

Foreign Branch

- 1) Foreign Branch is maintaining its Books in different Currency, also called Foreign Currency.
- 2) Currency of HO is known as Reporting Currency.

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

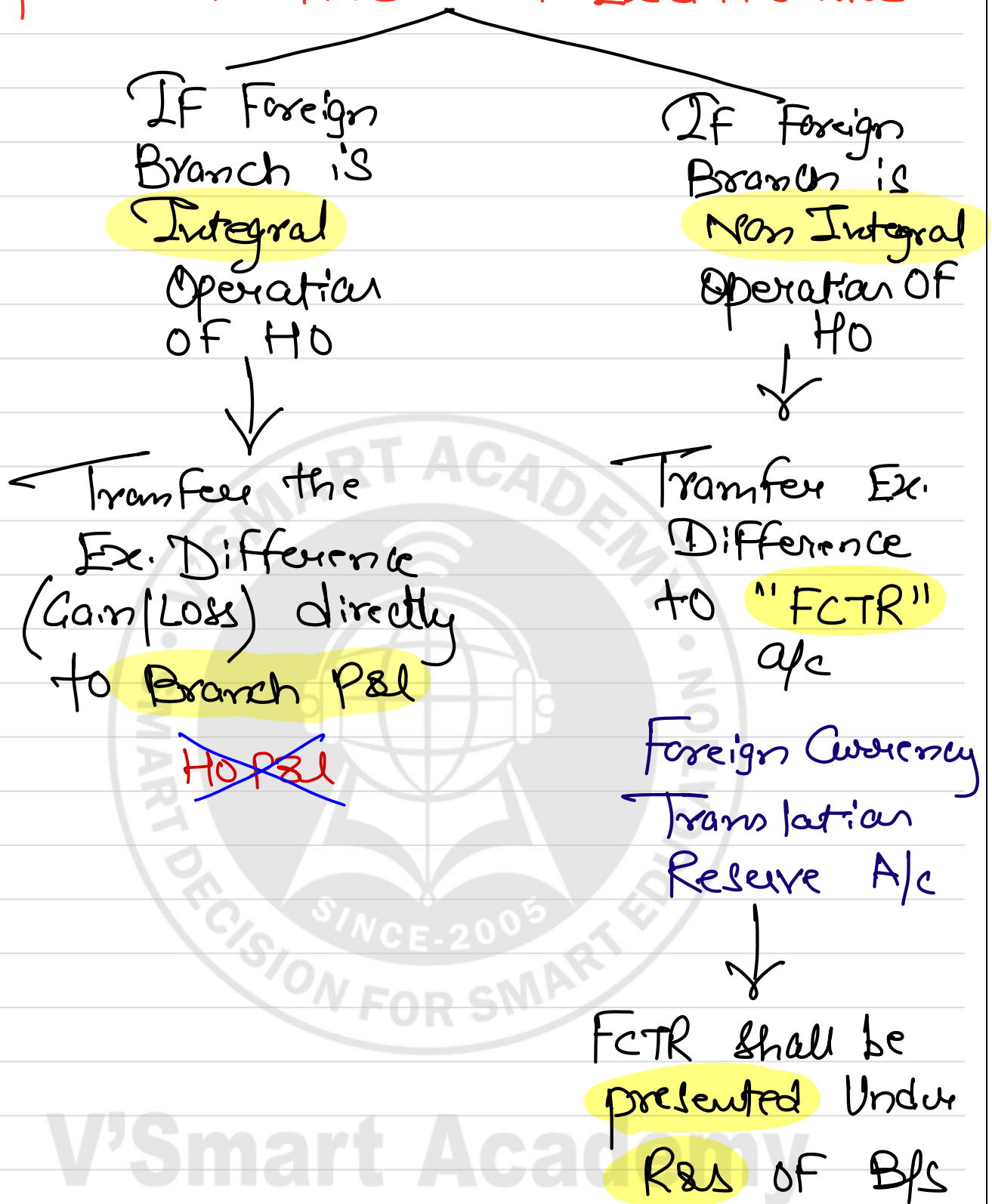
Step 1 :- Translate the FC Trial Balance of Branch into Reporting Currency (As per AS 11)
make a New TB

