

Study Unit 9

Branches

*(Only Dependent Branches
form part of this syllabus)*

Study Unit 9 (i)

Branches

INTRODUCTION

Study Unit 9: Branches

INTRODUCTION

Introduction

- Business forms a branch that is geographically separate from the central managing entity (called Head Office).
- Branches can be managed as either:
 - Dependent Branches
 - Independent Branches (not part of syllabus)
- Main reason is to increase turnover and profitability, possibly reduce admin costs by centralisation and better purchase discounts.

Study Unit 9: Branches

ACCOUNTING FOR DEPENDENT BRANCHES

Accounting for Dependent Branches

- Head office is responsible for:
 - Supplying inventory to the branches
 - Record all the accounting transactions in the books of the head office
- Head Office can invoice inventory to the branches at **COST PRICE** or **SELLING PRICE**
 - Each method requires a different accounting procedure

Other accounting issues

- Branches may be authorised to purchase inventory from other suppliers.
- Head Office usually pays all major expenses of the branch
- Head Office may provide branches with petty cash for minor branch expenses
- Activities are recorded in Head Office records
 - Branch usually submits a report of expenses incurred by branch

Branch report submitted

- Examples of information to be contained in the branch report submitted to head office:
 - Particulars of sales (cash sales and credit sales)
 - Particulars of debtors accounts which have been paid
 - Cash received, discounts allowed and inventory returned by customer
 - A debtors ageing list
 - List of doubtful or irrecoverable debtors
 - Details of purchases made by the branch

Study Unit 9 (ii)

Branches

INVENTORIES SUPPLIED AT COST

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

THEORY & INTRODUCTION

Introduction

Inventory to branch at cost

- Head office will maintain 2 accounts to record all inventory transactions with each separate branch:
 - Branch Inventory Account
 - Inventory to Branch Account

Main Accounts.....

- **Branch Inventory Account**

- Serves the same purpose as the normal “Trading Account” – to represent the branch specific Gross Profit

- **Inventory to Branch Account**

- This account is closed off to the Head Office trading account at the financial year end.
- This account and year end close records the inventory that was purchased by Head Office but subsequently sent to the branch

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

INVENTORY, SALES AND DEBTORS TRANSACTIONS

1. Inventory sent to the branch at cost price & 2. Purchases by the branch & 3. Inventory returns to head office

Dr	Branch Inventory (Deliveries from HO at cost)	X	
Cr	Inventory to Branch		X

1 - Goods delivered from Head Office to branch at cost price

Dr	Branch Inventory (Inventory purchases)	X	
Cr	Bank / Petty Cash / Branch Creditors		X

2 – Purchases of inventory from other suppliers by the branch

If branch is authorised to make purchases from other suppliers

Dr	Inventory to Branch	X	
Cr	Branch Inventory (Returns to HO)		X

3 – Inventory returned to head office at cost price

4. Cash Sale of inventory by branch
5. Credit Sale of inventory by branch
6. Sold inventory returned by customer

Dr	Bank	X	
Cr	Branch Inventory Account (cash sales)		X
<i>4 – Cash sale of inventory by branch</i>			

Dr	Branch Debtor Account - ABC	X	
Cr	Branch Inventory Account (credit sales)		X
<i>5 – Credit sale of inventory by branch</i>			

Dr	Branch Inventory Account (sales returns)	X	
Cr	Branch Debtor Account – ABC / Bank		X
<i>6 – Sold Inventory returned to branch by customer</i>			

Note - inventory sold at marked down (discounted) prices

- The branch may sell some inventory at marked down / discounted prices
- No further journal entry required as the lower selling price will automatically pull through into the gross profit figure

7. Receipt of cash from branch debtors

8. Settlement discount granted to branch debtors

Dr	Bank	X	
Cr	Branch Debtor Account - ABC		X

7 – Receipt of cash from branch debtors in settlement of their account

Dr	Branch Inventory Account (Settlement discount granted)	X	
Cr	Branch Debtor Account - ABC		X

8 – Granting of settlement discount to branch debtors

9. Inter – Branch Inventory Transfers

Dr	Branch Inventory Account (<i>Inter branch receipt</i>)	X	
Cr	Branch Inventory Account – HO /Other Branch		X

9 a – Inter branch receipt of inventory from transfer

Dr	Branch Inventory Account – HO / Other Branch	X	
Cr	Branch Inventory Account (<i>inter branch transfer</i>)		X

9 b – Inter branch removal of inventory from transfer

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

BRANCH EXPENSE TRANSACTIONS

10. Cash stolen / embezzled from cash sales

11. Cash stolen / embezzled from debtors receipts

Dr	Branch Expense Acc (Theft – cash sales)	X	
Cr	Branch Inventory (Theft – cash sales)		X

10. Cash stolen / embezzled from cash sales

Dr	Branch Expense Acc (Theft – debtors receipt)	X	
Cr	Branch Debtors (Theft – debtors receipt)		X

11. Cash stolen / embezzled from debtors receipts

12. Inventory stolen, damaged or donated

13. Insurance receipt for stolen inventory

Dr	Branch Expense Acc (Theft /damage inventory)	X	
Cr	Branch Inventory (Theft /damage inventory)		X

12. Inventory stolen, damaged or donated

Dr	Bank (Insurance receipt)	X	
Cr	Branch Expense Acc (Insurance receipt)		X

13. Insurance receipt for stolen inventory

14. Branch Expenses

15. Sundry Income

Dr	Branch Expense Acc (Branch expenses)	X	
Cr	Bank / Petty Cash / Branch Creditor		X

14 – Branch expenditure either paid for by head office through the bank account, or paid for by the branch itself out of branch petty cash.

Dr	Bank / Branch Debtors (Branch sundry income)	X	
Cr	Branch Expense Acc (Branch sundry income)		X

15 – Sundry Income

16. Irrecoverable branch debtors (bad debts = credit losses)

Dr	Branch Expense Acc (credit losses)	X	
Cr	Branch Debtor Account – ABC (credit losses)		X

16. Irrecoverable branch debtors (bad debts = credit losses)

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

YEAR END INVENTORY JOURNALS

17. Inventory taken by the owner

Dr	Drawings Account (inventory drawings)	X	
Cr	Branch Inventory (inventory drawings)		X

17. Inventory taken by the owner as drawings

18. Inventory on hand at year end (stock count)

Dr	Branch Inventory b/d (Closing Inventory – count)	X	
Cr	Branch Inventory c/d (Closing Inventory – count)		X

18a. Closing inventory on hand per stock count

Note that for the situation where inventory is invoiced from head office to the branch at cost, no adjusting journals are required for inventory shortfalls or surpluses identified during the stock count.

The “adjustment” is automatically absorbed or offset against a higher or lower gross profit figure.

19. Inventory in transit at year end

Dr	Branch Inventory Balance b/d (Inventory in transit)	X	
Cr	Branch Inventory Balance c/d (Inventory in transit)		X
<i>19. Inventory in transit at year end</i>			

OR

Dr	Branch Inventory Balance c/d (Inventory in transit)	X	
Cr	Branch Inventory Balance b/d (Inventory in transit)		X
<i>19. Inventory in transit at year end</i>			

The inventory in transit is recorded as a separate balance carried down and balance brought down in the same GL account. This allows us to keep track of the inventory in transit separately from the inventory in the warehouse that was subject to a stock count.

