

BRANCH ACCOUNTING.

A branch is a segment or part of a business situated at another part away from the entities head office. A branch belongs to a business that has already been established and therefore branches have no share capital.

PURPOSE FOR BRANCH ACCOUNTING

1. To ensure proper control of branches.
2. To safeguard the cash and inventory of goods in the hands of branches.
3. To ascertain the profit and loss from the branch's operations.
4. To compare the profitability of different branches.
5. To maintain adequate records regarding the transactions between head office and branches.
6. To calculate commission to managers in based on the profits of the branch.

Types of branches.

1. **Dependent branches**-this is a small branch whose main activity is to sell the goods supplied by the head office. They do not maintain accounting records. The accounting records are usually maintained by the head office.
2. **Independent branches**-they are branches which operates as separate business from the business that has established them (head office). They maintain their own set of accounting record. In addition to the goods supplied to them by the head office, they may have authority to purchase goods locally.
3. **Foreign branches**-these are branches located in a foreign country. They can either maintain their own accounting record or they can be maintained by the head office.

Ledger accounts maintained where goods are sent to branches at selling price/cost plus markup. (Dependent branches)

1. Branch stock account.
2. Goods sent to branch account.
3. Branch debtors account
4. Markup /stock adjustment/provision for URP account.
5. Branch expenses account.

Journal entries

1. Goods sent to the branch

Dr: Branch stock account (invoice price)
Cr: Goods sent to branch (at cost)
Cr: Branch mark-up account (profit)

2. Goods returned to head office by branch

Dr: goods sent to branch-cost
Dr: branch mark-up account-profit
Cr: branch stock account-invoice price

3. Sales made by branch

Dr: cash/bank/debtor
Cr: branch stock account

4. Returns of good by branch customer

Dr: branch stock account
Cr: debtors account

5. Returns of good by branch customer to head office

Dr: goods sent to branch account-cost
Dr: branch mark-up account-profit
Cr: branch debtor's account

6. Goods stolen in the branch

Dr: goods stolen/loss account-at cost
Dr: branch mark-up account
Cr: branch stock account-invoice price

7. Cash sales stolen

Dr: cash stolen account
Cr: branch stock account

8. Increase in price in the branch

Dr: branch stock account
Cr: branch mark-up account

9. Transfer of goods from one branch to another

a. ***Books of receiving branch***

Dr: branch stock account-invoice price
Cr: branch mark-up account.

b. ***Books of selling branch***

Dr: Goods sent to branch account
Dr: branch mark-up account
Dr: Goods sent to branch account
Cr: branch stock account-invoice

Balancing goods sent to branch account-this account is balanced and its balancing figure is closed to purchases account.

ILLUSTRATION 1.

X Ltd deals in electronics goods. The head office is in Nairobi and has branches all over the country. All purchases are made by the head office and goods are charged to branches at cost plus (mark-up) 25%. The following information relates to Nakuru branch for the year ended 31/12/2024.

Opening balances 1/1/2024.

Branch inventory (invoice price)	300,000
Branch debtors	450,000

Closing balances 31/12/2024.

Branch inventory (invoice price)	250,000
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Transactions for the year

Goods sent by the head office to branch (invoice price)	2,500,000
Goods returned by branch to head office (invoice price).	200,000
Cash sales	800,000
Credit sales	2,700,000
Returns from customers to branch	100,000
Discount allowed.	30,000
Bad debts written off	20,000
Branch expenses	500,000
Goods stolen at branch	30,000
Cash sales stolen at branch (not included in other sales)	15,000
Cash received from branch debtors	2,450,000

Required:

- Branch inventory account
- Branch adjusted /mark up account
- Goods sent to branch account
- Branch debtors account
- Branch income statement.

• Mark-up = 25%

Solution:

Profit element = $\frac{25}{125}$ cost = $\frac{100}{125}$

Date

MTWTFSS

(a) Branch Inventory Account [Invoice price]

Balance b/d	300,000	Goods returned to Hq	200,000
Goods from Hq	2,500,000	Cash sales	800,000
Debtors (return inward)	100,000	Debtors (credit sales)	2,700,000
		Goods stolen	30,000
Mark-up (bal fig)	1,095,000	Cash sales stolen	150,000
		Balance c/d	2,500,000
	<u>3,995,000</u>		<u>3,995,000</u>

(b) Branch Mark-up A/c / Adjustment (URP A/c (profit))

