FINANCIAL ACCOUNTING

1.BILLS OF EXCHANGE

MEANING :

Bill of Exchange, can be understood as a written negotiable instrument, that carries an unconditional order to pay a specified sum of money to a designated person or the holder of the instrument, as directed in the instrument by the maker. The bill of exchange is either payable on demand, or after a specified term.

In a business transaction, when the goods are sold on credit to the buyer, the seller can make the bill and send it to the buyer for acceptance, which contains the details such as name and address of the seller and buyer, amount of bill, maturity date, signature, and so forth.

FEATURES OF BILLS OF EXCHANGE

- An instrument which a creditor draws upon his debtor.
- It carries an absolute order to pay a specified sum.
- The sum is payable to the person whose name is mentioned in the bill or to any other person, or the order of the drawer, or to the bearer of the instrument.
- It requires to be stamped, duly signed by the maker and accepted by the drawee.
- It contains the date by which the sum should be paid to the creditor.

PARTIES TO BILLS OF EXCHANGE

1. **Drawer**: The person who makes the bill, or who gives the order to pay a certain sum of money, is the drawer of the instrument.
2. **Drawee**: The person who accepts the bill of exchange, or who is directed to pay a certain sum, is called drawee.
3. **Payee**: The person receiving payment is called the payee, who can be a designated person or the drawer himself.

Now, apart from the parties mentioned above, there are some other parties to a bill of exchange, described as under:

- **Drawee, in case of need**: If in any bill of exchange, a person’s name is mentioned in addition to the original drawee, who can be resorted for payment. Then, that person will be called as drawee.

- **Holder**: The holder of the bill of exchange, is the person who possesses the bill and who has the right to recover the amount from the parties.
- **Acceptor**: The person who accepts the bill is called acceptor. Usually, a debtor or drawee is the acceptor. However, it can be accepted by some other person also, on behalf of the debtor/drawee.
- **Endorser**: If the holder of the bill, endorses it to another person, then the person will be called as the endorser.
- **Endorsee**: The person to whom the bill of exchange is endorsed, is called as an endorsee**.**

BASIS	**BILLS OF EXCHANGE**	**PROMISSORY NOTE**
Meaning	Bill of Exchange is an instrument in writing showing the indebtedness of a buyer towards the seller of goods.	A promissory note is a written promise made by the debtor to pay a certain sum of money to the creditor at a future specified date.
Defined in	Section 5 of Negotiable Instrument Act, 1881.	Section 4 of Negotiable Instrument Act, 1881.
Parties	Three parties, i.e. drawer, drawee and payee.	Two parties, i.e. drawer and payee.
Drawn by	Creditor	Debtor
Liability of Maker	Secondary and conditional	Primary and absolute
Can maker and payee be the same person?	Yes	No
Copies	Bill can be drawn in copies.	Promissory Note cannot be drawn in copies.
Dishonor	Notice is necessary to be given to all the parties involved.	Notice is not necessary to be given to the maker.

BASIS	BILLS OF EXCHANGE	CHEQUE
Meaning	A document used to make easy payments on demand and can be transferred through hand delivery is known as cheque.	A written document that shows the indebtedness of the debtor towards the creditor.
Defined in	Section 6 of The Negotiable Instrument Act, 1881	Section 5 of The Negotiable Instrument Act, 1881
Validity Period	3 months	Not Applicable
Payable to bearer on demand	Always	Cannot be made payable on demand as per RBI Act, 1934
Grace Days	Not Applicable, as it is always payable at the time of presentment.	3 days of grace are allowed.
Acceptance	A cheque does not require acceptance.	Bill of exchange needs to be accepted.
Stamping	No such requirement.	Must be stamped.
Crossing	Yes	No
Drawee	Bank	Person or Bank

Noting or Protesting	If the cheque is dishonored it cannot be noted or protested	If a bill of exchange is dishonored it can be noted or protested.

TYPES OF BILLS :

1) Documentary bill :

A bill of exchange which is always accompanied by supporting documents which confirm the authenticity of trade or transaction that has taken place between the seller and the buyer is called a documentary bill. The documents may include but not restricted to invoices, receipts, bill of lading, railway bills etc.