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

CLOSE OFF BRANCH INVENTORY ACCOUNT

Branch Inventory GL

Branch Inventory

1 Inventory to Branch (Deliveries from HO at cost)	X	3 Inventory to Branch (Returns to HO)	X
2 Bank / creditors (Inventory purchase)	X	4 Bank (Cash Sales)	X
6 Branch Debtors (Sales Returns)	X	5 Branch Debtors (Credit Sales)	X
8 Branch Debtors (Settlement discount granted)	X	9b Branch Inventory Account (Inter branch transfer)	X
9a Branch Inventory Account (Inter branch receipt)	X	10 Branch Expense Acc (Theft – cash sales)	X
		12 Branch Expense Acc (Theft /damage inventory)	X
		17 Drawings Account (inventory drawings)	X
		Balance c/d:	
		18 Branch Inventory Bal c/d (Closing Inventory – count)	X
		19 Branch Inventory Bal c/d (Inventory in transit)	X
	XX B		XXX A
Balancing figure ???? (A – B)	X		
	XXX A		XXX A
Balance b/d:			
18 Branch Inventory Bal b/d (Closing Inventory – count)	X		
19 Branch Inventory Bal b/d (Inventory in transit)	X		

20. Gross Profit (bal figure) to P/L

Dr	Branch Inventory Balance (Bal = Gross Profit)	X	
Cr	Branch Expense Acc (Bal = Gross Profit)		X
<i>20. Gross Profit (bal figure) to P/L</i>			

In order to balance the Branch Inventory account, we total the debit and credit side of the T account, and expect the credit side to be larger than the debit.

Therefore we pass a debit to the branch inventory account in order to balance the account (remember the closing inventory is given to you based on the stock count). This balancing figure represents the Branch Gross Profit, and therefore the contra account for the journal is the Branch Expense account in profit or loss.

This concept is similar to the closing off of the trading account for partnerships.

Branch Inventory GL

Branch Inventory

1 Inventory to Branch (Deliveries from HO at cost)	X	3 Inventory to Branch (Returns to HO)	X
2 Bank / creditors (Inventory purchase)	X	4 Bank (Cash Sales)	X
6 Branch Debtors (Sales Returns)	X	5 Branch Debtors (Credit Sales)	X
8 Branch Debtors (Settlement discount granted)	X	9b Branch Inventory Account (Inter branch transfer)	X
9a Branch Inventory Account (Inter branch receipt)	X	10 Branch Expense Acc (Theft – cash sales)	X
		12 Branch Expense Acc (Theft /damage inventory)	X
		17 Drawings Account (inventory drawings)	X
		Balance c/d:	
		18 Branch Inventory Bal c/d (Closing Inventory – count)	X
		19 Branch Inventory Bal c/d (Inventory in transit)	X
	X B		X A
Branch Expense Acc (bal fig = gross profit)	X		
	XX A		XX A
Balance b/d:			
18 Branch Inventory Bal b/d (Closing Inventory – count)	X		
19 Branch Inventory Bal b/d (Inventory in transit)	X		

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

CLOSE OFF BRANCH EXPENSE ACCOUNT

Branch Expense Account GL

Branch Expense (Profit or Loss)

10	Branch Inventory (Theft – cash sales)		
11	Branch Debtors (Theft – debtors receipt)		
12	Branch Inventory (Theft /damage inventory)		
14	Bank / Petty Cash (Branch Expenses)		
16	Branch Debtor Account – ABC (credit losses)		
			X B
21	HO: Profit or Loss (bal fig) - profit bal	X	AA A
		XX A	XX A

21. Balance Branch Expense account and close off to the HO: Profit or Loss Account

IF PROFIT

Dr	Branch Expense Acc (Bal = HO profit or loss)	X	
Cr	HO: Profit or Loss Acc		X

21a. Balance Branch Expense account and close off to the HO: Profit or Loss Account

IF LOSS

Dr	HO: Profit or Loss Acc	X	
Cr	Branch Expense Acc (Bal = HO profit or loss)		X

21b. Balance Branch Expense account and close off to the HO: Profit or Loss Account

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

CLOSE OFF INVENTORY TO BRANCH ACCOUNT TO H/O TRADING ACCOUNT

Inventory to Branch GL

Inventory to Branch

<p>3 Branch Inventory (Returns to HO) X</p>	<p>X</p>	<p>1 Branch Inventory (Deliveries from HO at cost) X</p>	<p>X</p>
	<hr/> <p><i>XB</i></p>		<hr/> <p><i>XX A</i></p>
<p>22 HO: Trading Account (bal fig)</p>	<p>X</p>		
	<hr/> <p>XX A</p> <hr/>		<hr/> <p>XX A</p> <hr/>

22. Balance Inventory to Branch account and close off to HO trading account

Dr	Inventory to Branch (Bal = HO Trading Account)	X	
Cr	HO: Trading Account		X

22. Balance Inventory to Branch account and close off to HO trading account

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

OTHER GL ACCOUNTS – BANK & BRANCH DEBTORS CONTROL

Bank GL

Bank

4	Branch Inventory (Cash Sales)	X	2	Branch Inventory (Inventory purchase)	X
7	Branch Debtors (Receipt from debtor)	X	14	Branch expenses (Branch expenses)	X
13	Branch Expense Acc (Insurance receipt)	X			
15	Branch Expense Acc (Branch sundry income)	X			

Branch Debtors Control

Branch Debtors Control

5 Branch Inventory (Credit Sales)	X	6 Branch Inventory (Sales Returns)	X
15 Branch Expense Acc (Branch sundry income)	X	7 Bank (Receipt from debtor)	X
		8 Branch Inventory (Settlement discount granted)	X
		11 Branch Expense Acc (Theft – debtors receipt)	X
		16 Branch Expense Acc (credit losses)	X

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

CLASS EXAMPLE

Exercise 9.1 page 142 of the UNISA study guide

Template for journals..... Saving you some time

1. Inventory sent to the branch at cost price & 2. Purchases by the branch & 3. Inventory returns to head office

Dr	Branch Inventory (Deliveries from HO at cost)	4 800	
Cr	Inventory to Branch		4 800
<i>1 - Goods delivered from Head Office to branch at cost price</i>			

Dr	Branch Inventory (Inventory purchases)	0	
Cr	Bank / Petty Cash / Branch Creditors		0
<i>2 – Purchases of inventory from other suppliers by the branch</i>			
<i>If branch is authorised to make purchases from other suppliers</i>			

Dr	Inventory to Branch	80	
Cr	Branch Inventory (Returns to HO)		80
<i>3 – Inventory returned to head office at cost price</i>			

4. Cash Sale of inventory by branch
5. Credit Sale of inventory by branch
6. Sold inventory returned by customer

Dr	Bank	2000	
Cr	Branch Inventory Account (cash sales)		2000
<i>4 – Cash sale of inventory by branch</i>			

Dr	Branch Debtor Account - ABC	3290	
Cr	Branch Inventory Account (credit sales)		3290
<i>5 – Credit sale of inventory by branch</i>			

Dr	Branch Inventory Account (sales returns)	0	
Cr	Branch Debtor Account – ABC / Bank		0
<i>6 – Sold Inventory returned to branch by customer</i>			

7. Receipt of cash from branch debtors

8. Settlement discount granted to branch debtors

Dr	Bank	2890	
Cr	Branch Debtor Account - ABC		2890
<i>7 – Receipt of cash from branch debtors in settlement of their account</i>			

