

STUDY MATERIAL

COURSE : I B.Com
SEMESTER : II
SUBJECT : FINANCIAL ACCOUNTING
UNIT : II

SUBJECT CODE: 18BCO23C

UNIT – II Branch Accounts (Excluding Foreign Branch) and Departmental Accounts.

Introduction

As a business grows, it may open branches in different towns and cities within country or outside country in order to market its product over a large territory and, thus, increase its profits. A branch may be defined as a section of an enterprise, geographically separated from the rest of the business, controlled by a Head Office and generally carrying on the same activities as of the enterprise. For example, Bata Shoe Co. has branches in various cities all over the country. The same example holds good for a commercial bank also.

Meaning of Branch

The term 'Branch Accounts' refer to record of transaction of branches, whether relating to deal with Head Office or with outsiders or deal between different branches in the books of Head office. In order to exercise greater control over the branches, it is necessary to ascertain profit or loss made by such branches separately. For this purpose, a proper accounting system is to be adopted for recording business transactions between Head Office and Branches. The accounting system to be adopted for the branch depends upon the size and nature of branch and the degree of control required by the Head Office.

Type of Branches

- A. Dependent Branches
- B. Independent Branch
- C. Foreign Branch

A. Dependent Branches

Dependent branches are those branches which are not keeping their own separate set of books of accounts. The relation between head office and branch is just like agency, therefore, these are also known as agency branches. The following are the salient features of such a branch:

- (i) These branches generally depend upon the head office for supply of goods. However, the branch may be allowed to make purchases from the local parties.
- (ii) All expenses of the branch are directly paid by the head office.
- (iii) In order to meet the petty expenses of the branch, e.g., conveyance expenses, entertainment expenses etc., may be provided with the petty cash from the head office.
- (iv) Normally branches receiving goods from head office selling for cash only but also selling on credit if it is authorised by the head office.
- (v) Cash received from branch from its debtors or on account of cash sales is daily remitted to head office or deposited into a bank account opened in the name of the head office.
- (vi) Such branches maintain certain memorandum records only such as cash book, debtors account and stock registers.

Accounting procedure :

In case of a dependent branch, the head office may keep accounts of the branch according to the following methods:

1. Debtors or Direct Method
2. Stock and Debtors Method
3. Wholesale Branch Method
4. Final Accounts Method

Debtors or Direct Method

Under this method, head office opens one account for one branch. This account is called Branch Account . The object of this account is to disclose branch profit or loss. This branch account is a nominal account. The head office maintains this account in its books. Normally this method is followed in case of branches of small size. On the basis of nature and size of branch, the dependent branch can be divided into three parts for the purpose of recording transactions in the books:

(a) Branch receiving goods from head office at cost price and making cash sales only :

These branches receive goods from head office at cost price, sell for cash only and remit the cash collected to the head office. All expenses of the branch are directly paid by the head office. These branches do not make its own set of books. To find out the profit or loss of these branches, the following accounting entries are passed in the books of the head office:

1. When the opening balances of assets at the branch :
 Branch A/c Dr.
 To Opening Stock A/c
 To Opening Petty Cash A/c
 To Opening Balance of Other Assets
 (For opening balances at the branch)
2. For opening Creditors and outstanding
 Opening Creditors A/c Dr.
 Outstanding Liabilities A/c Dr.
 To Branch A/c
 (Being opening balance of liabilities at the Branch)
3. For goods supplied by the Head office to the branch:
 Branch A/c Dr.
 To Goods Supplied to Branch A/c
 (For goods supplied to branch)
4. For expenses at the branch met by the head office:
 Branch A/c Dr.
 To Cash or Bank A/c
 (For amounts sent to branch for expenses)
5. For goods returned by the branch to the Head Office:
 Goods Supplied to Branch A/c
 To Branch A/c
 (For goods returned by Branch)
6. For amount sent to branch for petty expenses:
 Branch A/c Dr.
 To Cash A/c
 (For amount sent to branch for petty expenses)
7. For remittances received from branch:
 Cash A/c Dr.
 To Branch A/c
 (For cash received from branch)

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

Closing Stock A/c Dr.

Closing Petty Cash A/c Dr.

