

Study Unit 5: Branch Accounts

Account which is opened in the books of head office and branches, related to branches are called branch accounts. The main objective of these accounts is to know the working ability and profit and loss of branches. They also include the final accounts related to them, by which their financial cond...

The main object of keeping branch accounts is dependent on the nature of the business and specific need of a particular branch.

A business may be split up into a number of divisions. The divisions are known as departments if located under the same roof and branches if located at different places of the same town, country or world. For example, Cottage Emporium has various divisions like garments, furniture, gift items, jewelry, etc. They are located in the same building and so are called departments. Snowwhite has its showrooms in Connaught Place, Nehru Place, Karol Bagh, South Extension and Kamlanagar.

The objectives of keeping the branch accounts acceptable to all business are

- To know the profit or loss of each branch separately.
- To ascertain the financial position of each branch on a particular date. To know the cash and goods requirements of the various branches To evaluated the progress and performance of each branch.
- To calculate commission for payment to the managers, if based on profits of branch.
- To know the profitability of each branch and type of business for expansion of the business
- To give concrete suggestions for the improvement in the working of the various branches
- To meet the requirements of specific enactments as all branches of a company must keep the accounts for audit purposes.

Need of Branch Accounting

Branch Accounting may be needed:

- To ascertain financial status of each branches.
- To compute commission of each branch manager, if it is based on profit of the branch.
- To evaluate performance & progress of each branch.
- To know the prosperity of the business and branches as well, and which may provide avenues for further expansions.
- To know the requirement of cash & goods of each branches.
- To know profit or loss of the concerned branches for a specific period.
- To know profitability, strengths and weakness of the branch.
- To give concrete suggestions for improvements! corrections on mistakes,
- To meet audit requirement of each branch, which may be mandatory as per law,

Types of branches

Branches can be classified into two types.

Dependent Branches

The term dependent branch means a branch which does not maintain its own set of books. All records have to be maintained by the head office in case of a dependent branch,

Thus, the head office may keep accounts of the branch according to any of the following methods:

- Debtors System.
- Stock and Debtors system.
- Final Accounting System.
- Wholesale Branch system.

Independent Branch

Independent branch means a branch, which maintains its own set of books. Such branch can either be a home branch or a foreign branch.

The method of according is the same in both the case except that in case of a foreign branch. The trial balance sent by the foreign branch is to be converted into the currency of the country of the Head Office.

a) Home Branch

Such a branch keeps a complete set of its books. It may also purchase goods from outside parties besides receiving goods from the head office.

It prepares its own trial balance and final accounts and sends their copies to the head office for their incorporation in the head office books. Thus, It maintains a head office account in its books this is of the nature of a personal account.

b) Foreign Branch

In case of a foreign branch, the accounting procedure is the same as in the case of a Home Branch.

On receipt of the trial balance from the Foreign Branch, the head office will scrutinize it and pass necessary entries for goods in transit, for cash in transit and other adjustments as may be necessary.

The trial balance of the foreign branch will have to be converted into home currency in the following manner.

In Case of Widely Fluctuating or Fairly Constant Rate of Exchange

In case of the exchange rate between the two countries is fairly constant, a fixed rate may be adopted for the conversion of branch balance in the home currency.

In such a case, all balance appearing in the Trial balance is converted at a fixed rate with the following exceptions:

Remittances from the head office to the branch will be converted at the rate at which there were effected from the head office and remittances from the Branch to the Head office will be converted at the rate at which they have been actually received.

The balance in the Head Office Account in the branch book will be converted into the home currency in an amount equal to the amount appearing in the branch account in the head office books.

Goods from the Head Office to the Branch will be converted at the value usually available in the home currency in the head office books,

Accounting for dependent branch

Dependent Branch: When the policies and administration of a branch are totally controlled by the head office, who also maintains its accounts, the branch is called a dependent branch. The following are the salient features of such a branch:

A dependent branch does not maintain its own set of books, The Head Office maintains a record of all transaction. However, the branch maintains a Debtors' Ledger and a Stock Ledger. Debtors' ledger is maintained in order to find out the money due from debtors. Stock ledger is kept to provide information regarding the movement of the goods from Head Office and the balance of stock in hand.

Generally, all goods are supplied to the Branch by the Head Office, Sometimes the branch may be allowed to make purchases from the local parties for which the payments are made by Head Office,

Goods are generally sold by such branches in cash. Such branches can sell goods with the permission of the Head Office.

The amount collected from cash sales or debtors is either remitted to Head Office immediately or banked intact in the account of the Head Office in some local bank.

All major expenses of the branch are paid, as far as possible by the Head Office.