Dr	Branch Inventory Account (Settlement discount granted)	0	
Cr	Branch Debtor Account - ABC		0
<i>8 – Granting of settlement discount to branch debtors</i>			

9. Inter – Branch Inventory Transfers

Dr	Branch Inventory Account (<i>Inter branch receipt</i>)	0	
Cr	Branch Inventory Account – HO /Other Branch		0

9 a – Inter branch receipt of inventory from transfer

Dr	Branch Inventory Account – HO / Other Branch	0	
Cr	Branch Inventory Account (<i>inter branch transfer</i>)		0

9 b – Inter branch removal of inventory from transfer

10. Cash stolen / embezzled from cash sales

11. Cash stolen / embezzled from debtors receipts

Dr	Branch Expense Acc (Theft – cash sales)	0	
Cr	Branch Inventory (Theft – cash sales)		0

10. Cash stolen / embezzled from cash sales

Dr	Branch Expense Acc (Theft – debtors receipt)	0	
Cr	Branch Debtors (Theft – debtors receipt)		0

11. Cash stolen / embezzled from debtors receipts

12. Inventory stolen, damaged or donated

13. Insurance receipt for stolen inventory

Dr	Branch Expense Acc (Theft /damage inventory)	0	
Cr	Branch Inventory (Theft /damage inventory)		0

12. Inventory stolen, damaged or donated

Dr	Bank (Insurance receipt)	0	
Cr	Branch Expense Acc (Insurance receipt)		0

13. Insurance receipt for stolen inventory

14. Branch Expenses

15. Sundry Income

Dr	Branch Expense Acc (Branch expenses)	600	
Cr	Bank / Petty Cash / Branch Creditor		600

14 – Branch expenditure either paid for by head office through the bank account, or paid for by the branch itself out of branch petty cash.

Dr	Bank / Branch Debtors (Branch sundry income)	X	
Cr	Branch Expense Acc (Branch sundry income)		X

15 – Sundry Income

16. Irrecoverable branch debtors (bad debts = credit losses)

Dr	Branch Expense Acc (credit losses)	50	
Cr	Branch Debtor Account – ABC (credit losses)		50

16. Irrecoverable branch debtors (bad debts = credit losses)

17. Inventory taken by the owner

Dr	Drawings Account (inventory drawings)	0	
Cr	Branch Inventory (inventory drawings)		0

17. Inventory taken by the owner as drawings

18. Inventory on hand at year end (stock count)

Dr	Branch Inventory b/d (Closing Inventory – count)	480	
Cr	Branch Inventory c/d (Closing Inventory – count)		480

18a. Closing inventory on hand per stock count

19. Inventory in transit at year end

Dr	Branch Inventory Balance b/d (Inventory in transit)	0	
Cr	Branch Inventory Balance c/d (Inventory in transit)		0
<i>19. Inventory in transit at year end</i>			

OR

Dr	Branch Inventory Balance c/d (Inventory in transit)	0	
Cr	Branch Inventory Balance b/d (Inventory in transit)		0
<i>19. Inventory in transit at year end</i>			

Branch Inventory GL

Branch Inventory

1 Inventory to Branch (Deliveries from HO at cost)	4800	3 Inventory to Branch (Returns to HO)	80
2 Bank / creditors (Inventory purchase)	0	4 Bank (Cash Sales)	2000
6 Branch Debtors (Sales Returns)	0	5 Branch Debtors (Credit Sales)	3290
8 Branch Debtors (Settlement discount granted)	0	9b Branch Inventory Account (Inter branch transfer)	0
9a Branch Inventory Account (Inter branch receipt)	0	10 Branch Expense Acc (Theft – cash sales)	0
		12 Branch Expense Acc (Theft /damage inventory)	0
		17 Drawings Account (inventory drawings)	0
		Balance c/d:	
		18 Branch Inventory Bal c/d (C/ Inventory – count)	480
		19 Branch Inventory Bal c/d (Inventory in transit)	0
	<u>4800</u>		<u>5850</u>
20 Branch Expense Acc (bal fig = gross profit)	1050		
	<u>5850</u>		<u>5850</u>
Balance b/d:			
18 Branch Inventory Bal b/d (C/ Inventory – count)	480		
19 Branch Inventory Bal b/d (Inventory in transit)	0		

20. Gross Profit (bal figure) to P/L

Dr	Branch Inventory Balance (Bal = Gross Profit)	1050	
Cr	Branch Expense Acc (Bal = Gross Profit)		1050
<i>20. Gross Profit (bal figure) to P/L</i>			

Branch Expense Acc GL

Branch Expense (Profit or Loss)

10	Branch Inventory (Theft – cash sales)	0	13	Bank (Insurance receipt)	0
11	Branch Debtors (Theft – debtors receipt)	0	15	Bank / Branch Debtors (Branch sundry income)	0
12	Branch Inventory (Theft /damage inventory)	0			
14	Bank / Petty Cash (Branch Expenses)	600			
16	Branch Debtor Account – ABC (credit losses)	50			
			20	Branch Inventory (gross profit)	1050
		<u>650</u>			<u>1050</u>
21a	HO: Profit or Loss (bal fig) - profit bal	400			
		<u>1050</u>			<u>1050</u>

21. Balance Branch Expense account and close off to the HO: Profit or Loss Account

IF PROFIT

Dr	Branch Expense Acc (Bal = HO profit or loss)	400	
Cr	HO: Profit or Loss Acc		400
<i>21a. Balance Branch Expense account and close off to the HO: Profit or Loss Account</i>			

Inventory to Branch GL

Inventory to Branch

3 Branch Inventory (Returns to HO)	80	1 Branch Inventory (Deliveries from HO at cost)	4800
	<u>80</u>		<u>4800</u>
22 HO: Trading Account (bal fig)	4720		
	<u>4800</u>		<u>4800</u>

22. Balance Inventory to Branch account and close off to HO trading account

Dr	Inventory to Branch (Bal = HO Trading Account)	4720	
Cr	HO: Trading Account		4720

22. Balance Inventory to Branch account and close off to HO trading account

Branch Debtors Control GL

Branch Debtors Control

5 Branch Inventory (Credit Sales)	3290	6 Branch Inventory (Sales Returns)	0
15 Branch Expense Acc (Branch sundry income)	0	7 Bank (Receipt from debtor)	2890
		8 Branch Inventory (Settlement discount granted)	0
		11 Branch Expense Acc (Theft – debtors receipt)	0
		16 Branch Expense Acc (credit losses)	50
	<u>3290</u>		<u>2940</u>
		Balance c/d	<u>350</u>
	<u>3290</u>		<u>3290</u>
Balance b/d	350		

Branch Expenses Acc GL

Branch Expense (Profit or Loss)

10	Branch Inventory (Theft – cash sales)	0	13	Bank (Insurance receipt)	0
11	Branch Debtors (Theft – debtors receipt)	0	15	Bank / Branch Debtors (Branch sundry income)	0
12	Branch Inventory (Theft /damage inventory)	0			
14	Bank / Petty Cash (Branch Expenses)	600			
16	Branch Debtor Account – ABC (credit losses)	50			
			20	Branch Inventory (gross profit)	1050
		<u>650</u>			<u>1050</u>
21a	HO: Profit or Loss (bal fig) - profit bal	400			
		<u>1050</u>			<u>1050</u>

Bank Acc GL

Bank

4	Branch Inventory (Cash Sales)	2000	2	Branch Inventory (Inventory purchase)	0
7	Branch Debtors (Receipt from debtor)	2890	14	Branch expenses (Branch expenses)	600
13	Branch Expense Acc (Insurance receipt)	0			
15	Branch Expense Acc (Branch sundry income)	0			

Study Unit 9 (iii)

Branches

INVENTORIES SUPPLIED AT SELLING PRICE

Study Unit 9: Branches

iii - *INVENTORIES SUPPLIED AT SELLING PRICE*

THEORY & INTRODUCTION

Introduction

Inventory to branch at cost

- Inventory is sold to the branch at SELLING PRICE, not cost price.
- Sale must be recorded in 2 elements
 - Cost Price Element
 - Profit Mark-up element
- Head office will maintain 3 accounts to record all inventory transactions with each separate branch:
 - Branch Inventory Account
 - Branch Adjustment Account
 - Inventory to Branch Account

Main Accounts.....