Closing Balances of Other Assets Dr.

To Branch A/c

(For closing balances at the branch)

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

General Profit & Loss A/c Dr.

To Branch A/c

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

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

Goods Supplied to Branch A/c Dr.

To Trading A/c

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

Branch Account in the books of Head Office

If branch account is to be prepared on the basis of above mentioned entries, it will appear as follows:

In the books of Head Office

Branch Account

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

Problem No. 1.: Hindustan Ltd. has a branch at Bhopal. Branch has to remit daily cash receipts to the head office and all expenses of the branch are paid by the Head Office directly. Following are the transactions between Head office and branch for they year ended 31stMarch,2016:

Stock at Branch on 1Aril 2015	6,000
Goods supplied to Branch during the year	1,20,000
Cash sent to Branch for:	
Rent	1,100
Salaries	9,000
Insurance	300
Goods returned by branch	3,000
Cash sent to Branch for Petty expenses	500
Cash received from the branch during the year	1,20,000

Cash sent by branch on 29March 2016	5,000
Stock at Branch on 31st March 2016	10,000
Balance of Petty Cash on31stMarch 2016	50
Outstanding Rent on 31st March 2016	100

Problem No. 2.: Ram Brothers of Delhi opened a branch at Kanpur on 1 April 2014. From the following

figures, prepare Kanpur Branch Account in the books of Sincere Brothers of the year ending March.31,2015and2016.

Goods sent to Kanpur Branch	1,00,000	1,20,000
Expenses paid by the Head Office–		
Rent	1,200	1,200
Salaries	6,000	6,000
Advertisement	600	800
Cash sales at Branch	1,20,000	1,65,000
Remittance received from the branch	—	1,60,500
RemittancemadeonMarch30,stillintransit	—	4,000
Expenses paid by the branch		
Cartage	200	250
Petty Expenses	300	400
StockonMarch31	20,000	30,000
PettycashinhandonMarch31	200	-

B) Branch receiving goods from head office at cost price and making both cash and credits sales :

If branch is authorised to sale goods cash as well as credit, the following entries are also included in respect of credit sales in addition to the above entries discussed earlier:

- (i) Opening balance of debtors
- (ii) Cash received from debtors
- (iii) Closing balance of debtors

For the above items, the following journal entries are made by the H .O.:

- (i) Branch A/c Dr.
 To Branch Debtors A/c
(For opening balance of debtors)
- (ii) Cash A/c Dr.
 To Branch A/c
(For cash received from debtors)
- (iii) Branch Debtors A/c Dr.
 To Branch A/c
(For closing balance of debtors)

Posting in Branch Account :

The posting of above entries in branch account is as following:

Branch Account

To opening Balance of Debtors	-----	By Cash received from Debtors	-----
		By Closing Balance of Debtors	-----

The effect of posting of three items in branch account is that net sale are automatically credited. In other words, sales returns, discount and allowances allowed, bad debts have already been deducted from sales. Hence no entry is required to be passed by the head office in branch account in respect of the following:

- (i) Goods sold on credit
- (ii) Goods returned by debtors
- (iii) Discount allowed to debtors
- (iv) Bad debts written off
- (v) Allowance allowed to debtors

It is to be remembered that above given five items must be shown in Branch Debtors A/c.

Missing Item

Under direct method, it is necessary to know three items for recording—opening balance of debtors, cash received from the debtors and closing balance of debtors. If any item of these is not given in the question, it is a missing figure. This can be calculated by preparing branch debtors account. The format of branch debtors account is as follows:

Branch Debtors Account

To Balance b/d (Opening balance of debtors either given or balancing figure)		By Cash received from Debtors (either given or balancing figure)	
To Credit Sales		By Discount Allowed	
		By Allowance Allowed	
		By Bad Debts A/c	
		By Sales Returns A/c	
		By B/RA/c	
		By Balance c/d (Closing balance of debtors, either given or balancing figure)	

Points worth noting

The following points should be kept in mind while recording transactions in the branch account.

