Foreign Branch

1) Foreign Branch is maintaining its Books in different Currency, also Called Foreign Currency.

2) Current of HO is Known as Reporting Currency.

3) To prepare Financial Statements of Entire Business (HO + Branch) We shall follow the below steps :-

Step 1 :- Translate the FC Trial Balance of Branch into Reporting Currency (As per AS 11)

Step 2 :- Calculate the Exchange the difference (i.e Gain / Loss)

Loss ⇒ Dr. Side TB

Gain ⇒ Cr. Side TB

Step 3:- Treatment of Ex.difference

If Foreign Branch is Integral Operation of HO

↓

Transfer the Ex. Difference (Gain/Loss) directly to Branch P&L

If Foreign Branch is Non Integral Operation of HO

↓

Transfer Ex. Difference to "FCTR" a/c

Foreign Currency Translation Reserve A/c

↓

FCTR shall be presented Under R&S of B/S

Step 4:- Prepare Final A/c of HO & Branch in Reporting Currency.

4) How to Translate the FC Trial Balance

AS 11

As per AS 11, Branch will be Classified either

a) Integral Foreign Operation (IFO)

b) Non Integral foreign Oper. (NIFO)

IFO :- A Branch which is fully dependent on HO in respect of Business decision

NIFO :- A Branch which has its own management & takes independent decisions in respect of their Day to Day Business activities

Ex :- foreign Subsidiary
foreign JV

IFO :-

1) Monetary Assets / Liabilities ⇒ At Closing Ex. Rate

2) Non monetary Assets / Liabilities

PPE £ 60000

↳ Actual Rate on the date of Transaction (SPOT Rate)

77

3) Stock
- Closing ⇒ Closg Rate
- Opening ⇒ Op. Rate

Dep 10%

4) Incomes / Expenses ⇒ Avg. Rate

$$\frac{Op + Closg}{2}$$

5) HO A/c & Goods received from HO ⇒ Actual Balance appearing in HO TB

Any Difference due to above Translation shall be immediately transfer to Branch P&L.

NIFO:-

1) All Assets & Liabilities ⇒ Closing Rate
2) Incomes / Exp ⇒ Avg. Rate
3) Opening Stock ⇒ Opening Rate
4) HO Bal. & Goods received from HO ⇒ Actual Bal. as per HO TB.

Any Difference due to above Translation shall be transfer to FCTR.

if Loss ⇒ FCTR Dr. Bal.
if Gain ⇒ FCTR Cr. Bal.

Some Exceptions of above IFO/NIFO Rules

1) Depreciation will be translated using either Spot Rate (in case of IFO) or Closing Rate (in case of NIFO)

2) If Question ask to Calculate Branch manager Commission in FC on Branch profit.

Since the profit will be Calculated at year end only, Hence Commission will be Calculated at year end.

Therefore, Such Commission will be translated at Closg Rate. (not Avg. Rat) (Refer Q60

Q602

London Branch Trading P&L (in £)

Op. stock	851200	Sale	7200000
purchases	900000		
Goods Received from HO	4926000	Clos. stock	616000
GP	1138,800		

Exp.	375000	GP	1138800
Dep.	168000	Ex. Gain	12400
NP	608200		

TB

Particular	Rate	Dr.	Cr.
Fixed	70		
Stock op	76		

Q603 (Pg. 8.28)

Assuming IFO

Washington Branch

Trading and P&L a/c (in $)

To Opng. Stock	11200	By Sales	84000
To Goods Received From HO	64000	By Closg. Stock	8000
To Gross profit	16800		
To Exp.	5000	By GP	16800
To Dep	2400		
To Comm.	470		
To NP	8930		

WN:-

Opn. Stock = 11200 IP

(+) Goods From HO = 64000 IP

Total Goods = 75200 IP

(−) COGS (at IP) = (67200)

$110 \times \frac{84000}{137.5}$

IP $ 8000 Closg Stock

Commission shall be translated at Closg. Rate i.e 48/-

Comm. Dr.

To Comm. payable

2) Branch TB (in £)

Particulars	$ Amt	Rate	Dr. £	Cr. £
HO a/c	22800	Actual	—	860000
Sales	84000	47	–	3948000
Debtors	4800	48	230400	—
Creditors	3400	48	–	163200
Machine	24000	40	960000	–
Cash at Bank	1200	48	57600	–
Stock (Op)	11200	46	515200	
Goods Received	64000	Actual	2926000	—
Expenses	5000	47	235000	–
Ex. Loss	–	–	47000	–
			4971200	4971200

3) Branch Trading and P&L (in £)

To Op Stock	515200	By Sales	3948000
To Goods from HO	2926000	By Clos. Stock (8000 x 48)	384000
To GP	890800		

To Dep	96000	By GP	890800
To exp	235000		
To Comm. ($470 x 48)	22560		
To Ex Loss	47000		
To NP	490240		

Q604 (Pg. 8.30)

Trial Balance of Branch (in £) (in 000')

Particulars	$	Rate	Dr. Rs.	Cr. Rs.
P&M (Cost)	200	46	9200	–
P&M Dep Reserve	130	46	–	5980
Debtors	60	53	3180	–
Creditors	30	53	–	1590
Stock (Opng)	20	50	1000	–
Cash & Bank	10	53	530	–
Purchases	20	51	1020	–
Sales	123	51	–	6273
Goods received from	5	Actual	100	–
Wages & Salary	45	51	2295	–
Rent	12	51	612	–
Office Exp	18	51	918	–
Commission receipt	100	51	–	5100
Head Off. CA	7	Actual	–	120
Exchange differ. (B/F)	–	–	208	–
			19063	19063

Trading and Profit & Loss A/c (₹ in 000')

Year Ending 31/3/19

Particulars	HO	Branch	Total	Particulars	HO	Branch	Total
Op. Stock	100	1000	1100	Sales	520	6273	6793
Purchases	240	1020	1260	GSTB	100	—	—
Goods received from HO	-	100	—				
				Closg stock	150	165.63	315.63
Wages/Salary	75	2295	2370				
Gross profit	355	2023.63	2378.63				
Rent	—	612	612	GP	355	2023.63	2378.63
Off. Exp	25	918	943	Commiss. Receiv.	256	5100	5356
Depreciation				SR	4	—	4
Building	80	—	80				
P&M	380	644	1024				
Provision	14	159	173				
Ex. Loss	—	208	208				
NP before Partner Salary	116	4582.63	4698.63				
Partners Salary	30	-	30	NP	116	4582.63	4698.63
profit Bal transfer R&S	86	4582.63	4668.63				

$$\frac{\$3125 \times 53}{1000} = 165.63$$

OFU :- If 50% of Closg stk came from HO

Case ⇒ Closg stock = \$3125 → 50% HO

$$\text{Half} = \$1562.5$$

$$\begin{array}{r} \times 53 \\ \hline £82812.5 \end{array}$$

$$SR = \frac{82812.5}{125} \times 25$$

$$= \frac{16562.5}{1000}$$

$$SR = 16.5625$$

Op. stock → SR → SR To P&L

Clos. stock → SR → P&L To SR → 746

SR

To P&L 693	By Bal. 693
To Bal. c/d 746	By P&L 746

B/S whole (Cost)

Stock — HO xxx	
Br. xxx (IP)	
GIT xx	
(-) SR (746)	