- **Branch Inventory Account**

- No longer serves the purpose of the “Trading Account” (doesn’t calc Gross Profit)
- Records the inventory delivered from H/O with cost and profit markup recorded separately
- Functions as a control account of all inventory transactions at the branch

Main Accounts.....

- **Branch Adjustment Account (NEW)**
 - Takes over the purpose of the “Trading Account” (calculates Gross Profit for the branch – same as profit markup)
- **Inventory to Branch Account**
 - Same purpose as previous, but now records cost and markup separately.
 - This account is closed off to the Head Office trading account at the financial year end.
 - This account and year end close records the inventory that was purchased by Head Office but subsequently sent to the branch

Markup on Cost % VS GP % on SP

- The inventories of a chess store based on selling price values are equal to CU100,000 at reporting date.

MARKUP % ON COST PRICE

- The policy for the markup on cost is 25%

✓ $100,000 \times 100 / 125 = 80\,000 \text{ Cost}$

GROSS PROFIT % ON SELLING PRICE

- Alternatively, you could be told that a gross profit percentage (margin on selling price) of 20% is maintained:

✓ $100,000 \times 80 / 100 = 80\,000 \text{ Cost}$

Study Unit 9: Branches

iii - *INVENTORIES SUPPLIED AT SELLING PRICE*

INVENTORY, SALES AND DEBTORS TRANSACTIONS

1. Inventory sent to the branch at selling price

Dr	Branch Inventory (Deliveries from HO - cost)	X	
Cr	Inventory to Branch (Deliveries from HO - cost)		X
<i>1a - Goods delivered from Head Office to branch - cost price component</i>			

Dr	Branch Inventory (Deliveries from HO - markup)	X	
Cr	Branch Adjustment (Deliveries from HO - markup)		X
<i>1b - Goods delivered from Head Office to branch - markup component</i>			

2. Purchases by the branch

Dr	Branch Inventory (Inventory purchases - cost)	X	
Cr	Bank / Branch Creditors (Inventory purchases - cost)		X

2a – Purchases of inventory from other suppliers – markup element

If branch is authorised to make purchases from other suppliers

Dr	Branch Inventory (Inventory purchases - markup)	X	
Cr	Branch Adjustment (Inventory purchases - markup)		X

2b – Purchases of inventory from other suppliers – markup element

If branch is authorised to make purchases from other suppliers

3.Inventory returns to head office

Dr	Inventory to Branch (Returns to HO - Cost)	X	
Cr	Branch Inventory (Returns to HO - Cost)		X

3a – Inventory returned to head office - cost element

Dr	Branch Adjustment (Returns to HO - Markup)	X	
Cr	Branch Inventory (Returns to HO - Markup)		X

3b – Inventory returned to head office - markup element

4. Cash Sale of inventory by branch
5. Credit Sale of inventory by branch
6. Sold inventory returned by customer

Dr	Bank	X	
Cr	Branch Inventory Account (cash sales)		X
4 – Cash sale of inventory by branch (same as previous)			

Dr	Branch Debtor Account - ABC	X	
Cr	Branch Inventory Account (credit sales)		X
5 – Credit sale of inventory by branch (same as previous)			

Dr	Branch Inventory Account (sales returns)	X	
Cr	Branch Debtor Account – ABC / Bank		X
6 – Sold Inventory returned to branch by customer (same as previous)			

7. Inventory sold at marked down prices (discounts other than settlement discount)

Dr	Branch Adjustment (sales discount – profit element)	X	
Dr	Branch Expense (sales discount – below cost element)	X	
Cr	Branch Inventory (sales discount)		X

7 – Inventory sold at marked down prices

(discounts other than settlement discount) – NEW JOURNAL

- If discount only affects profit markup – Debit Branch Adjustment only*
- If discount is greater than profit markup, the component larger than profit markup will be Debited to Branch Expense*

8. Receipt of cash from branch debtors

9. Settlement discount granted to branch debtors

Dr	Bank (Receipts from debtors)	X	
Cr	Branch Debtor Account – ABC (Receipts from debtors)		X

8 – Receipt of cash from branch debtors in settlement of their account

(same as previous)

Dr	Branch Adjustment (Settlement discount granted)	X	
Cr	Branch Debtor Account – ABC (Settlement discount granted)		X

9 – Granting of settlement discount to branch debtors

10. Inter – Branch Inventory Transfers at SP

Dr	Branch Inventory (Inter branch receipt - cost)	X	
	Branch Inventory Account – HO /Other Branch		
Cr	(Inter branch receipt - cost)		X
<i>10 a – Inter branch receipt of inventory from transfer to us – cost element</i>			

Dr	Branch Inventory (Inter branch receipt – markup)	X	
Cr	Branch Adjustment (Inter branch receipt-markup)		X
<i>10 b – Inter branch receipt of inventory from transfer to us – markup element</i>			

Dr	Branch Inventory Account – HO / Other Branch	X	
Cr	Branch Inventory Account (inter branch transfer-cost)		X
<i>10 c – Inter branch removal of inventory from transfer from us – cost element</i>			

Dr	Branch adjustment (inter branch transfer-markup)	X	
Cr	Branch Inventory Account (inter branch transfer-markup)		X
<i>10 d – Inter branch removal of inventory from transfer from us – markup element</i>			

Study Unit 9: Branches

iii - *INVENTORIES SUPPLIED AT SELLING PRICE*

BRANCH EXPENSE TRANSACTIONS

11. Cash stolen / embezzled from cash sales

12. Cash stolen / embezzled from debtors receipts

Dr	Branch Expense Acc (Theft – cash sales)	X	
Cr	Branch Inventory (Theft – cash sales)		X

11. Cash stolen / embezzled from cash sales (same as previous)

Dr	Branch Expense Acc (Theft – debtors receipt)	X	
Cr	Branch Debtors (Theft – debtors receipt)		X

12. Cash stolen / embezzled from debtors receipts (same as previous)

13. Inventory stolen, damaged or donated

14. Insurance receipt for stolen inventory

Dr	Branch Expense Acc (Theft /damage inventory - cost)	X	
Cr	Branch Inventory (Theft /damage inventory - cost)		X
<i>13a. Inventory stolen, damaged or donated - cost element</i>			

Dr	Branch Adjustment(Theft /damage inventory - markup)	X	
Cr	Branch Inventory (Theft /damage inventory - markup)		X
<i>13b. Inventory stolen, damaged or donated - markup element</i>			

Dr	Bank (Insurance receipt)	X	
Cr	Branch Expense Acc (Insurance receipt)		X
<i>14. Insurance receipt for stolen inventory</i>			

15. Branch Expenses

16. Sundry Income

Dr	Branch Expense Acc (Branch expenses)	X	
Cr	Bank / Petty Cash / Branch Creditor		X

15 – Branch expenditure either paid for by head office through the bank account, or paid for by the branch itself out of branch petty cash.