Goods returned $\frac{25}{125} \times 200,000$	40,000	Balance b/d $\frac{25}{125} \times 300,000$	60,000
Goods stolen $\frac{25}{125} \times 30,000$	6,000	Goods sent to branch $(\frac{25}{125} \times 2,500)$	500,000
Gross profit (bal fig)	1,559,000	Branch stock mark-up	1,095,000
Balance c/d $\frac{25}{125} \times 2,500,000$	500,000		
	<u>1,655,000</u>		<u>1,655,000</u>

(c) Goods sent to branch account [at cost]

Goods returned $\frac{100}{125} \times 200,000$	160,000	Goods from Hq $\frac{100}{125} \times 2,500$	2,000,000
Purchases (bal fig)	1,840,000		
	<u>2,000,000</u>		<u>2,000,000</u>

(d) Branch Debtors A/c

Balance b/d	450,000	Goods returned	100,000
Credit sales	2,700,000	Discount allowed	30,000
		Bad debt	20,000
		Cash received	2,450,000
		Balance c/d	550,000
	<u>3,150,000</u>		<u>3,150,000</u>

(e) X Ltd

Branch Income Statement for the year ended 31 Dec 2017

	→ cash sales stolen	sh
Sales → cash sales (800+15)		815000
- credit sales (2700-100)	→ Return inwards	<u>2600000</u>
Total sales		3415000
<u>Cost of sales</u>		
opening stock (300-60)	240000	
purchases	1840000	
less: Goods stolen (30-6)	(24000)	
: closing stock (200-50)	<u>(200000)</u>	<u>(1856000)</u>
Gross profit		1559000
<u>Expenses</u>		
Branch expenses		(500000)
Bad debt written off		(20000)
Discount allowed		(30000)
Cash sales stolen		(15000)
Goods stolen		<u>(24000)</u>
Net profit		<u><u>970000</u></u>

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- Mark-up $\frac{3}{5}$
- Converting mark-up to Margin $\frac{3}{5+3} = \frac{3}{8}$
- Therefore cost element = $\frac{5}{8}$

(1) Eastlands Branch Inventory account for the year ended 31 Dec 2017

Balance b/d	31680	Goods sent to Northland branch	4320
Goods from HQ	700368	Returns to HQ	8160
Goods from Southland	3360	Goods stolen	5760
Goods returned	5280	Cash sales	316800
		Credit sales	370116
		Goods marked down (20% x 3000)	600
		Balance c/d	34932
	<u>740688</u>		<u>740688</u>

(ii) Eastland Branch Mark-up Account for the year ended 2000

Goods sent to Northland $\frac{3}{8} \times 4320$	1620	Balance b/d $\frac{3}{8} \times 31680$	11880
Goods returned to Northland branch:		Goods sent to branch	
by Eastland customer $\frac{3}{8} \times 1932$	724.5	$\frac{3}{8} \times 700368$	262638
Returns to HQ $\frac{3}{8} \times 8160$	3060	Goods from Southland	
Goods stolen $\frac{3}{8} \times 5760$	2160	$\frac{3}{8} \times 3360$	1260
Goods marked down	600		
Gross profit (bal fig)	254,514		
Balance c/d $\frac{3}{8} \times 34932$	13099.5		
	<u>275,778</u>		<u>275,778</u>

(iii) Goods sent to Eastland Branch Account (cost)

Goods to Northland $\frac{5}{8} \times 4320$	2700	Goods to branch $\frac{5}{8} \times 700368$	437,730
Returns to Northland ($\frac{5}{8} \times 1932$)	1207.5	Goods from Southland	
Returns to HQ $\frac{5}{8} \times 8160$	5100	branch $\frac{5}{8} \times 3360$	2100
Purchases (bal fig)	430,822.5		
	<u>439,830</u>		<u>439,830</u>

ILLUSTRATION 3

Kassmatt Ltd operates a supermarket chain with the head office in Nairobi and branches in Meru and Eldoret.

Goods are transferred from the head office to Meru branch at a mark-up of 25% and to Eldoret branch at a gross profit margin of 25%. The branches do not maintain separate books of accounts.

The following transactions took place during the year ended 31 March 2016.

	MERU BRANCH	ELDORET BRANCH
	Sh "000"	Sh "000"
Opening stock at invoice price	10,000	10,000
Goods transferred to branch at invoice price	50,000	40,000
Cash remittance by branches	28,385	43,715
Returns by branches at invoice price	3,000	-
Cash at branch (1 April 2015)	2,000	1,000
Cash at branch (31 March 2016)	1,000	500
Debtor balance (1 April 2015)	840	600
Debtor balance (31 March 2016)	1,200	860
Returns by branch customers directly to head office	180	150
Cash received from branch debtors	16,800	14,200
Discount allowed	360	270
Bad debt written off	90	105
Expenses paid by branch	9,000	3,000

Additional information:

1. Meru branch transferred to Eldoret goods which had cost the head office sh. 4,500,000.
2. Eldoret branch had remitted sh.2,000,000 in cash to Meru branch

Required:

- a. Branch inventory accounts.
- b. Branch mark-up account.
- c. Branch debtors account.
- d. Branches cash account.