Step 2 :- Calculate the Exchange 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.
↓
Same as Independent Branch

4) How to Translate the FC Trial Balance

AS II

Foreign
Currency

As per AS II, Branch will be Classified either

- Integral Foreign Operation (IFO)
- 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

PPE = \$12000	Spot Rate (75) Dep 10%.	900000 ↓ Dep 10% 90000	12000 × 10%
			1200 × 75 90000

Cash/Bank
Debtors
Creditors
Loans Given/taken
prepaid/outst. exp

IFO:-

1) Monetary Assets/Liabilities $\Rightarrow$ At Closing Ex. Rate

2) Non monetary Assets/Liabilities
PPE $\text{₹ } 60000$ $\xrightarrow{\text{PPE Investments}}$ Actual Rate on the date of Transaction (SPOT Rate) $\text{₹ } 77$

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.

$$\frac{\$12000 \times 82}{10\%} = \frac{984000}{98400}$$

NIFO:-

(Monetary & Nonmonetary)

- 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 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 Closing 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	Cl. Stock	616000
GP	<u>1138,800</u>		<u> </u>

Independent Branch (Domestic Branch)

All Branch transactions are recorded by Branch itself.

Branch shall pass J. entries, prepare ledger A/c, TB, B/s & P&L.

HO will
be treated
as outside
party

1) Branch received goods from HO

Goods received from HO a/c Dr.
 TO H.O.

2) Branch Paid Cash to HO

HO a/c Dr.
 TO Cash

3) HO received Cash from Br. Debtor

Branch Books { HO a/c Dr.
 TO Debtors

4) HO sent Goods to Branch But on 31st march goods are in Transit

HO Books
Branch
 TO GSTB

Br. Books
GIT Dr.
 TO HO

5) Branch remitted Cash on 31st March to HO but it is in Transit :-

Br. Books
Ho a/c Dr.
 To Cash

Ho Books
Cash in Transit Dr.
 To Branch

6) HO incurred 50000 Common Exp. for HO & Branch out of which 10000 is for Branch :-

HO
Exp Dr. 40000
Branch Dr. 10000
 To Cash 50000

Branch
Exp. Dr. 10000
 To HO 10000

7) HO incurred Adv. Exp for Branch 15000 wrongly charged to P&L :-

Rectification HO
Branch Dr.
 To P&L a/c

Br.
Adv. Exp Dr.
 To HO

Summary :- Preparation of Final A/c in Case of Independent Branch

Either Individual Branch B/s & P&L (Or)
Combined HO + Branch B/s & P&L

Step 1 :- Check HO a/c Bal. & Branch A/c Balance in each others Books.

Step 1 A
Revised TB
of Branch

Match them by passing
Required Journal Entries
in HO Books & Br. Books.

Step :- 2 Transfer of Branch T.B to
HO (Situation I)

HO Books

Branch Books

Br. Assets Dr.
Br. Exp. Dr.

Liab. Dr.
Income Dr.

To Br. Liab.

To Br. Incomes.

(Difference in Branch A/c)

To Assets

To Exp.

(Difference in
HO a/c)