2) Demand bill :

A bill which is payable on demand or when presented are at the site is called a demand bill. The demand bill does not have a due date or time specifically mentioned for the payment and hence the payment can be made when the bill is presented.

3) Usance bill :

This is also termed as time bill which means it is the bill which has specifically mentioned the time period for the payment on it. Usance bill is considered as a time-bound bill because of the specific time and period mentioned on it.

4) Inland bills :

A Bill drawn in India and payable only in India or a bill that is drawn by an Indian resident table in India or any other country is termed an inland bill. Inland bill is quite opposite of Foreign bill.

5) Clean bill :

A bill without documents of proof is called Clean Bill. Clean bills charge higher interest rate than the other documentary bills since there are no documents involved.

6) Foreign bills :

A bill of exchange bound to be paid outside India is called foreign bill. The bill of exchange which is not an inland bill is termed as a foreign bill. It is further divided into

a) Export bill :

A bill drawn for a party outside India which is drawn by an exporter is termed as an export bill.

b) Import Bill :

A bill which is drawn outside India by an exporter is called import bill. This Bill is issued for Indian importers.

7) Accommodation bill :

Whenever a bill is accepted or drawn or endorsed regardless of any condition is termed as accommodation bill.

8) Trade Bill :

A Bill which is drawn for the purpose of a trade order transaction is termed as trade bill. Trade bills are common in case of international trading.

9) Supply bills :

When a bill is drawn on government department by a supplier or a contractor to supply certain goods, it is termed as a supply bill. The objective of supply is used to obtain cash from financial institutions against pending payment to meet the financial needs. Government department usually does not accept this kind of business but they are eligible for getting cash loans from commercial banks going to its non-negotiable characteristics.

10) Fictitious Bill :

A bill in which the name of either of the party that is drawer or drawee or both are fictitious, it is termed as a fictitious bill.

11) Hundis :

These are promissory notes and bill of exchange which are indigenous in nature that is usually used for agricultural financing and inland trade.

DIFFERNCE BETWEEN TRADE BILL AND ACCOMODATION BILL:

Trade Bill:

- There are drawn for trade purposes.
- These are drawn against proper consideration.
- These bills are proof of debt.
- For obtaining the debt from drawee, drawee can resort to legal action.

Accommodation Bill:

- These are drawn and accepted for financial assistance.
- These are drawn in the absence of any consideration.
- These bills are not a proof of debt.
- Legal action cannot be resorted the recovery of amount against these bills by the immediate parties.

2.CONSIGNMENT

MEANING :

Consignment is a process under which the owner consigns/handovers his materials to his agent/salesman for the purpose of shipping, transfer, sale etc.

Following are the points that throw more light on the nature and scope of a consignment −

- Here, ultimate ownership of the goods remains with the manufacturer or whole seller who handovers goods to his agent for sale on commission basis. Consignment is merely a transfer of possession of goods not an ownership.
- Since ownership of goods remain with the manufacturer (consignor), consignee (agent) is not responsible for any loss or destruction of goods.
- The goods are sold on owner’s risk and hence, profit/loss goes to owner.

- Consignee only gets re-imbursement of expenses incurred by him and commission on sale made by him, because sale that proceeds, belongs to owner (consignor).

Why is Consignment not a Sale?

Following are the reasons that explain why consignment is not a sale −

- **Ownership** − Ownership of goods need to be transferred from seller to buyer in case of sale, but ownership of goods remains with the consignor, till the goods are sold by the consignee.
- **Risk** − In case of a consignment, normally, risk remains with the consignor in the event of goods being lost or destroyed.
- **Relationship** − The relation between a seller and a buyer will be of debtor and creditor in case where goods are sold on credit basis. On the other hand, the relationship between a consignor and a consignee is that of principal and agent.
- **Goods Return** − Usually, the sold goods cannot be returned back; however, if there is any manufacturing defect or any other technical fault, seller is obliged to take them back. On the other hand, consignee may return the unsold stock of goods to consignor anytime.

Important Terms :

Pro-forma Invoice

Invoice implies that the sale has taken place, but pro-forma invoice is not an invoice. Proforma invoice is a statement prepared by the consignor of goods showing quantity, quality, and price of the goods. Such pro-forma invoice is issued by the consignor to consignee regarding the goods before the sale actually takes place.