(same as previous)

Dr	Bank / Branch Debtors (Branch sundry income)	X	
Cr	Branch Expense Acc (Branch sundry income)		X

16 – Sundry Income (same as previous)

17. Irrecoverable branch debtors (bad debts = credit losses)

Dr	Branch Expense Acc (credit losses)	X	
Cr	Branch Debtor Account – ABC (credit losses)		X

17. Irrecoverable branch debtors (bad debts = credit losses)

(same as previous)

Study Unit 9: Branches

iii - *INVENTORIES SUPPLIED AT SELLING PRICE*

YEAR END INVENTORY JOURNALS

18. Inventory taken by the owner

Dr	Drawings Account (inventory drawings - cost)	X	
Cr	Branch Inventory (inventory drawings – cost)		X

18a. Inventory taken by the owner as drawings – cost element

Dr	Branch Adjustment (inventory drawings - markup)	X	
Cr	Branch Inventory (inventory drawings – markup)		X

18b. Inventory taken by the owner as drawings – markup element

Inventory Shortage / Surplus

- Calculated upon inventory (stock) count, often balancing figure in GL
- Branch inventory account = control account
 - Control over receipts and sales of inventory at branch
 - Inventory is “purchased” from head office and sold to customers, both at selling price
 - Therefore the balance on the Branch Inventory Account should = monetary value of inventory count

19. Inventory shortage transfer

20. Inventory surplus transfer

- If theft / damage / donation – refer journal 13a + 13b
- If reason unknown, and insignificant amount:

Dr	Branch Adjustment(Inventory shortage)	X	
Cr	Branch Inventory(Inventory shortage)		X
<i>19. Inventory shortage at stock count transferred to branch adjustment</i>			

Dr	Branch Inventory (Inventory surplus)	X	
Cr	Branch Adjustment (Inventory surplus)		X
<i>20. Inventory surplus at stock count transferred to branch adjustment</i>			

Calculating shortage or surplus

- If no inventory surplus or shortage is given in the question.....?
- Then do the rest of the journals that affect the Branch Inventory Accounting including the closing inventories c/d and b/d.
- ***Then calculate the surplus / shortage as the balancing figure.***

21. Inventory on hand at year end (stock count)

Dr	Branch Inventory b/d (Closing Inventory – count @SP)	X	
Cr	Branch Inventory c/d (Closing Inventory – count @ SP)		X

21a. Closing inventory on hand per stock count at selling price

Dr	Branch Adjustment c/d (Closing Inventory – count- markup)	X	
Cr	Branch Adjustment b/d (Closing Inventory – count - markup)		X

21b. Closing inventory on hand per stock count – markup included in the selling price (SP)

22. Inventory in transit at year end

Dr	Branch Inventory Balance b/d (Inventory in transit @SP)	X	
Cr	Branch Inventory Balance c/d (Inventory in transit @SP)		X
<i>22a. Inventory in transit at year end – at selling price</i>			

Dr	Branch Adjustment Balance c/d (Inventory in transit- markup)	X	
Cr	Branch Adjustment Balance b/d (Inventory in transit - markup)		X
<i>22b. Inventory in transit at year end – markup included in selling price</i>			

The inventory in transit is recorded as a separate balance carried down and balance brought down in the same GL account. This allows us to keep track of the inventory in transit separately from the inventory in the warehouse that was subject to a stock count.

Branch Inventory

<i>Opening Balance b/d</i>	X		
1a Inventory to Branch (Deliv HO - cost)	X	3a Inventory to Branch (Returns to HO- cost)	X
1b Branch Adjustment (Deliv HO - markup)	X	3b Inventory to Branch (Returns to HO- markup)	X
2a Bank / creditors (Inventory purchase-cost)	X	4 Bank (Cash Sales)	X
2b Branch adj (Inventory purchase-markup)	X	5 Branch Debtors (Credit Sales)	X
6 Branch Debtors (Sales Returns)	X	7 Branch Adjustment (discount – profit element)	X
10a Branch Inv –Other Branch (I/branch cost)	X	7 Branch Expense (discount – below cost element)	X
10b Branch Adjustment (I/ branch -markup)	X	10c Branch Inv – Other Branch (I/branch - cost)	X
20 Branch Adjustment (Inventory surplus)	X	10d Branch Adjustment (I/ branch -markup)	X
		11 Branch Expense Acc (Theft – cash sales)	X
		13a Branch Expense Acc (Theft /damage inventory-cost)	X
		13b Branch Adj (Theft /damage inventory-markup)	X
		18a Drawings Account (inventory drawings-cost)	X
		18b Branch Adjustment (Inventory drawings-markup)	X
		19 Branch Adjustment(Inventory shortage)	X
		Balance c/d:	
		21a <i>Branch Inventory Bal c/d (C/ Inv – count @ SP)</i>	X
		22a <i>Branch Inventory Bal c/d (Inv in transit @ SP)</i>	X
	XX		XX
Balance b/d:			
21a <i>Branch Inventory b/d (C/ Inv – count@SP)</i>	X		
22a <i>Branch Inventory b/d (Inv in transit @ SP)</i>	X		

19. Inventory shortage transfer

20. Inventory surplus transfer

- If theft / damage / donation – refer journal 13a + 13b
- If reason unknown, and insignificant amount:

Dr	Branch Adjustment(Inventory shortage)	X	
Cr	Branch Inventory(Inventory shortage)		X
<i>19. Inventory shortage at stock count transferred to branch adjustment</i>			

Dr	Branch Inventory (Inventory surplus)	X	
Cr	Branch Adjustment (Inventory surplus)		X
<i>20. Inventory surplus at stock count transferred to branch adjustment</i>			

Study Unit 9: Branches

iii - *INVENTORIES SUPPLIED AT SELLING PRICE*

CLOSE OFF BRANCH ADJUSTMENT ACCOUNT

Branch Inventory

<i>Opening Balance b/d</i>	X		
1a Inventory to Branch (Deliv HO - cost)	X	3a Inventory to Branch (Returns to HO- cost)	X
1b Branch Adjustment (Deliv HO - markup)	X	3b Inventory to Branch (Returns to HO- markup)	X
2a Bank / creditors (Inventory purchase-cost)	X	4 Bank (Cash Sales)	X
2b Branch adj (Inventory purchase-markup)	X	5 Branch Debtors (Credit Sales)	X
6 Branch Debtors (Sales Returns)	X	7 Branch Adjustment (discount – profit element)	X
10a Branch Inv –Other Branch (I/branch cost)	X	7 Branch Expense (discount – below cost element)	X
10b Branch Adjustment (I/ branch -markup)	X	10c Branch Inv – Other Branch (I/branch - cost)	X
20 Branch Adjustment (Inventory surplus)	X	10d Branch Adjustment (I/ branch -markup)	X
		11 Branch Expense Acc (Theft – cash sales)	X
		13a Branch Expense Acc (Theft /damage inventory-cost)	X
		13b Branch Adj (Theft /damage inventory-markup)	X
		18a Drawings Account (inventory drawings-cost)	X
		18b Branch Adjustment (Inventory drawings-markup)	X
		19 Branch Adjustment(Inventory shortage)	X
		Balance c/d:	
		21a <i>Branch Inventory Bal c/d (C/ Inv – count @ SP)</i>	X
		22a <i>Branch Inventory Bal c/d (Inv in transit @ SP)</i>	X
	XX		XX
Balance b/d:			
21a <i>Branch Inventory b/d (C/ Inv – count@SP)</i>	X		
22a <i>Branch Inventory b/d (Inv in transit @ SP)</i>	X		