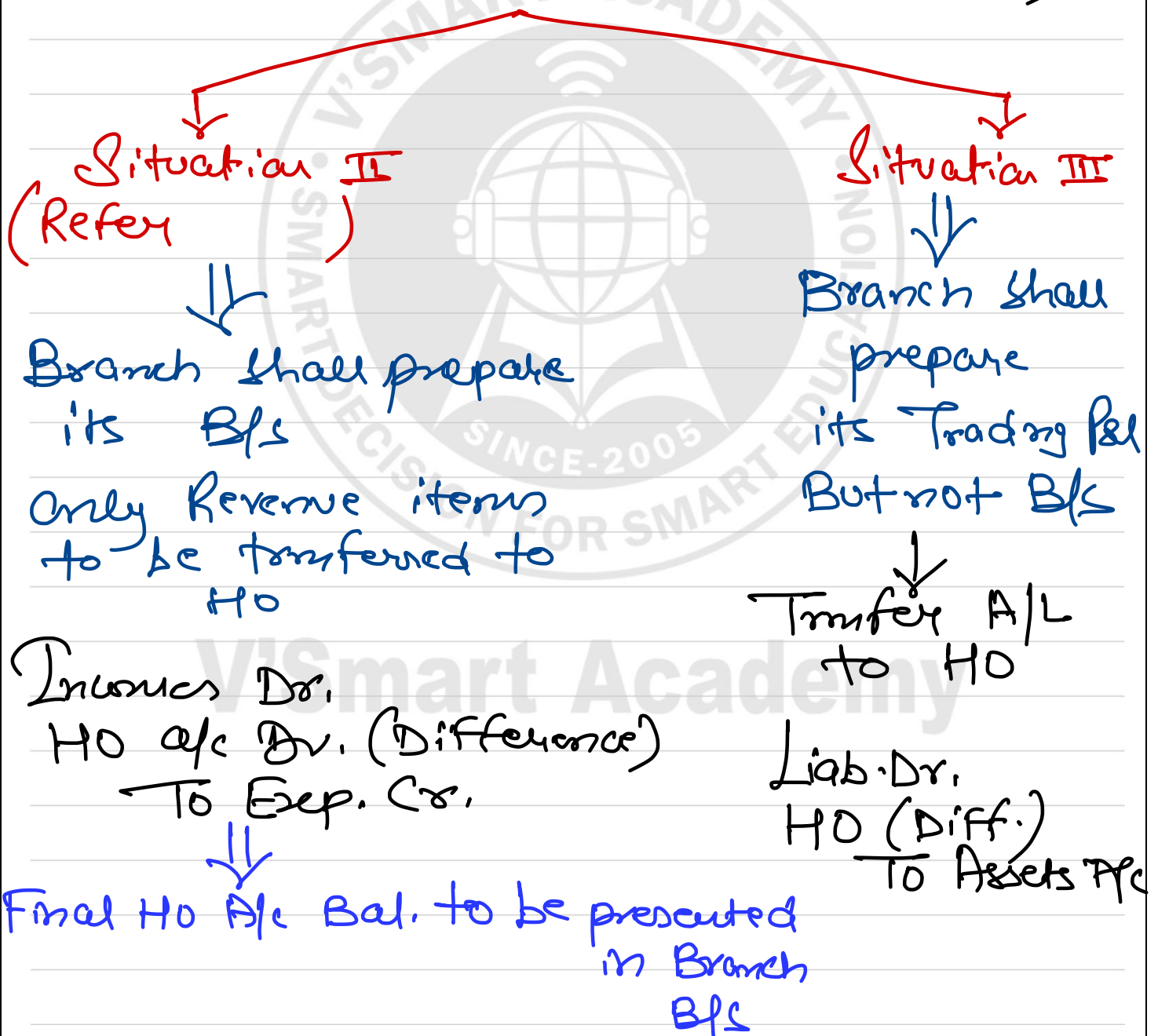


Final Balance of Branch A/c
& HO a/c will be Nil

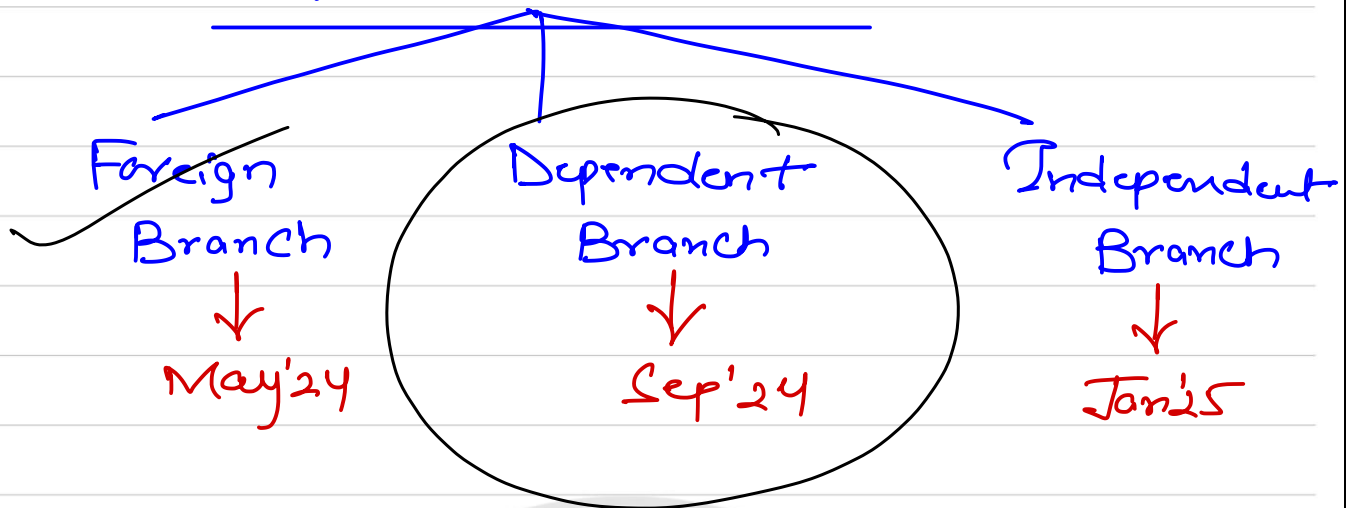
Other Situations

(Sometimes Question requires Branch to prepare its B/s only Hence Revenue items shall only be transferred to HO,