Account Sale

Statement showing the details of goods received, goods sold, expenses incurred, commission charged, remittances made, and due balance is called Account Sale and it is remitted by the consignee to the consignor of goods on a periodic basis.

Commission

There are three types of commission payable to consignee on sale of the goods −

- **Simple Commission** − This is usually a fixed percentage on the total sale, calculated as per mutually agreed terms.

- **Over-riding Commission** − In case of an extra-ordinary sale of the goods, some specific amount is payable to consignee in the form of an incentive is called overriding commission. Over-riding commission is also calculated on the total sales.
- **Del-credere Commission** − “An agreement by which an agent or factor, in consideration of an additional premium or commission (called a del credere commission), engages, when he sells goods on credit, to insure, warrant, or guarantee to his principal the solvency of the purchaser, the engagement of the factor being to pay the debt himself if it is not punctually discharged by the buyer when it becomes due.”

A del credere commission is paid by the consignor to his agent for taking additional risk of recovery of debts from the consignee on an account of credit sales made by him (agent) on consignor's behalf.

Direct Expenses

Expenses, which increases the cost of the goods and are of non-recurring nature and incurred till the goods reach the warehouse of consignee may called direct expenses.

Indirect Expenses

Warehouse rent, storage charges, advertisement expenses, salaries, etc. comes under the category of the indirect expenses. The distinctions between direct and indirect expenses are important especially at the time of valuation of the unsold closing stock.

Advance

Amount paid in advance by a consignee to consigner as security called as advance.

Valuation of unsold Consignment

Valuation of unsold stock will be done like a closing stock of a Trading concern and should be valued at the cost or the market price whichever is low. This stock will be valued at −

- Proportionate cost price and
- Proportionate direct expenses.

Here, proportionate direct expenses mean — all expenses incurred by the consignor and the expenses of consignee, which are incurred by him till the goods reach the warehouse.

Invoicing Goods higher than Cost

Under this method, goods are charged at the cost + profit and the pro-forma invoice also shows this higher price of such goods. To know the actual profit, at the end of an accounting period, consignment account will be credited with excess price so charged. Value of the stock will also be adjusted to the extent of profit element. Main reason to adopt this policy by consignor is −

- To hide actual profit from consignee.
- Valuation of a stock at the consignor's warehouse is comparatively easy in this case.
- In this case, consignor usually directs consignee to sale goods on invoice price only. It prevents different sale price to different customers.

Loss of Goods

There may be two types of losses as explained below −

Normal Loss − Normal loss may occur due to inherent characteristics of goods like evaporation, drying up of goods, etc. It is not separately shown in the consignment account, but included in the cost of goods sold and the closing stock by inflating the rate per unit. To calculate the value of unsold stock, following formula is used.

Valueofclosingstock=TotalvalueofgoodssentNetquantityreceivedbyconsignee×Unsoldquantity

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Netquantityreceived=Goodsconsignedquantity−NormallossquantityNetquantityreceived=Goodsconsignedquantity−Normallossquantity

Abnormal Loss − An abnormal loss may occur due to any accidental reason. It is credited to the consignment account to calculate actual profitability. Valuation of closing stock is done on the same basis as explained earlier i.e. proportionate cost + proportionate direct expenses.

Abnormal Loss and Insurance

If, there is an insurance policy in respect of the consigned goods; following entries will be passed in the books of a consignor −

SL.No.	In the Books of Consignor	In the Books of Consignee
1	**Payment of Insurance Premium** **(a)** If insurance premium is paid by the consignor, then cash will be credited. **(b)** If Insurance premium is paid by	Consignment A/cDr To Cash A/c Or To Consignee A/c

	the consignee, then consignee's A/c will be credited.	(Being Insurance premium paid)
2	**At the time of Abnormal Loss**	Abnormal Loss A/cDr To Consignment A/c (Being Loss Incurred)
3	**Acceptance of Claim by Insurance Company**	Insurance Company (Name of the insurer) A/cDr To Abnormal Loss A/c (Being claim admitted)
4	**On receipt of Claim**	Bank A/cDr To Insurance Company A/c (Being amount of claim received)
5	**In Case of Loss**	Profit & Loss A/cDr To Abnormal Loss A/c (Being amount of Abnormal Loss transferred)

WHAT IS CONSIGNMENT?

