 10% profit on cost. Department B sells goods to A and C at a profit of 15% and 20% on sales, respectively. Department C charges 20% and 25% profit on cost to department A and B respectively.

Department managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging manager's commission, but before adjustment of unrealised profit are as under:

	(₹)
Department A	36,000
Department B	27,000
Department C	18,000

Stock lying at different departments at the end of the year are as under:

	Dept. A	Dept. B	Dept. C
	(₹)	(₹)	(₹)
Transfer from Department A	–	15,000	11,000
Transfer from Department B	14,000	–	12,000
Transfer from Department C	6,000	5,000	–

Find out the correct departmental profit after charging manager's commission.

[**Answer:** Correct departmental profits Dept. A ₹32,400, Dept. B ₹22,950, Dept. C ₹16,200]

Unsolved Case(s)

M/s Jai Traders, a manufacturer of ceramic utensils has been in business for last 36 years. In the year 2016-17, it decided to open a branch for cater to their customers in the eastern part of India. It was decided by the senior management members to open the branch at Patna. The Patna branch ultimately started its operations from January 1, 2018. Over the years, its business gradually grew in the eastern states of the country. The following particulars relate to Patna branch for the year ending March 31, 2023:

Particulars	(₹)
Balances on April 1, 2022:	
Stock	40,000
Debtors	14,000
Petty cash	1,500
Furniture	12,000
Prepaid fire insurance premium	1,150
Outstanding salaries	2,100
Goods sent to branch	2,80,000
Cash sales	3,30,000
Credit sales	1,83,000
Cash received from debtors	1,35,000
Cash paid by debtors direct to head office	22,000
Discount allowed	1,100
Cash sent to branch for expenses:	

Particulars	(₹)
Rent: ₹ 12,000; Salaries; ₹ 5,400; Petty cash: ₹ 4,000; Insurance premium (from 1.4.2021 to 31.3.2023)	
Goods returned by the branch	4,000
Goods returned by the debtors	7,000
Stock at branch on 31.03.2023	38,000
Petty expenses paid by the branch	2,850
Loss of stock by fire	4,800

It is the policy of the organisation to provide depreciation on furniture @ 10% p.a.

1. Determine the amount due from Branch debtors as at the end of the financial year 2022-23.
2. Ascertain the amount of profit or loss at Kanpur Branch for the year ending 31.03.2023 by preparing Branch Account in the books of Jaipur head office.