Alternative, Question may ask to transfer Assets & Liabilities only to HO, Branch will prepare its own Trading P&L)



Branch A/c



← Trial Bal.

	Dr.	Cr.
PPE (Orig.)	xxx	
Prov. For Dep Accumulated		xxx

Dep = 10%.

Opst 11200 (IP)
 (+) Goods 64000 (SP)
 From HO

75200

(IP) COGS

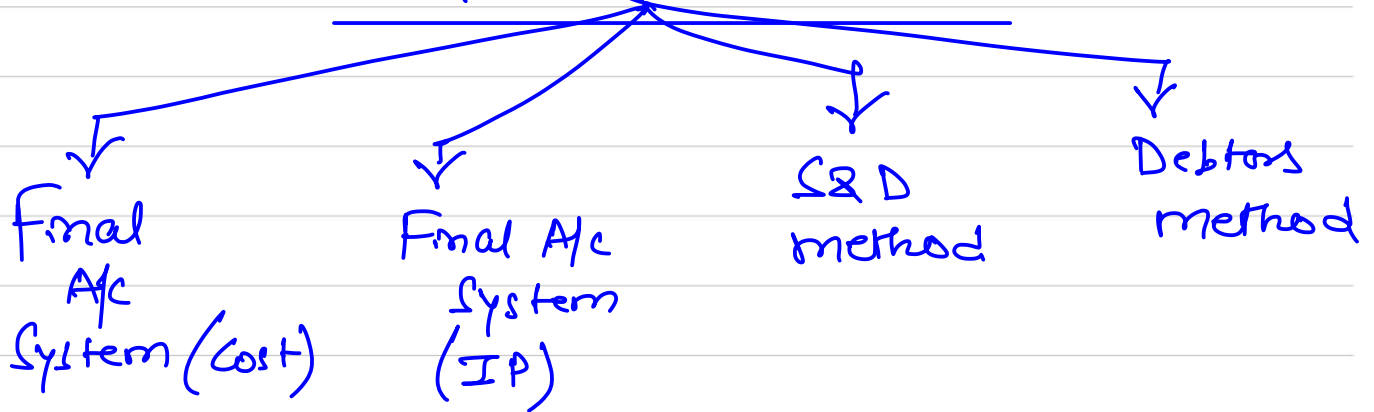
84000 (SP)