Consignment is a business arrangement between a consignor (owner) and a third party (consignee). This word has come from the French word "consigner" which means 'to hand over or to transmit'. The consignee agrees to sell the goods handed over to him by the consignor for a fee. For the consignor, it is outward consignment and for the consignee, it is inward consignment. Also, there is another similar term called consignment shop. The consignment shop is a retail store which displays goods for the buyers for sale.

EXAMPLES

Clothes, toys, musical instruments, furniture, antiques, automobiles, books, music, tools, etc.

FEATURES OF CONSIGNMENT

- The possession of the goods transfers from one party to another.
- The consignor is responsible for all the risks, expenses and damages associated with the consigned goods.
- The relation of the persons in the consignment is that of consignor (principal) and the consignee (agent) and not of the buyer and seller.
- Only the possession of the goods is with the consignee and not the ownership.
- Profit or loss on the sale of the goods belongs to the consignor.
- The consignor sends Pro-forma Invoice. While the consignee sends Account Sales. Account Sales include the details regarding the goods, sales, expenses, commission, advances, and balances due.

OBJECTIVES OF CONSIGNMENT

- To make large consignments and increase sales volume by attracting customers.
- To launch a new product and create and capture the market for the same.
- Earning higher revenue from a different geographical area for the same product.
- To grow and expand the business.
- Sustainment in the domestic and international market.
- To increase sales by utilizing the talent and expertise of the consignee.

BASIS FOR COMPARISON	CONSIGNMENT	SALE
Meaning	When the goods are delivered to the agent by the owner for selling purposes, is known as Consignment.	A transaction in which goods are exchanged for a price is known as a sale.
Parties	Consignor and Consignee	Seller and Buyer
Relationship between parties	Principal and Agent	Creditor and Debtor
Possession and Ownership	Possession is transferred, but ownership is not transferred, until they are sold to the final consumer.	Both are transferred with the transfer of goods.

BASIS FOR COMPARISON	CONSIGNMENT	SALE
Returning back of goods	The consignee can return the unsold stock to the consignor.	The buyer cannot return the goods to the seller until and unless the seller agrees to the same.
Risk of loss	Borne by consignor	Borne by buyer
Expenses incurred	Met by consignor	Met by buyer
Consideration	Commission to the agent.	Profit to the seller.

3.JOINT VENTURE

MEANING :

Joint ventures, in very simple words, are business ventures that two or more people or entities undertake for a certain period of time. They are created keeping specific and pre-determined purposes in mind. The venture generally comes to an end once those purposes are met unless the parties decide to continue working together.

These parties to a joint venture are governed by a contractual agreement they enter into. The agreement specifies things like their obligations, the rate at which they will share profits or losses, their rights and liabilities towards each other, etc.

Parties that create such joint ventures are called joint venturers or co-venturers. These parties can be either natural persons (humans) or even artificial legal persons (companies).

Transactions of such joint ventures are peculiar. This is because these entities are neither singular in nature, and nor are they treated as completely separate entities as such. They are even different from typical partnership forms of business.

Features of Joint Ventures

A joint venture typically has the following features.

1. Specific Purposes

Parties create joint ventures keeping pre-determined purposes in mind. They generally state this purpose clearly in their agreement.

2. Agreement

The parties to a joint venture, i.e. the co-venturers, generally execute a written agreement between them. This agreement states details like their obligations, profit/loss sharing ratios, their rights and liabilities, etc.

3. Specific Duration

Since all joint ventures are created for a specific purpose, they generally come to an end once that purpose is fulfilled. The parties can, however, continue working together as well if they mutually agree to do so.

4. Profit Sharing

The parties always agree on the ratio in which they will share their profits and losses. If there is no agreement to this effect, they have to share profits equally.

5. Structure of the Venture

Parties can create a joint venture by exercising control on any of the following aspects:

- Assets,
- Operations, or
- Entity itself.

DIFFERNCE BETWEEN JOINT VENTURE AND CONSIGNMENT

The main differences between joint venture and consignment are as under:

1. Nature

Joint venture: It is a temporary partnership business without a firm name.

Consignment: It is an extension of business by principal through agent.

2. Parties

Joint venture: The parties involving in joint venture are known as co-ventures.