1. Credit sales, bad debts, discount allowed, returns from debtors to branch are not direct transactions from the head office and as such they are not recorded in the branch account. If the branch has received a bill of exchange, it will be sent to the head office. The entry then will be to debit bills receivable account and credit branch account.
2. Shortage/surplus: Pilferage, wastage and other losses of goods due to normal or abnormal reasons are totally neglected under this method.
3. Depreciation: Depreciation of branch fixed assets is not shown in the branch account. However, opening balance of the fixed assets is shown on the debit side of branch account and closing balance of the fixed assets is shown on the credit side of the branch account after deducting the amount of depreciation.
4. Goods in transit: It is the difference between goods sent by head office and received by the branch. Such goods should be shown in the debit side of Branch Account by adding to goods received by branch (i.e., goods supplied to the branch: Goods received by Branch + Goods in transit) and credited to branch account.

5. Petty Cash:

(a) When petty cash is maintained on imprest system:

In this case, petty expenses paid by the branch manager out of petty cash balance must be reimbursed by the head office and these expenses must be debited to the branch account. However, the same opening and closing balances of petty cash is to be shown on the debit and credit side respectively of the branch account.

6. Purchase of fixed assets by the branch : When the branch has purchased any fixed asset for cash, the remittance from the branch to head office is to be reduced by the amount and fixed asset should be shown on credit side of branch account as closing balance of assets. If the branch has purchased any fixed asset on credit basis, the liability arising from such purchases should be Shown on the debit side of branch account as closing balances of liabilities.

7. Sale of fixed assets: When the branch has sold any fixed asset for cash, the sale proceeds is remitted to head office and assets will reduces in value to be shown on the credit side of the branch account.

8. Amounts received from insurance company: When the branch has received any compensation from the insurance company for loss of stock or for any other assets damaged at the branch, such amount will be remitted to the head office. As a result, the amount of remittance from the branch will increase. In case, the amount of compensation is not yet received from the insurance company till the end of the accounting period, the claim due tom insurer will be taken as an asset and shown on the credit side of the branch account.

9. If opening debtors, or cash received from debtors or closing debtors is missing, a branch debtors account should be prepared to find the missing items balancing figure.

When Goods are invoiced at selling price (i.e., Invoice price method)

Sometimes head office sends goods to branch at invoice price. The invoice price is also termed as selling price (i.e., cost plus some percentage of profit)

(i) For profit included in the opening stock

Stock reserve account A/c Dr.
 To Branch Account

(ii) For profit on net goods sent to Branch (i.e., Goods sent to branch Goods returned to H.O.)

Goods sent to Branch A/c Dr.
 To Branch A/c

(iii) For Profit included in the closing stock

Branch A/c Dr.
 To Stock reserve A/c

II Stock and Debtors system (Analytical method)

If it is desired to exercise a more detailed control over the working of a branch, the accounts of the branch are maintained under what is described as the stock and debtors method. In this method, the head office keeps separate accounts relating to various types of transactions at the branch instead of one branch account. The following accounts are kept in the head Office books relating to a branch under this system

- Branch Stock Account
- Branch Debtors Account.
- Branch Expenses Account.
- Branch Adjustment Account (required only when the goods are sent at invoice price)
- Branch Profit and Loss Account.
- Goods sent to the Branch Account

Problem No. 3. Concept & Co., with its Head Office at Mumbai as a branch at Nagpur. Goods are invoiced to the Branch at cost plus . The following information is given in respect of the branch for the year ended 31st March, 2006: % 3 1 33

Particulars	
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2005 (Invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the Branch	6,000
Branch expenses (paid in cash)	53,500
Branch debtors balance on 1.4.2005	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch debtors cheques returned dishonoured	5,000
Stock at Branch on 31.3.2006 (Invoice price)	48,000
Branch debtors balance on 31.3.2006	36,500

Problem No. 4. P.O. Ltd. Calcutta, started a branch in Bombay on 1st April, 2018 to which goods were sent at 20% above cost. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for year ended on 31st March, 2019.

- Cost of goods sent to Branch 50,000
- Goods received by Branch till 31st March, 2019 at invoice price 54,000
- Credit sales for the year 58,000
- Debtors as on 31st March, 2019 20,800
- Bad Debts and Discount written off 200
- Cash remitted to H. O. 43,000
- Cash in hand at Branch on 31st March, 2019 2,000
- Cash remitted by H.O. to Branch during the year 3,000
- Closing stock at Branch (at invoice price) 6,000
- Expenses incurred at Branch 12,000

Determine the Profit or Loss of the Branch for the year ended on 31st March, 2019, according to Stock and Debtors system in the books of the Head Office.