Solution

- Meru → Mark-up = 25% ⇒ Profit $\frac{25}{125}$ cost $\frac{100}{125}$
- Eldoret → Margin = 25% = Profit $\frac{25}{100}$ cost $\frac{75}{100}$

(a) Branch Inventory Account

	Meru	Eldoret		Meru	Eldoret
Balance b/d	10,000	10,000	Returns by branch	3,000	—
Goods to branch	50,000	40,000	Transfer to Eldoret (goods @ W)	5,625	—
Transfer from Meru	—	6,000	Cash sales [Cash A/c]	17,585	34,015
			Credit sales [Debtors A/c]	17,790	14,985
			Balance c/d	16,000	7,000
	60,000	56,000		60,000	56,000

(b) Branch Mark-up Account

	Meru	Eld		Meru	Eld
Returns by branch $\frac{25}{125} \times 3,000$	600	—	Balance b/d $\frac{25}{125}$ $\frac{25}{100}$	2,000	2,500
Return by branch customer			Branch Inventory $\frac{25}{125}$ $\frac{25}{100}$	10,000	10,000
to Ito $(\frac{25}{125} \times 180) (\frac{25}{100} \times 150)$	36	37.5	Transfer of goods from Meru	—	1,500
Gross Profit (bal fig)	7039	12,212.5			
Transfer to Eldoret (W)	1125	—			
Bal c/d $\frac{25}{125} \times 16,000$ $\frac{25}{100} \times 7,000$	3,200	1,750			
	12,000	14,000		12,000	14,000

(c) Branch Debtors A/c

	Meru	Eld		Meru	Eld
Balance b/d	840	600	Return to Ito by branch customer	180	150
			Cash received (Cash A/c)	16,800	14,200
Credit sales (bal fig)	17,790	14,985	Discount allowed	360	270
			Bad debt written off	90	105
			Balance c/d	1,200	860
	18,630	15,885		18,630	15,885

(d) Branch Cash Account

	M	E		M	E
Cash balance b/d	2000	1000	Cash remittance by branches	28385	43715
Cash received (debtors)	16800	14200	Transfer to Meru		2000
Transfer from Eldoret	2000	—	Expenses paid	9000	3000
Cash sales (bal fig)	17585	34015			
			Cash balance c/d	1000	500
	38385	49215		38385	49215

Working on goods transferred by Meru to Eldoret

• cost of goods = 4500

mark-up profit (on cost) = $\frac{25}{100} \times 4500 = 1125$

Transfer value [invoice] = $4500 + 1125 = 5625$

To Eldoret

✓ Margin = 25%

✓ Cost from H.O was 4500

✓ Convert margin to mark-up

= $\frac{25}{100-25} = \frac{25}{75} = \frac{1}{3} \times 4500 = 1500$

✓ Transfer value = $4500 + 1500 = 6000$

Financial statements of independent branches.

Independent branches will be required to prepare and present the income statement and statement of financial position at the end of each economic period. The financial statement of independent branches will then be combined with those of head office so as to present the FS of the combined business.

Income statement format.

XYZ Ltd			
<u>Statement of comprehensive income for the year ended 31 Dec 2020</u>			
	<u>HO</u>	<u>branch</u>	<u>combined</u>
Sales (external only)	xx	xx	xx
Good sent to branch	xx	-	-
Total sales	<u>xx</u>	<u>xx</u>	<u>xx</u>
<u>Cost of sales</u>			
Opening stock	xx	xx	xx
Add purchases	xx	xx	xx
Goods received	-	xx	-
Goods available for sale	xx	xx	xx
Less goods stolen/lost	(xx)	(xx)	(xx)
Less closing stock	(xx)	(xx)	(xx)
Cost of sales	<u>xx</u>	<u>xx</u>	<u>xx</u>
Gross profit	xx	xx	xx
Provision for URP	xx	-	-
Adjusted gross profit	xx	xx	xx
Less expenses	(xx)	(xx)	(xx)
Profit	<u>xx</u>	<u>xx</u>	<u>xx</u>
Transfer of branch profit	xx	(xx)	
	<u>Xx</u>	-	<u>xx</u>

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Question Two

a(i)