Consignment: Consignor and consignee are involving parties in the consignment.

3. Relation

Joint venture: The relation between co-ventures is just like the partners in partnership firm.

Consignment: The relation between the consignor and consignee is 'principal and agent'.

4. Sharing Profit

Joint venture: The profits and losses of joint venture are shared among the co-ventures in their agreed proportion.

Consignment: The profits and losses are not shared between the consignor and consignee. Consignee gets only the commission.

5. Rights

Joint venture: The co-ventures in a joint venture have equal rights.

Consignment: In consignment, the consignor enjoys principal's right whereas consignee enjoys the right of agent.

6. Exchange Of Information

Joint venture: The co-ventures exchange the required information among them regularly.

Consignment: The consignee prepares an account sale which contains a details of business activities carried on and is being sent to the consignor.

7. Ownership

Joint Venture: All the co-ventures are the owners of the joint venture.

Consignment: The consignor is the owner of the business.

8. Method Of Maintaining Accounts

Joint venture: There are different methods of maintaining accounts in joint venture.As per agreement the co-ventures maintain their account.

Consignment: In consignment, there is only one method of maintaining account.

9. Basis Of Account

Joint venture: Cash basis of accounting is applicable in joint venture.

Consignment: Actual basis is adopted in consignment.

10. Continuity

Joint venture: As soon as the particular venture is completed, the joint venture is terminated.

Consignment: The continuity of business exists according to the willingness of both consignor and consignee.

DIFFERNCE BETWEEN JOINT VENTURE AND PARTNERSHIP

BASIS FOR COMPARISON	JOINT VENTURE	PARTNERSHIP
Meaning	Joint Venture is a business formed by two or more than two persons for a limited period and a specific purpose.	A business arrangement where two or more persons agree to carry on business and have mutual share in the profits and losses, is known as Partnership.
Governing Act	There is no such specific act.	The partnership is governed by the Indian Partnership Act, 1932.
Business carried on by	Co-venturers	Partners
Status of Minor	A minor cannot become a co-venturer.	A minor can become a partner to the benefits of the firms.
Basis of Accounting	Liquidation	Going Concern
Trade Name	No	Yes
Ascertainment of Profit	At the end of the venture or on interim basis as the case may be.	Annually
Maintenance of separate set of books	Not necessary	Mandatory

MEMORANDUM JOINT VENTURE ACCOUNT :

A Joint Venture account will be prepared but not as part of accounts. The name of such an account is Memorandum Joint Venture Account. In the books, only one account is opened as

"Joint Venture with…..Account" or "Joint Venture Investment Account". This account is prepared through the following methods:-

- Goods sent or cash spent on Joint venture is debited to this accounts.
- No account is taken of goods used or a cash spent on Joint Venture by the other part.
- If any cash or acceptance is received on account of Joint Venture, or from other party this account is credited.

The account is then debited with own share of profit, the credit being given to Profit and Loss Account. If the memorandum Joint Venture Account shows a loss, the Profit and Loss Account is debited and this account will be credited with own share of loss. The balance in this account will now show the amount owing to the other party.

4.DEPARTMENTAL ACCOUNTS

Departmental stores have many types of stores under a single roof, for example one departmental store may have a cosmetic store, shoe store, stationery store, readymade departmental store, grocery stores, medicines, and many more.

It is essential to know the profit and loss account of each departmental store at the end of the accounting year. However, it can be done by maintaining the department wise Trading & Profit and Loss account.

Objectives of Departmental Accounting

Following are the main objectives of the departmental accounting −

- To know the financial position of each and every department separately, it is helpful to make a comparison.
- Calculate commission of the managers department wise.
- Evaluate performance, planning, and control.

Advantages of Departmental Accounting

Following are the advantages of a department accounting −

- It is helpful in evaluating the result of each department.
- It helps to know the profitability of each department.
- Investors and outsiders may know the detailed information.

- It is helpful in making comparison of each expenses (same department) of the different accounting years and different expenses (other departments) of the same accounting year.

Methods of Departmental Account

There are two methods of keeping Departmental Accounts −

- Separate Set of Books for each department
- Accounting in Columnar Books form

Separate Set of Books for each Department

Under this method of accounting, each department is treated as a separate unit and separate set of books are maintained for each unit. Financial results of each unit are combined at the end of accounting year to know the overall result of the store.