Problem No. 5. Bombay traders Ltd. sends goods to its madras Branch at cost plus 25 percent. The following particulars are available in respect of the branch for the year ended 31st March 2018. `

- Opening stock at branch at cost to branch(I.P of H.O) 80,000
- Goods sent to branch at invoice price 12,00,000
- Loss in transit at invoice price 15,000
- Pilferage at invoice price 6,000
- Sales 12,19,000
- Expenses 60,000
- Closing stock at branch at cost to branch 40,000
- Recovered from insurance company against loss in transit 10,000

Show ledger Accounts in the head office books for: (a) Branch stock account (c) Goods sent to branch account (b) Branch adjustment account (d) Branch profit and loss account

III Whole sale Branch system

Sometimes, head office opens its own retail branches and sells goods through them in addition to selling goods through wholesalers. The head office invoices the goods to the wholesalers at wholesale price while branches sell goods to the consumer at retail price. Since retail price is more than the whole sale price, hence more profit is earned on sales through its own branch but the entire profit can not be treated as branch's profit. However, the branch's profit will be equal to the difference between wholesale price and retail price and remaining profit,

Problem No. 6. From the following particulars ascertain the profit made at H.O. and branch for the year ending 31st Dec. 2011:

	Head Office Rs.	Branch Rs.
Stock on 1.1.2011	3,50,000	—
Purchases	21,00,000	—
Goods sent to Branch (at invoice prices)	7,56,000	—
Sales	21,42,000	7,20,000
Stock on 31.12.2011	8,40,000	1,26,000

Sales at Head office are made only on wholesale basis and that at branch only to customers. Stock at H.O. is valued at Invoice Price.

Solution

In the books of H.O. Green Ltd.
Pune Branch Trading Account for the year ended 31st Dec. 2011

Particulars	Head Office Rs.	Branch Rs.	Particulars	Head Office Rs.	Branch Rs.
To Opening Stock (I.P.)	3,50,000	—	By Good sent to Branch A/c (I.P.)	7,56,000	—
" Goods sent to Branch (I.P.)	—	7,56,000	" Sales	21,42,000	7,20,000
" Purchases	21,00,000	—	" Closing Stock (I.P.)	8,40,000	1,26,000
" Gross Profit to c/d	12,88,000	90,000		<u>37,38,000</u>	<u>8,46,000</u>
	<u>37,38,000</u>	<u>8,46,000</u>			
To Stock Reserve—Closing			By Gross Profit b/d	12,88,000	
Provision for unrealised			" Stock Reserve		
Profit on closing stock			—Opening		
Branch Stock	36,000 ³		Provision for		
H.O. Stock	2,40,000 ²		unrealised profit	1,00,000 ¹	
" General P & L A/c					
—Net Profit transferred	11,12,000			<u>13,88,000</u>	
	<u>13,88,000</u>				

IV Final Accounts Method

Independent Branch The branches that can keep their accounts themselves and sell goods that are sent by the head office, as well as those purchased by themselves, are known as independent branches. When the size of the branches is very large their function becomes complex. Independent Branch, like the Head Office, keeps all its records separately and independently on Double Entry System. In such a situation it is desirable or practicable for each branch to establish its double-entry bookkeeping system quite separate from those of head office under this system of branch accounting. These are the branches which can sell the goods to the head office too. It is legally and organisationally a part of the enterprise of the foreign headquarters and to its extent subject to the law of the foreign headquarters.

They can pay their own expenses and can deposit their collection in their own name in the bank. It prepares its own trial balance and final accounts. These branches are those which make purchases from outside, get goods from Head Office, supply goods to Head Office and fix the selling price by itself. It has to send only the trial balance and final accounts at the end of the year. These branches record separately and independently all the transactions which are even recorded by the head office. The profit and loss are found out by the branch and remitted to H.O. at the end of the year. Steps involved in preparing accounts of independent branches: Reconciliation, Adjustment, and Incorporation.

