

Welcome students. Course title is DSC6 accounting one wherein I'll be dealing with a debtor system when goods are sent to branch at the invoice price. Over here I'll be dealing with accounting procedure under debtor system when goods are sent to the branch at invoice price. At the end of this you will be able to understand the accounting treatment to be followed under debtor system when goods are sent to the branch at invoice price. Head office sends goods to branch at a higher price than the cost price which is usually your selling price. Now head office can dictate pricing policy to its branches. Selling price is already been decided. Invoicing at selling price is generally done when goods are of standard type. Pre packed and unlikely to fluctuate in price.

Goods may be invoiced at selling price to keep the margin of profit a secret from the branch manager. Now let's see the accounting entries. accounting entries under invoice system is similar to the cost system only. There will be an element of loading, which is nothing but a profit element.

So the first transaction opening balance of assets at the branch, branch account debit to Branch asset, second opening balances of liabilities at the branch, branch Liabilities Account debit to branch account.

Third, good sent to branch by head office, wherein entries branch account debit to goods sent to branch account. 4th goods return by branch to head office entry goods sent to branch account debit to branch account. Next transaction remittance of cash or cheque to branch for expenses. Entry Branch account debit to cash or bank account. Next cash remitted by branch to head office entry cash or bank account. debit to branch account.

Next, for closing balance of asset at the branch, branch asset account debit to branch account and for closing balance of liabilities at the branch, the entries is branch account debit to branch liabilities account. For closing goods sent to Branch, Goods sent to branch account debit to purchase account if the person is a trader or trading account if the person is a manufacturer. For abnormal loss the entry abnormal loss account debit to branch account.

The next part branch account debit to abnormal loss wherein there is a loading element which you have to record and then general profit and loss account debit insurance claim account debit to abnormal loss account wherein the total loss will be credited to abnormal loss amount received from insurance company will be debited to insurance claim account and the loss there is a difference between total minus the money received from insurance company is a loss which is transferred to the general profit and loss.

Then finally for transferring profit or loss of the branch if profit it is transferred branch account debit to general profit and loss account and if loss the entry is general profit and loss account debit to branch account.

Now let's see the aspect wherein there are no entries similar like your cost, credit sales, normal loss, or pilferage, goods returned by customer, branch expenses paid by the branch, bad debts, discount allowed for these transactions there are no entry.

Now these are the adjustment wherein whenever goods are sent to branch at invoice price. The transaction which are affected is your opening stock, closing stock, goods sent to branch and goods return by branch. So there will be a loading element that is nothing but a profit element which you have to record.

Now the entry for first one adjusting for profit including in goods sent to branch account will come on debit and entry is goods sent to branch account debit to branch account. Adjustment entries now these adjustment entries you have to pass whenever goods are sent at invoice price. Invoice price signifies loading or a profit element and the transactions which affects this invoice price are opening stock, closing stock, goods sent to branch and goods returned by branch.

So the first one adjusting the profit included in goods sent to branch account. The entry is goods send to branch account debit to branch account.

Second one, adjusting the profit included in goods returned by the branch entry is branch account debit to goods sent to branch account.

Third adjustment of profit included in opening stock. It is transferred to stock reserve account so stock reserve account debit to branch account and last adjustment of profit included in closing stock where in the entry is branch account debit to stock reserve account.

This is a performa of branch account at invoice price. Debit side you have to take opening balance of all the assets and credit side opening balance of your liabilities. Now in this case stock will be recorded at the invoice price so there will be a loading element which you have to take on your credit side opposite direction. The loading is recorded so by stock reserve loading of your opening stock.

Then next is goods send to branch. Now in this case branch is receiving goods that will come on debit side to goods send to branch. Now again it will be at invoice price so loading will come in opposite direction as by goods sent to branch account loading element.

Then, when head office sends money to the branch, it will be entered as to cash or bank amount remitted by the head office to branch. And also when head office pays the expenses of the branch, it will be entered on debit side as to cash or bank.

When goods are returned by the branch to the head office it will come on credit side as by goods sent to branch account as return. Now again this return will be at the invoice price, so there will be a loading element which will come in opposite direction that it will come on your debit side as to goods sent to branch account. That's a loading on your return. OK then. Cash or bank for the cash sales and collection from debtors. Now this is the amount which branch is remitting to the head office out of cash sales and out of credit sales whenever they receive from the debtors.

Then record your closing balance by balance carried out all your assets, closing balance, stock, debtors, petty cash, fixed asset and cash. Now again closing stock would be at an invoice price so the loading element will come in opposite direction. It will come on debit side as to stock reserve loading on your closing stock. And then closing balance of your liabilities to balance carried down, outstanding expenses credited with and then find out if there is a profit or a loss. If there's a profit transfer to general profit and loss account on debit side and there's a loss, it will come on a credit side transferring it to general profit and loss account. Now how to calculate the loading element. It is a profit which is a percentage on a cost. The same should be converted as an equivalent percentage. The formula is cost plus profit is equal to sales. So if the percentage is 10% on cost, it will be 9.09 percentage on sales or in terms of fraction. If it is one tenth on cost always we are selling at a higher price so it will be $\frac{1}{11}$ on sales. If it is $\frac{1}{5}$ cost it will be $\frac{1}{6}$ on sales. $\frac{1}{4}$ on cost it will be $\frac{1}{5}$ on sales and if it is $\frac{1}{3}$ on cost a higher value $\frac{1}{4}$ on sales.

These are the references.

Thank you.