

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 :-

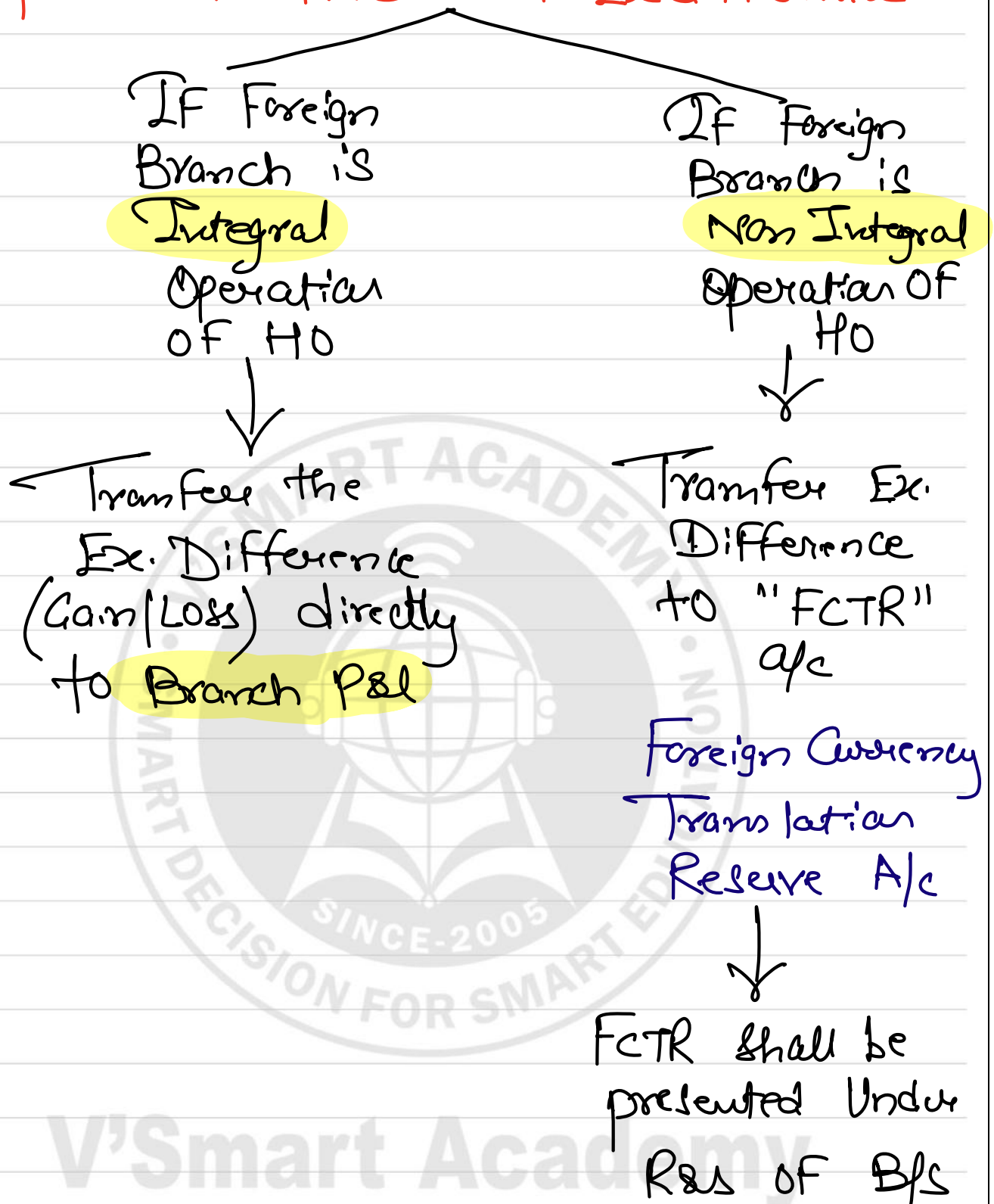
Step 1 :- Translate the FC Trial Balance of Branch into Reporting Currency (As per AS 11)

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

Loss $\Rightarrow$ Dr. Side TB

Gain $\Rightarrow$ Cr. Side TB

Step 3:- Treatment of Ex. difference



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 $\Rightarrow$ At Closing Ex. Rate