Characteristics of an Independent Branch:

- Such Branch gets goods from Head Office and from outside parties. It has its own Bank Account.
- It prepares its own Trial Balance, Trading and Profit, and Loss Account and Balance Sheet.
- There may be inter-branch transactions. That is, goods transferred by one Branch to another Branch of the same Head Office.
- A combined Balance Sheet of branch and H.O is prepared by the branch.

Inter-Branch Transactions:

When a Head Office has several Branches, transactions may take place among themselves and such transactions are known as inter-branch transactions. No branch need carry an account with any other Branch. Inter-branch transactions are treated as the transactions with the Head Office.

The entries are:

In the books of Sending Branch	Head Office Account To Goods Supplied Account	Dr.
In the books of Receiving Branch	Goods Received Account To Head Office Account	Dr.
In the books of Head Office	Receiving Branch Account To Sending Branch Account	Dr.

In-transit Items:

Ordinarily, the balance shown by Branch Current Account in Head Office books is equal to the balance shown by Head Office Current Account in Branch books. The balances on these Current Accounts should be same, but in opposite sides, in both the set of books.

For goods supplied by head office to branch:

Branch book:

Goods supplied by head office A/C.....Dr.
To Head office A/C
(Being receipt of goods)

Head office book:

Branch A/C.....Dr.
To goods supplied to branch A/C
(Being goods sent to branch)

2. For cash remitted by head office to branch:

Branch book:

Cash A/C.....Dr.
To head office A/C
(Being cash received)

Head office book:

Branch A/CDr.
To cash A/C
(Being cash sent to branch)

3. For goods returned by branch:

Branch book:

Head office A/C.....Dr.

To goods supplied to head office A/C

(Being goods return to head office)

Head office book:

Goods supplied from branch A/C.....Dr.

To Branch A/C

(Being goods returned from branch)

4. For cash remitted by branch to head office:

Branch book:

Head office A/C.....Dr.

To cash

(Being cash sent to head office)

Head office book:

Cash A/C.....Dr.

To Branch A/C

(Being cash received from branch)

5. For assets purchased by branch on behalf of head office:

Branch book:

Head office A/CDr.

To cash A/C

(Being purchase of assets)

Head office book:

Branch assets A/C.....Dr.

To branch A/C

(Being assets purchased by branch)

6. For depreciation charged:

Branch book:

Depreciation A/CDr.

To Head office A/C

(Being depreciation on branch fixed assets)

Head Office book:

Branch A/C.....Dr.

To branch assets A/C

(Being depreciation of branch fixed assets)

7. For expenses incurred by head office

Branch book

Expenses A/C.....Dr.

To head office A/C

(Being expenses incurred by head office)

Head office book:

Branch A/C.....Dr.

To profit and loss A/C

(Being expenses incurred for branch)

Problem No. 7 : P.O. Ltd. Calcutta, started a branch in Bombay on 1st April, 1983 to which goods were sent at 20% above cost. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for year ended on 31st March, 1984

Cost of goods sent to Branch	50,000
Goods received by Branch till 31 st March, 1984 at invoice price	54,000
Credit sales for the year	58,000
Debtors as on 31 st March, 1984	20,800
Bad Debts and Discount written off	200
Cash remitted to H. O.	43,000
Cash in hand at Branch on 31 st March, 1984	2,000
Cash remitted by H.O. to Branch during the year	3,000
Closing stock at Branch (at invoice price)	6,000
Expenses incurred at Branch	12,000

Determine the Profit or Loss of the Branch for the year ended on 31st March, 1984, according to Stock and Debtors system in the books of the Head Office.

Problem No. 8 : Dreams Unlimited opened a Branch at Delhi on 1st April, 2001. The goods were sent by the Head Office to the Branch and invoiced at selling price of the Branch which was 125% of the cost price of the head office.

The following are the particulars relating to the transactions of Delhi Branch:

Goods sent to branch (at cost to Head Office)	2,80,000
Sales:	
Cash	1,25,000
Credit	1,75,000
Cash collected from Debtors	1,56,000
Discounts allowed	4,000
Returns from Debtors	5,000
Cash sent to branch for:	
Wages	3,000
Freight	11,000
Other Expenses	<u>6,000</u> 20,000
Spoiled cloth in bales written off at invoice price	500
Closing Stock	55,500

Ascertain the profit or loss for the Delhi Branch for the year ended 31st March, 2002 after preparing Branch Stock Account and Branch Debtors Account.