Due to high cost, this method of accounting is followed only by very big business houses or where to do so is compulsory as per the law. Insurance business is one of the best examples, where to follow this system is compulsory.

Allocation of Department Expenses

- Some expenses, which are specially incurred for a particular department may be charged directly to the respective department. For example, hiring charges of the transport for delivery of goods to customer may be charged to the selling and distribution department.
- Some of the expenses may be allocated according to their uses. For example, electricity expenses may be divided according to the sub meter of each department.

Following are the examples of some expenses, which are not directly related to any particular department may be divide as −

- **Cartage Freight Inward Account** − Above expenses may be divided according to purchase of each department.
- **Depreciation** − Depreciation may be divided according to the value of assets employed in each department.

- **Repairs and Renewal Charges** − Repair and renewal of the assets may be divided according to the value of the assets used by each department.
- **Managerial Salary** − Managerial salary should be divided according to the time spent by the manager in each department.
- **Building Repair, Rents & Taxes, Building Insurance, etc.** − All the expenses related to the building should be divided according to the floor space occupied by each department.
- **Selling and Distribution Expenses** − All the expenses relating to selling and distribution expenses should be divided according to the sales of each department, such as freight outward, travelling expenses of sales personals, salary and commission paid to salesmen, after sales services expenses, discount and bad debts, etc.
- **Insurance of Plant & Machinery** − The value of such Plant & Machinery in each department is the basis of the insurance.
- **Employee/worker Insurance** − Charges of a group insurance should be divided according to the direct wage expenses of each department.
- **Power & Fuel** − Power & fuel will be allocated according to the working hours and power of the machine (i.e. Hours worked x Horse power).

Inter-Department Transfer

An inter-department analysis sheet is prepared at a regular interval such as weekly or monthly basis to record all the inter-departmental transfers of goods and services. It is necessary, as each department is working as a separate profit center. Transfer of the prices of such transactions can be cost base, market price, or duel basis.

Following Journal entry will pass at the end of that period (weekly or monthly) −

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Journal Entry

Receiving Department A/c                Dr
To Supplying Department A/c
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Inter-Department Transfer Price

There are three types of transfer prices −

- **Cost based transfer price** − Where the transfer price is based on standard, actual, or total cost, or marginal cost is called cost based transfer price.

- **Market based transfer price** − Where the goods are transferred at selling price from one department to another is known as market based price. Therefore, unrealized profit on the goods sold is debited from the selling department in the form of a stock reserve for both the opening and the closing stock.
- **Dual pricing system** − Under this system, the goods are transferred on the selling price by the transferor department and booked at the cost price by the transferee department.

5.BRANCH ACCOUNTING

NEED FOR BRANCH ACCOUNTING

As stated earlier. each branch is treated as a separate profit ccntrc. Hence it should record various transactions in such a manner that its profit or, loss can be worked out and incorporated in the firm's overall results at the end of the accounting year. Moreover, the branches conduct all activities under the direction and control of the head office which may need a variety of information from time to time about the functioning of each branch. This becomes possible only ifathe branches keep proper , . - and departmental accounts books of account. Thus, the main reasons of keeping branch accounts can be summarized as follows :

i) to find out the profit or loss of each branch for the accounting period:

ii) to ascertain the financial position of each branch at the end of the accounting year; I .

iii) to incorporate the net effect of branch transactions and their assets and liabilities in a firm's final accounts;

iv) to estimate requirements of cash and stock for each branch;

v) to evaluate the progress and performance of each branch; vi)

to calculate the commission for payment to the managers, if based on profit of branch; vii)

to assess the prospects for expansion of business in each branch; and

viii) to meet audit requirements.

Types Of Branches
Branches may be classified as under from the accounting point of view:
1. Inland Branches
2. Foreign Branches

1. Inland Branches

The branches opened in the different parts of the nation, where the original undertaking being registered are called inland branches. These types of branches are also called home branches or national branches. There are two types of inland branches, which are:

a) Dependent branch
b) Independent branch

a). Dependent Branch

Dependent branches are the branches that do not keep their records but all the records are maintained by head office. They are not authorized to act solely without the prior permission of the head office. All the plans, policies, rules and regulations of these branches are totally formulated and executed by the head office. In other words, all the functions of dependent branch are totally controlled by head office.
Under dependent branch, two types of branches are included, which is termed as service branch and retail branch.