137.5 (SP)

x 110 = 67200

Clos. Stock
 \$ 8000

Dependent Branch



Prepared by
HO

Final A/c system (Cost)

Mem. Branch Trading & P&L A/c

To Op. Stock	Cost	By Sales	→ Actual Sp
To ^{local} Purchases	actual	By Shortage	Cost
To Goods sent to Branch	Cost	(Normal / Abnormal)	
To GP		By Closing Stock:-	
		in Hand	Cost
		GIT	Cost
		local purchase	actual

Cost = 100 (HO)

IP = 120 (transfer of goods to Bri.)

SP = 150 (Sale to Customer)

Opn. Stock ——— at Cost
(→) GST B ——— at Cost

Total Goods

$$\begin{array}{l}
 \text{COGS} \downarrow \\
 \frac{\text{Sale (SP)}}{(\text{SP})} \times \text{Cost} \\
 \text{Clos. Stock} + \text{GIT} \downarrow \text{if given} \\
 \text{Cost} \times \frac{\text{Clos. Stock (IP)}}{\text{IP}} \\
 \text{Shortage (B/F)} +
 \end{array}$$

Br. P&L

To Abnormal Loss	xx	By GP	xxx
To Exp.	xx		
To NP	xx		

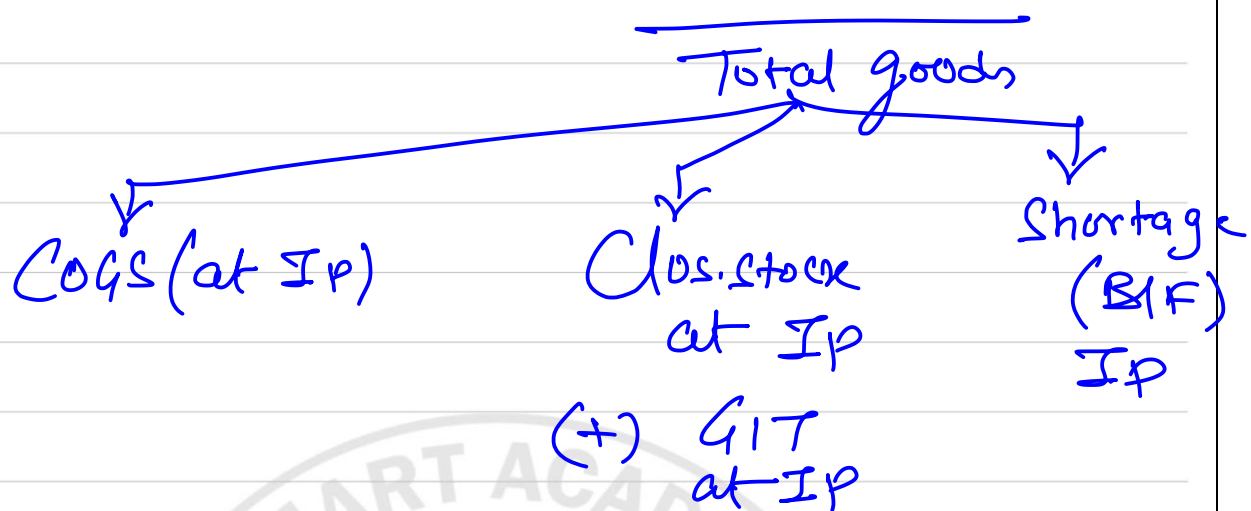
Final A/c System (IP)

Mem. Branch Trading & P&L

Prepared by HO

To op. stock	IP	By Sale	Actual SP
To GSTB	IP	By Shortage	IP
To GP	xx	By Clos. Stock	IP
To Abnormal Loss	IP	By GP	