Problem No. 9 : Bombay traders Ltd. sends goods to its madras Branch at cost plus 25 percent. The following particulars are available in respect of the branch for the year ended 31st March 1988.

Opening stock at branch at cost to branch(I.P of H.O)	80,000
Goods sent to branch at invoice price	12,00,000
Loss in transit at invoice price	15,000
Pilferage at invoice price	6,000
Sales	12,19,000
Expenses	60,000
Closing stock at branch at cost to branch	40,000
Recovered from insurance company against loss in transit	10,000

Show ledger Accounts in the head office books for:

- | | |
|-------------------------------|------------------------------------|
| (a) Branch stock account | (c) Goods sent to branch account |
| (b) Branch adjustment account | (d) Branch profit and loss account |

Problem No. 10 : Martin & Co. is a retail organisation with a number of branch shops. All accounts are kept at the head office, and goods sent to branches are recorded at cost plus the expected mark up of 33 1/3 percent. The accounting system is designed to give the head office as much control as possible over the branch stocks.

At the Calcutta branch at 1st April 1995, goods costing ` 1,200 in stock, but some of these costing ` 150, Had

been reduced in selling price to ₹ 160. The balances of the Calcutta debtors accounts totalled ₹ 920 at the same date.

The following information relates to the Calcutta branch for the year to 31st March, 1996 at the end of that year:

Goods sent to branch (cost)	18,600
Cash sales (including all the goods marked down at the beginning of the year and others costing ₹ 1,800 sold for half of the normal selling price)	16,060
Cash received from debtors	6,280
Goods returned by branch debtor direct to head office (selling price)	80
Bad debts written off	30
Closing stock of goods at selling price	2,400
Closing total of debtors balances	830

You are required to prepare the relevant accounts for the Calcutta branch, and calculate the branch profit for the year.

DEPARTMENT:

A Department is a division or segment established by the parent organization to attain common and specified operational functions. Individually each department is responsible for its profit or loss.

The Department accounts are the set of accounts prepared to evaluate each department or division's operational performance and trading results. These are prepared at any given time to evaluate the earning capacity and find the operational leakage.

Where a huge business with various trading activities is conducted under one roof, it is generally divided into a number of departments and each department deals with a particular kind of goods or service.

A **departmental accounting system** is an information system that records the financial activities of individual departments in situations where a firm or a company has two or more departments. After all, it would be difficult to assess the performance of an individual department if the financial information of several different departments were put together.

Advantages of Departmental Accounting:-

1. Individual results of each department can be known i.e. it helps to know whether the department makes a profit or suffers a loss.
2. It helps to compare the performances among all the departments and helps the management to make proper plans of action, policies in order to increase profit after analyzing the results of the operation of various departments.

3. It helps to take a decision on the basis of the results of each department for further investment or disinvestment. It helps to understand which department should be expanded further or which one should be closed down as per the results of the operation.
4. It helps to reward the manager of each department with incentives and remuneration.
5. The trading results of each department may help to assess the performance of each department. The sales of the maximum profit making department may be pushed up by special efforts.
6. The profitability of each department may help the management to taking a decision whether to drop the department or add a new department.
7. The growth prospects of a department can be an evaluation by having a comparison with the other departments.
8. The users of accounting information can be provided with more detailed information like the shareholders, investors, creditors, auditors etc.
9. The overall profits of the organization can be increased by having a friendly competition between different departments.
10. On the basis of the departmental results, department managers and staff can be suitably rewarded. Also, it encourages the management, employees and increases the motivation of the staff as a whole.
11. It helps the management to determine whether the capital invested has been properly utilized or not in every department.
12. It helps to have a comparison of various expenses of each department with the previous period and also with other departments of the same business.
13. It helps to know the efficiency of each department by calculating a stock turnover ratio of each department to disclose the rapid or slow movement of various items of stock.
14. The information provided by departmental accounts may be helpful to the management for future planning and control.