Branch Adjustment

		Balance b/d	X
3b Branch Inventory (Returns to HO-markup)	X	1b Branch inventory (Deliv HO - markup)	X
7 Branch Inventory (sales discount)	X	2b Branch Inventory (Inv purchase - markup)	X
9 Branch Debtor Account(Settlement disc granted)	X	10b Branch Inventory (Inter branch – markup)	X
10d Branch Inventory Account (inter branch -markup)	X	20 Branch Inventory (Inventory surplus)	X
13b Branch Inventory (Theft /damage inv-markup)	X		
18b Branch Inventory (Inventory drawings-markup)	X		
19 Branch Inventory(Inventory shortage)	X		
21b Branch Adjustment Bal c/d (C/ Inv – markup)	X		
22b Branch Adjustment Bal c/d (Inv in transit – mu)	X		
	<u>X B</u>		<u>XX A</u>
23 Branch Expense Acc (bal fig = gross profit)	X		
	<u>XX A</u>		<u>XX A</u>
		Balance b/d:	
		21b Branch Adj Bal b/d (C/Inv – markup)	X
		22b Branch Adj Bal b/d (Inv in transit – markup)	X

23. Gross Profit (bal figure) to P/L

Dr	Branch Adjustment (Bal = Gross Profit)	X	
Cr	Branch Expense Acc (Bal = Gross Profit)		X
<i>23. Gross Profit (bal figure) to P/L</i>			

In order to balance the Branch Adjustment account, we total the debit and credit side of the T account, and expect the credit side to be larger than the debit.

Therefore we pass a debit to the branch adjustment account in order to balance the account (remember the closing inventory is given to you based on the stock count). This balancing figure represents the Branch Gross Profit, and therefore the contra account for the journal is the Branch Expense account in profit or loss.

This concept is similar to the closing off of the trading account for partnerships.

The debit and credit side of the Branch Inventory Account should be equal and not require balancing if HO sells to branches at Selling Price.

Study Unit 9: Branches

iii - *INVENTORIES SUPPLIED AT SELLING PRICE*

CLOSE OFF BRANCH EXPENSE ACCOUNT

Branch Expense (Profit or Loss)

<p>7 Branch Inventory (sales discount) X</p> <p>11 Branch Inventory (Theft – cash sales) X</p> <p>12 Branch Debtors (Theft – debtors receipt) X</p> <p>13a Branch Inventory (Theft /damage inv-cost) X</p> <p>15 Bank / Petty Cash / Creditors (Branch Expenses) X</p> <p>17 Branch Debtor Account (credit losses) X</p>	<hr style="width: 100%;"/>	<p>14 Bank (Insurance receipt) X</p> <p>16 Bank / Branch Debtors (sundry income) X</p> <p>23 Branch Adjustment (Gross Income) X</p>	<hr style="width: 100%;"/>
<p style="color: green;">X B</p>	<hr style="width: 100%;"/>	<p style="color: green;">XX A</p>	<hr style="width: 100%;"/>
<p style="color: green;">24 HO: Profit or Loss (bal fig) - profit bal</p>	<p style="color: black;">X</p>		
<hr style="width: 100%;"/> <p style="color: black;">XX A</p>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/> <p style="color: black;">XX A</p>	<hr style="width: 100%;"/>

24. Balance Branch Expense account and close off to the HO: Profit or Loss Account

IF PROFIT

Dr	Branch Expense Acc (Bal = HO profit or loss)	X	
Cr	HO: Profit or Loss Acc		X

24a. Balance Branch Expense account and close off to the HO: Profit or Loss Account

IF LOSS

Dr	HO: Profit or Loss Acc	X	
Cr	Branch Expense Acc (Bal = HO profit or loss)		X

24b. Balance Branch Expense account and close off to the HO: Profit or Loss Account

Study Unit 9: Branches

iii - *INVENTORIES SUPPLIED AT SELLING PRICE*

CLOSE OFF INVENTORY TO BRANCH ACCOUNT TO H/O TRADING ACCOUNT

Inventory to Branch GL

Inventory to Branch

3a Branch Inventory (Returns to HO - cost)	X	1a Branch Inventory (Deliveries from HO at cost)	X
	<i>XB</i>		<i>XX A</i>
24 HO: Trading Account (bal fig)	X		
	XX A		XX A

24. Balance Inventory to Branch account and close off to HO trading account

Dr	Inventory to Branch (Bal = HO Trading Account)	X	
Cr	HO: Trading Account		X

24. Balance Inventory to Branch account and close off to HO trading account

Study Unit 9: Branches

iii - *INVENTORIES SUPPLIED AT SELLING PRICE*

OTHER GL ACCOUNTS – BANK & BRANCH DEBTORS CONTROL

Bank GL

Bank			
<i>Opening balance b/d</i>	X		
4 Branch Inventory (Cash Sales)	X	2a Branch Inventory (Inv purchase - cost)	X
8 Branch Debtors (Receipt from debtor)	X	15 Branch expenses (Branch expenses)	X
14 Branch Expense Acc (Insurance receipt)	X		
16 Branch Expense Acc (sundry income)	X		

Branch Debtors Control

Branch Debtors Control

<i>Opening balance b/d</i>	X		
5 Branch Inventory (<i>Credit Sales</i>)	X	6 Branch Inventory (<i>Sales Returns</i>)	X
16 Branch Expense Acc (<i>sundry income</i>)	X	8 Bank (<i>Receipt from debtor</i>)	X
		9 Branch Adjustment (<i>Settlement dis granted</i>)	X
		12 Branch Expense Acc (<i>Theft – debtors receipt</i>)	X
		17 Branch Expense Acc (<i>credit losses</i>)	X

Study Unit 9: Branches

ii - *INVENTORIES SUPPLIED AT COST*

CLASS EXAMPLE

Exercise 9.2 page 145 of the UNISA study guide

Template for journals..... Saving you some time

1. Inventory sent to the branch at selling price

Dr	Branch Inventory (Deliveries from HO - cost)	12500	
Cr	Inventory to Branch (Deliveries from HO - cost)		12500
<i>1a - Goods delivered from Head Office to branch - cost price component</i>			
<i>(18,750 x 100/150)</i>			

Dr	Branch Inventory (Deliveries from HO - markup)	6250	
Cr	Branch Adjustment (Deliveries from HO - markup)		6250
<i>1b - Goods delivered from Head Office to branch - markup component</i>			
<i>18,750 x 50/150</i>			

2. Purchases by the branch

Dr	Branch Inventory (Inventory purchases - cost)	0
Cr	Bank / Branch Creditors (Inventory purchases - cost)	0

2a – Purchases of inventory from other suppliers – markup element

If branch is authorised to make purchases from other suppliers

Dr	Branch Inventory (Inventory purchases - markup)	0
Cr	Branch Adjustment (Inventory purchases - markup)	0