Somax Ltd

Income statement for the year ended 31 Dec 2022

	Head office sh'000'	Branch sh'000"	Combined sh'000'
Sales	5'600,000	3'000,000	8'600,000
Goods sent to branch	3'196,000	-	-
	8'796,000	3'000,000	8'600,000
<u>Cost of sales</u>			
opening stock	-	-	-
Purchase of raw material	8'000,000	-	8'000,000
Packaging material	880,000	-	880,000
Goods received from H.O	-	3'138,080	-
closing stock	(930,000)	(292,000)	(1'257,659)
Worthless goods	(20,000)	-	(20,000)
Damaged	(10,000)	-	(10,000)
loss	-	(26,000)	(24340.8)
	(7920,000)	(2820,000)	(7568,000)
Gross profit	8'760,000	1'800,000	10'320,000
<u>Expenses</u>			
Depreciation	(640,000)	-	(640,000)
Material	(20,000)	-	(20,000)
worthless	(10,000)	-	(10,000)
loss	-	(26,000)	(24340.43)
Increase in WIP	(22340.43)	-	-
General expenses	(800,000)	(80,000)	(880,000)
profit/loss before bonus	(40,340.43)	74,000	33569.57
Bonus	-	(6727.77)	(6727.77)
profit for the year	(40340.43)	67272.73	26932.3
Transfer	67272.73	(67272.73)	-
	26'932.3	-	-

Branch	current Account		Account
	<u>sh000</u>		<u>sh000</u>
Balance b/d	720,000	Goods in transit	57,920
Branch profit	67,272.73	Cash in transit	100,000
	<u>787,272.73</u>	Balance c/d	<u>629,352.73</u>
			<u>787,272.73</u>

Head office current Account			
	<u>sh000</u>		<u>sh000</u>
Bal c/d	629,352.73	Balance b/d	562,080
	<u>629,352.73</u>	Branch profit	<u>67,272.73</u>
			<u>629,352.73</u>

(ii)

Somalax ltd

Statement of financial position as at 31 Dec 2022

	Head office sh000	Branch sh000	Combined sh000
<u>Non-current Assets</u>			
Furniture	256,000	-	256,000
Branch current A/c	629,352.73	-	-
<u>Current Assets</u>			
Inventory	930,000	292,080	1,257,659.57
Goods in transit	57,920	-	-
Trade Receivables	560,000	300,000	860,000
Bank balance	316,000	124,000	440,000
Cash in transit	100,000	-	100,000
	<u>2,849,272.73</u>	<u>716,080</u>	<u>2,913,659.57</u>
<u>Equity and liabilities</u>			
Capital	2,000,000	-	2,000,000
profit for the year	26,932.3	-	26,932.3
H.O current A/c	-	629,352.73	-
<u>current liabilities</u>			
Trade payables	800,000	80,000	880,000
unrealised profit	2,234.43	-	-
Accrued bonus	-	6727.27	6,727.27
	<u>2,849,272.73</u>	<u>716,080</u>	<u>2,913,659.57</u>

Cost structure comparing

	<u>To public</u>	<u>To the Branch</u>
Selling price	100%	94%
Cost of sales	88%	88%
profit	12%	6%

	<u>sh000</u>
Goods sent to branch by HQ	3196,000
Goods received by Branch	<u>3138080</u>
Goods in transit	<u>57920</u>

<u>Value to public sh000</u>	<u>value to Branch sh000</u>
61618	57920
<u>54223.84</u>	<u>54222.98</u>
<u>739416</u>	<u>3697102</u>

Cash in transit sh 100,000,000

<u>Depreciation</u>	<u>HQ sh000</u>	<u>Branch</u>
Fixtures	320000	—
Depreciation	<u>(64000)</u>	—
	256000	—

<u>closing stock</u>	<u>H.O</u>	<u>Branch sh000</u>
Purchases	8000000	
Packing material	<u>880000</u>	8880000

Cost of sales

Worthless toys	20000	
loss	10000	
Cost of goods sold	4928000	
Goods sent	<u>2992000</u>	<u>(7950000)</u>
		930000

<u>Branch Mark-up</u>	<u>H.O. Stock</u>	<u>Branch Stock</u>
Goods received	3138,080	
Cost of sales	<u>(2820,000)</u>	
	318,080	
less: shortage	<u>(26000)</u>	292080
<u>Combined</u>	<u>54000</u>	
H.O.	930,000	
Branch - cost	273 436.6	
Closing stock	<u>54222.48</u>	
Unrealised profit (URP)	<u>1257 659.57</u>	
Closing inventory	18 643.4	
Goods en transit	<u>3697.02</u>	22340.42