*** **Service Branch***:* All the branches which are booking or executing orders on behalf of head office are called service branches. These are the branches which are busy in execution all the orders for the sake of head office.

*** **Retail Branch***:* Retail branches are also dependent branches, but they are concerned with the head office for selling goods, produced by the head office itself or purchased from outside in a bulky position and are sent to the retail selling branches for selling them out as like.

b). Independent Branch

The branches that can keep their accounts themselves and sell goods that are sent by the head office as well as those purchased by themselves are known as independent branches. These are the branches which can sell the goods to head office too. They can pay their own expenses and can deposit their collection in their own name in the bank. These branches record separately and independently all the transactions which are even recorded by the head office.

2. Foreign Branches

Because of the rapid development of trade, commerce and industries and with the growing tough competition, the business enterprises are opening their branches abroad in order to capture the potential market and accelerate their business globally. Therefore, the branches established abroad is called foreign branch. The accounting procedure of foreign branch is just like an independent branch except in the following cases:

- Exchange rate and conversion of foreign currency into home currency
- Effects of foreign exchange rate are to be incorporated in the books of head office.

TYPES OF BRANCHES

What Is Cash in Transit?

Whenever money has left point A but has not yet arrived at point B, that's cash in transit. It's easy to picture cash in transit as physical cash, such as when you bag up money from your cash registers and carry it to the bank. In reality, the majority of cash-in-transit transactions happen behind the scenes, such as a check that's in limbo while the bank gets it cleared.

In accounting terms, cash in transit is any item you record on your income statement that hasn't yet shown up on your bank statement. For example, you may have logged a customer payment but the check is still clearing at the bank, or you may have written a check for office expenses, but the recipient hasn't cashed it yet. Since the cash balance reported on the balance sheet is supposed to represent all the cash that's available to your business, it would be misleading to include money that the bank has not yet processed. Cash in transit is a way of adjusting the cash balance to account for checks received or paid that have not yet cleared.

STOCK AND DERBTOE SYSTEM OF ACCOUNTING

This method is applicable particularly where there are large numbers of transaction and they are numerous. This method helps the Head Office to make efficient control on branches as there are a few more accounts are to be opened viz:

(a) Branch Stock Account;

(b) Branch Debtors Account;

(c) Branch Stock Adjustment Account;

(d) Goods Sent to Branch Account;

(e) Branch Profit and loss Account.

Stock and Debtors system is generally used when the goods are sent to the branch at pro-forma invoice price and the size of the branch is large. Under this system, the branch maintains a few central accounts to exercise greater control over the branch stock and other related expenses. These accounts usually are:

1.
Branch Stock Account

2.
Branch Debtors Account
3.
Branch Expenses Account
4.
Branch Adjustment Account
5.
Goods Sent to Branch Account
6.
Branch Stock Reserve Account

Branch Stock Account

This account is on the pattern of a stock account. The account helps the Head Office in maintaining an effective control over the Branch Stock and tells about shortage and surplus in the branch stock because of the difference between the pro-forma invoice price and the selling price.

Unlike traditional accounting practice, branch stock a/c is always maintained on the selling price or pro-forma invoice price. Selling price is used to record the goods sold by the branch to its customer and goods returned by the branch customers. Rest of the information (even opening and closing balances) in branch stock a/c is recorded at pro-forma invoice price.

Branch Debtors Account

Branch debtors' a/c is maintained in the traditional manner to record transactions in between branch and its credit customers.

Branch Expense Account

The purpose of maintaining this account is nothing but the compile all branch expenses at one place. This will include all types of expenses i.e. cash based expenses and receivables based expenses.

Branch Adjustment Account

Branch adjustment a/c replaces the branch income statement (profit & loss a/c). This is the account in which all expenses and losses are closed along with the margin that is a difference between cost and the selling price. This difference is split into two; one is termed as "surplus" that comes from the branch stock a/c representing the difference between selling price and pro-forma invoice price, the second is termed as "loading" that represents the difference between pro-forma invoice price and cost. This loading is calculated on opening and closing stock balances and also on the net of the goods sent branch