2b – Purchases of inventory from other suppliers – markup element

If branch is authorised to make purchases from other suppliers

3.Inventory returns to head office

Dr	Inventory to Branch (Returns to HO - Cost)	124	
Cr	Branch Inventory (Returns to HO - Cost)		124
<i>3a – Inventory returned to head office - cost element (186 x 100/150)</i>			

Dr	Branch Adjustment (Returns to HO - Markup)	62	
Cr	Branch Inventory (Returns to HO - Markup)		62
<i>3b – Inventory returned to head office - markup element (186 x 50/150)</i>			

- 4. Cash Sale of inventory by branch**
- 5. Credit Sale of inventory by branch**
- 6. Sold inventory returned by customer**

Dr	Bank	17918	
Cr	Branch Inventory Account (cash sales)		17918
4 – Cash sale of inventory by branch (same as previous)			

Dr	Branch Debtor Account - ABC	0	
Cr	Branch Inventory Account (credit sales)		0
5 – Credit sale of inventory by branch (same as previous)			

Dr	Branch Inventory Account (sales returns)	0	
Cr	Branch Debtor Account – ABC / Bank		0
6 – Sold Inventory returned to branch by customer (same as previous)			

7. Inventory sold at marked down prices (discounts other than settlement discount)

Dr	Branch Adjustment (sales discount – profit element)	40	
Dr	Branch Expense (sales discount – below cost element)	0	
Cr	Branch Inventory (sales discount)		40

7 – Inventory sold at marked down prices

(discounts other than settlement discount) – NEW JOURNAL

- *[R390 (net after discount) / (100-10)] X 10 = 40 all above cost*
- *Discount is smaller than profit markup, therefore no amount to branch expense*

8. Receipt of cash from branch debtors

9. Settlement discount granted to branch debtors

Dr	Bank (Receipts from debtors)	0	
Cr	Branch Debtor Account – ABC (Receipts from debtors)		0

8 – Receipt of cash from branch debtors in settlement of their account

(same as previous)

Dr	Branch Adjustment (Settlement discount granted)	0	
Cr	Branch Debtor Account – ABC (Settlement discount granted)		0

9 – Granting of settlement discount to branch debtors

10. Inter – Branch Inventory Transfers at SP

Dr	Branch Inventory (Inter branch receipt - cost)	0	
	Branch Inventory Account – HO /Other Branch		
Cr	(Inter branch receipt - cost)		0
<i>10 a – Inter branch receipt of inventory from transfer to us – cost element</i>			

Dr	Branch Inventory (Inter branch receipt – markup)	0	
Cr	Branch Adjustment (Inter branch receipt-markup)		0
<i>10 b – Inter branch receipt of inventory from transfer to us – markup element</i>			

Dr	Branch Inventory Account – HO / Other Branch	0	
Cr	Branch Inventory Account (inter branch transfer-cost)		0
<i>10 c – Inter branch removal of inventory from transfer from us – cost element</i>			

Dr	Branch adjustment (inter branch transfer-markup)	0	
Cr	Branch Inventory Account (inter branch transfer-markup)		0
<i>10 d – Inter branch removal of inventory from transfer from us – markup element</i>			

11. Cash stolen / embezzled from cash sales

12. Cash stolen / embezzled from debtors receipts

Dr	Branch Expense Acc (Theft – cash sales)	55	
Cr	Branch Inventory (Theft – cash sales)		55

11. Cash stolen / embezzled from cash sales (same as previous)

Dr	Branch Expense Acc (Theft – debtors receipt)	0	
Cr	Branch Debtors (Theft – debtors receipt)		0

12. Cash stolen / embezzled from debtors receipts (same as previous)

13. Inventory stolen, damaged or donated

14. Insurance receipt for stolen inventory

Dr	Branch Expense Acc (Theft /damage inventory - cost)	24	
Cr	Branch Inventory (Theft /damage inventory - cost)		24
<i>13a. Inventory stolen, damaged or donated - cost element (36 X 100/150)</i>			

Dr	Branch Adjustment(Theft /damage inventory - markup)	12	
Cr	Branch Inventory (Theft /damage inventory - markup)		12
<i>13b. Inventory stolen, damaged or donated - markup element (36 X 50/150)</i>			

Dr	Bank (Insurance receipt)	0	
Cr	Branch Expense Acc (Insurance receipt)		0
<i>14. Insurance receipt for stolen inventory</i>			

15. Branch Expenses

16. Sundry Income

Dr	Branch Expense Acc (Branch expenses)	4760	
Cr	Branch Creditor (head office)		4760

15 – Branch expenditure either paid for by head office through the bank account, or paid for by the branch itself out of branch petty cash.

(same as previous)

Dr	Bank / Branch Debtors (Branch sundry income)	0	
Cr	Branch Expense Acc (Branch sundry income)		0

16 – Sundry Income (same as previous)

17. Irrecoverable branch debtors (bad debts = credit losses)

Dr	Branch Expense Acc (credit losses)	0	
Cr	Branch Debtor Account – ABC (credit losses)		0

17. Irrecoverable branch debtors (bad debts = credit losses)

(same as previous)

18. Inventory taken by the owner

Dr	Drawings Account (inventory drawings - cost)	0	
Cr	Branch Inventory (inventory drawings – cost)		0

18a. Inventory taken by the owner as drawings – cost element

Dr	Branch Adjustment (inventory drawings - markup)	0	
Cr	Branch Inventory (inventory drawings – markup)		0

18b. Inventory taken by the owner as drawings – markup element

Inventory Shortage / Surplus

- The figure in this example was not given, therefore complete all the other journals and come back to this “balancing figure” once the Branch Inventory Account is complete

19. Inventory shortage transfer

20. Inventory surplus transfer

- *Come back and do this after the Branch Inventory account journals are completed – no surplus / shortage given so will have to calculate as balancing figure in Branch Inventory Account*

Dr	Branch Adjustment(Inventory shortage)	?	
Cr	Branch Inventory(Inventory shortage)		?
<i>19. Inventory shortage at stock count transferred to branch adjustment</i>			

Dr	Branch Inventory (Inventory surplus)	?	
Cr	Branch Adjustment (Inventory surplus)		?
<i>20. Inventory surplus at stock count transferred to branch adjustment</i>			

21. Inventory on hand at year end (stock count)

Dr	Branch Inventory b/d (Closing Inventory – count @SP)	195	
Cr	Branch Inventory c/d (Closing Inventory – count @ SP)		195

21a. Closing inventory on hand per stock count at selling price

Dr	Branch Adjustment c/d (Closing Inventory – count- markup)	65	
Cr	Branch Adjustment b/d (Closing Inventory – count - markup)		65

21b. Closing inventory on hand per stock count – markup included in the selling price (SP) (195 X 50/150)

22. Inventory in transit at year end

Dr	Branch Inventory Balance b/d (Inventory in transit @SP)	X	
Cr	Branch Inventory Balance c/d (Inventory in transit @SP)		X
<i>22a. Inventory in transit at year end – at selling price</i>			

Dr	Branch Adjustment Balance c/d (Inventory in transit- markup)	X	
Cr	Branch Adjustment Balance b/d (Inventory in transit - markup)		X
<i>22b. Inventory in transit at year end – markup included in selling price</i>			

The inventory in transit is recorded as a separate balance carried down and balance brought down in the same GL account. This allows us to keep track of the inventory in transit separately from the inventory in the warehouse that was subject to a stock count.