2) Non monetary Assets/Liabilities $\Rightarrow$ Actual Rate on the date of Transaction (SPOT Rate)
PPE ₹ 60000

3) Stock $\begin{cases} \text{Closing} \Rightarrow \text{Closg Rate} \\ \text{Opening} \Rightarrow \text{Op. Rate} \end{cases}$

4) Incomes/Expenses $\Rightarrow$ Avg. Rate
$$\frac{\text{Op} + \text{Closg}}{2}$$

Dep 10%

5) HO A/c & Goods received from HO $\Rightarrow$ 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 $\Rightarrow$ Closing Rate
- 2) Incomes / Exp $\Rightarrow$ Avg. Rate
- 3) Opening Stock $\Rightarrow$ Opening Rate
- 4) HO Bal. & Goods Received from HO $\Rightarrow$ Actual Bal. as per HO TB.

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

if Loss $\Rightarrow$ FCTR Dr. Bal.

if Gain $\Rightarrow$ FCTR Cr. Bal.

Some Exceptions of above IFO/NIFO Rules

- 1) Depreciation will be translated using either Spot Rate (in case of IFO) or Close 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 Clossg Rate.

(not Avg. Rate) (Refer Q60)

Q602

London Branch Trading P&L
(in £)

Op. Stock	85200	Sale	7200000
purchases	900000		
Goods received from HO	4926000	Clas. Stock	616000
GP	<u>1138,800</u>		<u> </u>

Exp. 375000

Dep. 168000

NP 608200

GP 1138800

Ex. Gain 12400

IB

Particulars

Rate

Dr.

Cr.

Fixed

70

Stock op

76

V'Smart Academy

Q603 (Pg. 8.28)

Assuming IFO

Washington Branch

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

To Opng. Stock 11200

To Goods received
From HO 64000

To Gross profit 16800

To Exp. 5000

To Dep. 2400

To Comm. 470

To NP 8930

By Sales 84000

By Closg. Stock 8000

By GP 16800

WN:-

Opn. Stock = 11200 Ip

(+) Goods From = 64000 Ip
HO

← Total Goods = 75200 Ip

(-) COGS (at Ip) = (67200)

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

Ip \$ 8000 Closg
Stock

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

Comm. Dr.
To Comm. payable

2) Branch TB (in ₹)

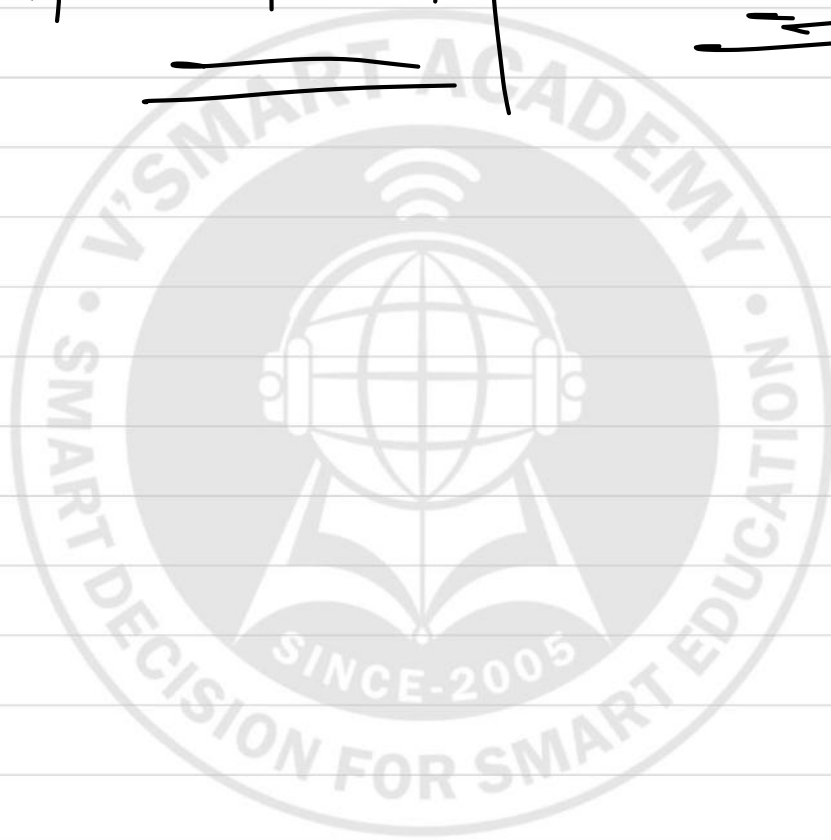
Particulars	\$ Amt	Rate	Dr. ₹	Cr. ₹
Ho a/c	22800	Actual	—	8600.00
Sales	84000	47	—	3948000
Debtors	4800	48	230400	—
Creditors	3400	48	—	163200
Machine	24000	40	960000	—
Cash at Bank	1200	48	57600	—
Stock (Op)	11200	46	515200	—
Goods Received	64000	Actual	2926000	—
Expenses	5000	47	235000	—
Ex. Loss	—	—	47000	—
			<u>4971200</u>	<u>4971200</u>