Op. Stock $\longrightarrow$ IP
 (+) GSTB $\longrightarrow$ IP



Master Problem (Final A/c System Cost Basis)

Cost = 100

IP = 120

Cash Sale = 120

Credit Sale = 150

Discounted Sale = 150 - 10%
 (Credit) = 135

Working :-

Opng Stock
 $75000 / 120 \times 100$ Ho = 62500 Cost
 Local = 15000

(+) GSTB = 7,50,000 Cost

(+) Direct Pur. = 60,000

(-) Goods Return = (50,000)
 by Br. to Ho

Total net Goods = 837500 - 20000

817500 Page | 15

$$\text{COGS} \rightarrow \text{Cash} :- \frac{210000}{120} \times 100 = 175000 \text{ Cost}$$

$$\text{Close Stock (Local)} \rightarrow 75000 \text{ (Op + pur)}$$

$$\text{Close Stock (Ho)} \rightarrow \frac{204000}{120} \times 100 = 170000$$

$$\text{Shortage} \rightarrow 47500$$

$$\begin{aligned} \text{Credit} :- & 600000 \\ \text{(Sale Normal)} & (-) 60000 \\ & (-) 30000 \\ \hline & 510000 \text{ SP} \\ \text{Cost} & \rightarrow \frac{510000}{150} \times 100 = 340000 \end{aligned}$$

$$\text{Dis. Sale Cost} = 10000$$

$$\text{Total COGS} = 525000$$

Br. Trading & P&L

To Op. Stock		By Sales	
Ho	62500	Cash (net)	210000
Local	15000	Credit (net) normal	510000
To GSTB (net)	680000	Discounted Sale	13500
(750000 - 50000 - 20000)		By Shortage	47500
To purchases	60000	By Close Stock	

To GP	208500	HO	170000
		Local	75000
To Ab. Loss	47500	By GP	208500
To Exp.	18000		
To NP	143000		

Final A/c System (IP Basis)

$$\begin{aligned} \text{Op. Stock (HO)} &= 75000 \text{ (IP)} \\ \text{Local} &= 15000 \end{aligned}$$

$$\begin{aligned} (+) \text{ GSTB} &= 816000 \text{ (IP)} \\ 900000 \text{ IP} \\ (-) 60000 \text{ IP} \\ (-) 24000 \text{ IP} \\ \hline \end{aligned}$$

$$(+)\text{ Dir. pur.} = 60000$$

966000

COGS (IP)

Local pur.
Clo. Stock
75000

Clos. stock
204000
IP

Short.
57000
IP

$$1) \text{ Cash Sale} = 210000 \text{ (IP)}$$

$$2) \text{ Normal Credit Sale} = \frac{510000}{150} \times 120 = 408000 \text{ (IP)}$$

$$\frac{57000}{120} \times 100 = 47500$$

$$3) \text{ Dis. Rate} = \frac{12000(\text{IP})}{630000}$$

Br. Trading & P&L

To op. stock (HO)	75000	By Sales	
(Local)	15000	Cash	210000
		Credit	510000
To D. purch.	60000	Dis. Rate	13500
To GSTB (net)	816000	By Shortage	57000
To GP	103500	By Clos. Stock	
		HO	204000
		Local	75000
Ab. Loss	57000	GP	103500
Exp	18000		
NP			

Stock Reserves (Unrealised profit) IP - 61

$$\text{Op. Stock} \longrightarrow \frac{75000}{120} \times 20 = 12500$$

$$\text{Clos Stock} \longrightarrow \frac{204000}{120} \times 20 = 34000$$

$$\text{Shortage} \longrightarrow \frac{57000}{120} \times 20 = 9500$$

Ho P&L

To SR on
Close. 34000
Short. 9500

By SR on 12500
op.