Complete Branch Inventory GL & balance for surplus / shortfall

Branch Inventory

<i>Opening Balance b/d</i>	1500		
1a Inventory to Branch (Deliveries from HO - cost)	1250	3a Inventory to Branch (Returns to HO- cost)	124
	0		
1b Branch Adjustment (Deliveries from HO - markup)	6250	3b Inventory to Branch (Returns to HO- markup)	62
2a Bank / creditors (Inventory purchase-cost)	0	4 Bank (Cash Sales)	17918
2b Branch adjustment (Inventory purchase-markup)	0	5 Branch Debtors (Credit Sales)	0
6 Branch Debtors (Sales Returns)	0	7 Branch Adjustment (sales discount – profit element)	40
10a Branch Inv – Other Branch (Inter branch-cost)	0	7 Branch Expense (sales discount – below cost element)	0
10b Branch Adjustment (Inter branch-markup)	0	10c Branch Inv – Other Branch (Inter branch-cost)	0
		10d Branch Adjustment (Inter branch-markup)	0
		11 Branch Expense Acc (Theft – cash sales)	55
		13a Branch Expense Acc (Theft /damage inv-cost)	24
		13b Branch Adjustment (Theft /damage inv-markup)	12
		18a Drawings Account (inventory drawings-cost)	0
		18b Branch Adjustment (Inventory drawings-markup)	0
		Balance c/d:	
		21a Branch Inventory Bal c/d (C/Inv – count @ SP)	1950
		22a Branch Inventory Bal c/d (Inv in transit @ SP)	75
	20250		20260
20 Branch Adjustment (Inventory surplus) (BAL FIG)	10	19 Branch Adjustment(Inventory shortage)	0
	20260		20260
Balance b/d:			
21a Branch Inventory Bal b/d (Closing Inventory – count@SP)	1950		
22a Branch Inventory Bal b/d (Inventory in transit @ SP)	75		

19. Inventory shortage transfer

20. Inventory surplus transfer

- *Branch Inventory GL completed – calculate balancing figure*

Dr	Branch Adjustment(Inventory shortage)	0	
Cr	Branch Inventory(Inventory shortage)		0
<i>19. Inventory shortage at stock count transferred to branch adjustment</i>			

Dr	Branch Inventory (Inventory surplus)	10	
Cr	Branch Adjustment (Inventory surplus)		10
<i>20. Inventory surplus at stock count transferred to branch adjustment</i>			

Branch Adjustment

		Balance b/d	0
3b Branch Inventory (Returns to HO-markup)	62	1b Branch inventory (Deliv HO - markup)	6250
7 Branch Inventory (sales discount)	40	2b Branch Inventory (Inv purchase - markup)	0
9 Branch Debtor Account(Settle disc granted)	0	10b Branch Inventory (Inter branch – markup)	0
10d Branch Inventory Account (inter branch - markup)	0	20 Branch Inventory (Inventory surplus)	10
13b Branch Inventory (Theft /damage inv-markup)	12		
18b Branch Inventory (Inventory drawings-markup)	0		
19 Branch Inventory(Inventory shortage)	0		
21b Branch Adjustment Bal c/d (C/ Inv – markup)	650		
22b Branch Adjustment Bal c/d (Inv in transit – mu)	25		
	789		6760
23 Branch Expense Acc (bal fig = gross profit)	5971		
	6760		6760
		Balance b/d:	
		21b Branch Adj Bal b/d (C/Inv – markup)	650
		22b Branch Adj Bal b/d (Inv in transit – markup)	25

23. Gross Profit (bal figure) to P/L

Dr	Branch Adjustment (Bal = Gross Profit)	5971	
Cr	Branch Expense Acc (Bal = Gross Profit)		5971
<i>23. Gross Profit (bal figure) to P/L</i>			

In order to balance the Branch Adjustment account, we total the debit and credit side of the T account, and expect the credit side to be larger than the debit.

Therefore we pass a debit to the branch adjustment account in order to balance the account (remember the closing inventory is given to you based on the stock count). This balancing figure represents the Branch Gross Profit, and therefore the contra account for the journal is the Branch Expense account in profit or loss.

This concept is similar to the closing off of the trading account for partnerships.

The debit and credit side of the Branch Inventory Account should be equal and not require balancing if HO sells to branches at Selling Price.

Branch Expense (Profit or Loss)

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">7</td> <td style="width: 85%;">Branch Inventory (sales discount)</td> <td style="width: 10%; text-align: right;">0</td> </tr> <tr> <td>11</td> <td>Branch Inventory (Theft – cash sales)</td> <td style="text-align: right;">55</td> </tr> <tr> <td>12</td> <td>Branch Debtors (Theft – debtors receipt)</td> <td style="text-align: right;">0</td> </tr> <tr> <td>13a</td> <td>Branch Inventory (Theft /damage inv-cost)</td> <td style="text-align: right;">24</td> </tr> <tr> <td>15</td> <td>Bank / Petty Cash / Creditors (Branch Expenses)</td> <td style="text-align: right;">4760</td> </tr> <tr> <td>17</td> <td>Branch Debtor Account (credit losses)</td> <td style="text-align: right;">0</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">4839</td> </tr> <tr> <td>24</td> <td>HO: Profit or Loss (bal fig) - profit bal</td> <td style="text-align: right;">1132</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">5971</td> </tr> </table>	7	Branch Inventory (sales discount)	0	11	Branch Inventory (Theft – cash sales)	55	12	Branch Debtors (Theft – debtors receipt)	0	13a	Branch Inventory (Theft /damage inv-cost)	24	15	Bank / Petty Cash / Creditors (Branch Expenses)	4760	17	Branch Debtor Account (credit losses)	0			4839	24	HO: Profit or Loss (bal fig) - profit bal	1132			5971	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;">14</td> <td style="width: 85%;">Bank (Insurance receipt)</td> <td style="width: 10%; text-align: right;">0</td> </tr> <tr> <td>16</td> <td>Bank / Branch Debtors (sundry income)</td> <td style="text-align: right;">0</td> </tr> <tr> <td>23</td> <td>Branch Adjustment (Gross Income)</td> <td style="text-align: right;">5971</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">5971</td> </tr> </table>	14	Bank (Insurance receipt)	0	16	Bank / Branch Debtors (sundry income)	0	23	Branch Adjustment (Gross Income)	5971			5971
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24. Balance Branch Expense account and close off to the HO: Profit or Loss Account

IF PROFIT

Dr	Branch Expense Acc (Bal = HO profit or loss)	1132	
Cr	HO: Profit or Loss Acc		1132
<i>24a. Balance Branch Expense account and close off to the HO: Profit or Loss Account</i>			

IF LOSS – not applicable as this question the CR > DR = profit

Dr	HO: Profit or Loss Acc	n/a	
Cr	Branch Expense Acc (Bal = HO profit or loss)		n/a
<i>24b. Balance Branch Expense account and close off to the HO: Profit or Loss Account</i>			

Inventory to Branch GL

Inventory to Branch

3a Branch Inventory (Returns to HO - cost)	124	1a Branch Inventory (Deliveries from HO at cost)	12500
	<i>124</i>		<i>12500</i>
24 HO: Trading Account (bal fig)	12376		
	12500		12500

24. Balance Inventory to Branch account and close off to HO trading account

Dr	Inventory to Branch (Bal = HO Trading Account)	12376	
Cr	HO: Trading Account		12376

24. Balance Inventory to Branch account and close off to HO trading account