Difference between Departmental accounting and branch accounting is as follows:

S.No.	DEPARTMENT ACCOUNTING	BRANCH ACCOUNTING
1.	Departments are located under the same roof of the main organization.	Branches are located separately in different places from the main organization.
2.	All accounts are maintained at one place and departmental trading and profit and loss account is prepared accordingly	In the case of a branch, all branch accounts are kept at Head Office except cash; customer register and stock register are maintained at a branch.
3.	Departments are not geographically separated from each other. Thus the problem of allocation of common expenses between different departments arises and it is a tough job.	As branches are geographically separated from each other so there is no need to allocate common expenses between different branches.
4.	The problem of conversion of foreign currency into home currency does not arise.	The problem of conversion of foreign figures of a branch may arise at the time of finalization of accounts of the head office.
5.	The question of adjustments and reconciliation of	In the case of an independent branch, some

	accounts does not arise in departmental accounts because there is no central account division.	adjustments and reconciliations are required to be done at the end of the year. To find out the net result of organization the reconciliation of branches is the main job.
6.	Departmental trading with their head office is conducted under the same roof although each department deals with a separate line of activity.	Branch trading is carried out in different parts of the country under the head office dealing with usually the same line of activity.
7.	The accounts maintained are Departmental trading and profit and loss account, General profit and loss account	The accounts maintained are Branch stock account, Branch adjustment account, Branch debtors account, Branch expenses account.
8.	These are comparatively less expensive as a small team of accountants can be appointed to maintain the accounts.	Branch accounts are expensive to maintain as it involves a big team of accountants to maintain accounts for each branch.

Allocation of Department Expenses:

1. Some expenses, which are specially incurred for a particular department, may be charged directly to the respective department. For example, hiring charges of transport for the delivery of goods to the client may be charged to the selling and distribution department.
2. Some expenses may be allocated according to their uses. For example, electricity expenses may be divided according to the units used by each department or by sub-meter of each department.

Examples of some expenses which are not directly related to any particular department may be dividing as follows –

1. Cartage Freight Inward expenses may be divided according to the purchase of each department.
2. Depreciation may be divided according to the value of assets employed in each department.
3. Repairs and Renewal Charges of the assets may be divided according to the value of the assets used by each department.
4. Managerial Salaries should be divided according to the time spent by the manager in each department.
5. Building Repair and Insurance, Rents & Taxes, etc.– All the expenses related to the building should be divided according to the floor space occupied by each department.
6. Selling and Distribution Expenses– All the expenses relating to selling and distribution expenses should be divided according to the sales of each department, such as freight outward, salary and commission paid to salesmen, after-sales services expenses, bad debts, and discounts, etc.
7. Insurance of Plant & Machinery– the value of such Plant & Machinery in each department is the basis of the insurance.
8. Employee/worker Insurance– Charges of group insurance should be divided according to the direct wage expenses of each department.

9. Power & Fuel will be allocated according to the working hours and power of the machine.

Problem No. 1 The following purchases were made during the year 1989 by a business house having three departments:

Department	A 1000 units	}	at total cost of Rs. 1,00,000
	B 2000 units		
	C 2400 units		

Stock on 1st January 1989 were:

Department	A 120 units
	B 80 units
	C 152 units

The sale during 1989 were :

Department	A 1,020 units at Rs. 20 each
	B 1,920 units at Rs. 22.50 each
	C 2,496 units at Rs. 25 each

The rate of gross profit is the same in each case, Prepare Department Trading Account for the year 1989. Ans. Dr. Departmental Trading account for the year 1989

Problem No. 2. Firm has two departments, Timber and Furniture. Furniture was made by the firm itself out of timber supplied by the Timber Department. The trading and Profit and Loss Accounts for the year 1992 is as follows:

	Timber(Rs.)	Furniture(Rs.)
Opening Stock (1.1.1992)	3,00,000	50,000
Purchase	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to Furniture Deptt	3,00,000	-
Expenses — Manufacturing	-	60,000
— Selling	20,000	6,000
Stock – 31-12-1992	2,00,000	60,000

The Stocks in the Furniture Department may be considered as consisting of 75 percent of timber and 25 percent other expenses. Timber Department earned gross profit at the rate of 20 percent in 1991. General expenses of the business as a whole came to Rs. 1,00,000. prepare Departmental Trading Account and consolidated Trading Account for the year ending 31st March 1992.