3) Branch Trading and P&L (in ₹)

To Op Stock 515200
 To Goods from HO 2926000
 To GP 890800

By Sales 3948000
 By Clos. Stock 384000
 (8000 x 48)

← To Dep	96000	By Cp	890800
← To Exp	235000		
← To Comm. (470X 48)	22560		
← To Ex Loss	47000		
← To Np	490240		



V'Smart Academy

Q604 (Pg. 8.30)

Trial Balance of Branch (in ₹) (in 000)

Particulars	\$	Rate	Dr. Rs.	Cr. Rs.
P&M (Cost)	200	46	9200	—
P&L 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
Exchangediffer. (B/F)	—	—	208	—
			<u>19063</u>	<u>19063</u>

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	—	Close 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	Commis. Receiv.	256	5100	5356
Depreciation				SR	4	—	4
Building	80	—	80				
Furn	380	644	1024				
Provision	14	159	173				
Ex. Loss	—	208	208				
NP before	116	4582.63	4698.63				
Partner Salary							
Partner's Salary	30	—	30	NP	116	4582.63	4698.63
Profit Bal transfer Rd	86	4582.63	4668.63				

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

OFV :- IF 50% of Clog It Came from HO
Case $\Rightarrow$ Clog stock = \$3125 $\rightarrow$ 50% HO

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

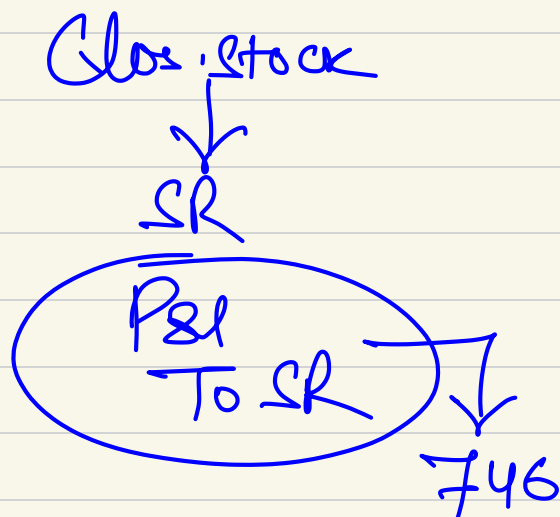
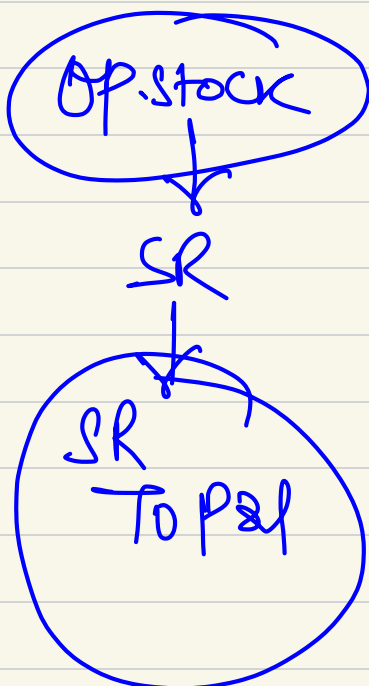
$$\frac{\times 53}{\$82812.5}$$

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

$$= 16562.5$$

$$\frac{1000}{\text{SR} = 16.5625}$$

$$\text{SR} = 16.5625$$



SR

To P&L 693	By Bal. 693
To Bal. 746	By P&L 746
cd	

B/L Whole (Cost)

Stock	Ho xxx
	Dr. xxx (IP)
	GIT XX
(-) SR	(746)