Cost = 100

IP = 120

SP = 150

Stock & Debtors method

Branch Stock A/c (IP always)

To Bal. b/d
Op. Stock — IP

To GSTB (net) — IP

To Br. adjust — Loading
(SP - IP) 30

To Sales Return IP
(or) SP

By Br. Cash Sale IP

By Br. Debtors SP
(Credit Sale) 150

By Br. adjust xxx

By Br. P&L Cost

By Br. Adj Loading

By Bal c/d
in Hand
GIT

Branch Adjustment a/c (IP Margin Loading)

To Br. Stock xx

(Loading on Shortage)

To Br. Stock (Loading on Sale Ret)

To GP (B/F) xxx

By Bal b/d
SR on Op. Stock xx

By GSTB xx
(Loading)

By Br. Stock xx
(Loading)

To Bal c/d XXX
 SR on Closg
 Stock & GIT

Goods sent to Br. a/c (always Cost)

To Br. adjst Loading	By Br. stock (Goods sent) IP
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Branch P&L a/c

To Abnormal Loss	Cost
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Abnormal loss ⇒

Br. P&L a/c	Cost
Br. Adj a/c	Loading
To Br. Stock	IP

Mantex problem :-

$$\frac{540000}{150} \times 30$$

Br. Stock A/c (IP)

To Bal. Hd Ho 75000 Local 15000 To GSTB (net) 840000 To Br. Creditor 60000 To Br. adjustm. 108000 To Br. adjustm. 1500	By Br. Cash (net) 210000 (IP) By Br. Debtors (net) 540000 (SP) (normal sale) By Dis. Sales. 13500 (135) By Br. P&L (Cost) 47500 Br. adj (Load) 9500 By Bal. cld in Hand (IP) 204000 Direct 75000
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Br. Adjustment A/c

To Br. Stock 9500 (Shortage Load) To GSTB 10000 (Loading on Direct return) To GP 208500 To Bal cld 34000 204000 ÷ 120 × 20	By Bal Hd 12500 SR By GSTB 140000 >Loading) By Br. Stock 108000 By Br. Stock 1500
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Br. p&l

To Al. loss lost	47500	By GP	208500
To Exp	18000		
To NP	143000		

GSTB (at Cost)

To Debt. 30000 (SP)	By Br. adj 10000
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Debtors method

Branch A/c (Ultimate Cost)

<u>To Bal b/d</u> Br Stock IP Br Cash Br Debtors Br Assets	<u>By Bal b/d</u> SR Creditors of exp
<u>To GSTB</u> IP	<u>By GSTB</u> Loading
<u>To GSTB (Return)</u> Loading	<u>By GSTB (Return)</u> IP
<u>To GSTB (Direct Return)</u> Loading	<u>By GSTB (Direct Return by Customer)</u> SP
<u>To Bank</u> (exp. met by Ho)	<u>By Cash/Bank</u> (Remittance to Ho)
<u>To Bal. c/d</u> SR Creditors of Liab.	<u>By Bal c/d</u> Br. Stock Br Debtors Br. Cash Br. Asset

Features of Debtors method

IP - Loading = Cost

①

Record only the transaction between Branch & HO

②

Record Branch Assets / Liab. Opng & Closg Balances.

Master problem

Branch A/c (Ultimate Cost)

To Bal Hd		By Bal Hd	
Br. Stock (Ho)	75000	SR	12500.
Br. Stock (Local)	15000	By GSTB (Load.)	140000
Br. Debtor	105000	By GSTB (Direct Retn)	30000 (SP)
Br. Cash	75000		
To GSTB	840000		
To GSTB (Loading on direct)	10000	By Cash/Bank (Remittance)	781500
To Bal Hd		By Bal. Hd	
SR	34000	Br. Stock Ho	204000
Creditor	10000	Br. Stock Local	75000
Ofs exp	6000	Br. Debtor	90000
		By. Cash	25000

Br. Debtor

Op	105000	
		Clusg 90000

Br. Cash

Op.	75000	
		Clusg 25000

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