Problem No.3. Telerad & Co. has two departments A and B. From the following particulars, prepare Departmental Trading Account and consolidated Trading Account for the year ending 31st March 1993

	Deptt. A Rs.	Deptt. B Rs.
Opening stock (at cost)	1,00,000	60,000
Purchases	4,60,000	3,40,000
Wages	60,000	40,000
Sales (excl. inter transfers)	7,00,000	5,60,000
Carriage	10,000	10,000
Purchased goods transferred :		
By B to A	50,000	-

	By A to B		40,000
Finished goods transferred :			
	By B to A	1,75,000	-
	By A to B	-	2,00,000
Return of finished goods :			
	By B to A	50,000	-
	By A to B	-	35,000
Closing stock : Purchased goods	22,500		30,000
Finished goods	1,20,000		70,000

Purchased goods have been transferred at their respective departmental purchase cost and finished goods at departmental market price. 20% of finished stock (closing) at each department represented finished goods received from the other department.

Problem No.4 : Moon Ltd. three departments. They are 'Cloth Stitching Deptt', Selling Departments and General Administration Department. Cloth Deptt. Transfers its goods to Selling Deptt. 20% profit on Cost. From the following details, prepare Departmental Trading A/c and Profit and Loss A/c for the year ended 31st Dec. 2002.

	Cloth Stitching	Selling Deptt. Rs.
Rs		
Opening Stock	1,20,000	80,000
Purchase	5,00,000	---
Wages and other Exp.	1,25,000	25,000
Clothing Stock	45,000	95,000
Sales	----	11,05,000

During the year goods costing Rs. 50,000 to selling department, were returned back to cloth department.

The expenses of General Admn. Deptt. are as follows:

Manager's Salary @ Rs. 1,000 p.m

Clerk's Salary (2 Nos.) @ Rs. 600 p.m (each)

Maintenance Expenses Rs. 9,600

Apportion General Deptt. Expenses equally to the 'Cloth stitching' and 'Selling Deptt.

Problem No.5 : Complex Ltd. has three departments. AB & C The following information

	A (Rs.)	B(Rs.)	C(Rs.)
Opening Stock	3,000	4,000	6,000
Consumption of Direct Materials	8,000	12,000	--
Wages	5,000	10,000	--
Closing Stock	4,000	14,000	8,000
Sales			34,000

Stocks of each department are valued at cost to the department concerned. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost.

Other expenses were :

Salaries Rs. 2,000

Printing & Stationery Rs. 1,000

Rent	Rs. 6,000
Interest paid	Rs. 4,000
Depreciation	Rs. 3,000

Allocate expenses in the ratio of departmental gross profit. Opening figures of reserves for unrealized profits on departmental stocks were: Department B -Rs. 1,000. Departmental C – 2,000. Prepare Departmental Trading and Profit & Loss Account.

Problem 13. Fairways limited is a retail organization with several departments. Goods supplied to each department are debited to a memorandum departmental stock account at cost plus a fixed percentage (mark-up) to give the normal selling price. The mark up is credited to memorandum departmental mark up account ,any reduction in selling prices (Mark-down) will require adjustment in stock account and in mark-up account. The mark up for department A for the last three years has been 40%. Figures for the year ended 30th June, 1998 were as follows :

Stock 1st July, 1997, at cost 80,000

Purchases at cost 1,80,000

Sales 3,20,000 It is further ascertained that;

(i) Goods purchased in the period were marked down by Rs.1,400 from a cost of Rs. 16,000.

Such Marked down stock costing Rs. 4,000 remained unsold on 30th June 1998.

(ii) Stock shortages at the year end which had cost Rs. 1,200 were to be written off.

(iii) Stock at 1st July 1997 includes goods costing Rs. 8,200 which had been sold during the year and had been marked down in the selling price by Rs. 740. You are required to prepare A departmental trading account for the year ended June 1988 in head office books. A memorandum stock account for the year; & memorandum mark-up account for the year.