In order to meet the petty expenses of the branch, the branch may be provided with the petty cash from the Head Office. Petty cash account at the branch may be maintained on either simple system or impress system.

The accounts of the dependent branch are maintained by the Head Office in any one of the following ways;

Debtors System:

Under this system the Head Office opens one Branch Account to record various transactions with the Branch, Branch Account is maintained in the form of a Debtor Account. In the books of the Head Office, Branch Account is debited with the goods supplied and all expenses met by Head Office and credited with all remittances and returns, similar to Customers Account.

Stock and Debtors System:

Under the Debtors System, the profit or loss can be found out by preparing a Branch Account in the books of Head Office. The Branch Account has been treated as a customer, a personal account in an impersonal name. This type of accounting treatment works well in small Branches. When authorised to make credit sales also, the Debtors System proves inadequate. A detail of credit sales remains unaccounted in this system. To overcome this, Stock and Debtors System has been devised.

Under Stock and Debtors System, the Head Office maintains several accounts relating to each Branch.

Final Account System (Branch Trading and Profit and Loss Account):

The profit or loss of a dependent Branch can also be known by preparing a Memorandum Branch Trading and Profit and Loss Account. This Account is usually prepared in cost price. Besides the final accounts, Branch Account is also to be prepared. This Branch Account is different from the Branch Account prepared under the Debtors System.

The Branch Account, appearing under Debtors System, is a nominal account. But the Branch Account, appearing under Final Account System, is a personal Account. Generally the Branch Account, under this system, will have debit balance.

Debtors system

Debtor System: This system of accounting is suitable for the small-size branches. Under this, a Branch Account is opened for each branch in the head office ledger. All transactions are recorded in this account. The Branch Account is prepared in such a way that it discloses the profit or loss of the branch. Branch Account is a Nominal Account in nature. Head office may send goods to branch either at "Cost price" or "Selling price". Journal Entries Under Debtor Method:

For recording opening balances of Branch Assets **Branch A/c Dr To Branch Assets (Individually).**

For recording opening balances of Branch Liabilities **Branch Liabilities (Individual) Dr. To Branch A/c**

When goods are supplied by the Head Office/another branch to branch **Branch A/c Dr. To Goods sent to Branch A/c**

When goods are returned by the branch/branch customers directly to the Head Office **Goods Sent to Branch A/c Dr. To Branch A/c**

When goods are supplied by the branch to another branch under instructions of Head Office **Goods Sent to Branch A/c Dr. To Branch A/c**

When goods are supplied by the head office but not received by the branch **Goods-in Transit A/c Dr. To Branch A/c**

When the Head Office meets the branch expenses or sends cash to the branch for meeting its expenses **Branch A/c Dr. To Cash/Bank A/c**

When remittances are received by the Head Office from the Branch/Branch Customers **Cash/Bank A/c Dr. To Branch A/c**

When remittances are sent by the branch but not received by the Head Office **Cash in-transit A/c Dr. To Branch A/c**

When the balance in goods sent to Branch Account is transferred **Goods sent to Branch A/c Dr. To Purchases A/c (in case of Trading concerns) or, To Trading A/c (in case of manufacturing concerns)**

For recording the closing balances of Branch Assets **Branch Assets A/c (individually) To Branch A/c**

For recording the closing balances of Branch Liabilities **Branch A/c Dr. To Branch Liabilities (Individually)**

For recording Profit or Loss (i)If credit side exceeds the debit side(ii)If debit side exceeds the credit side **Branch A/c Dr. To General Profit & Loss A/c General Profit & Loss A/c Dr. To Branch A/c**

Format of Branch Account—A format of Branch Account is given below:
Branch Account

Dr.			Cr.
Particulars	Rs.	Particulars	Ra.
To Balance b/d :		By Balance b/d :	
Stock	xxx	Creditors	xxx
Debtors	xxx	Outstanding Expenses	xxx
Petty Cash	xxx	By Bank (remittances to H.O.) :	
Fixed Assets	xxx	by Branch	xxx
Prepaid Expenses	xxx	by Branch Debtors	
To Goods sent to Branch A/c :		directly to H.O.	xxx
Goods sent by H.O.	xxx	By Goods Sent to Branch A/c :	
Goods sent by other Branches	xxx	Returned by Branch	xxx
To Bank (Remittances by H.O.)	xxx	Returned by Branch debtors	
To Balance c/d :		directly to H.O.	xxx
Creditors	xxx	Sent to other Branches	xxx
Outstanding Expenses	xxx	By Balance c/d :	
*To Net Profit t/f to General		Stock	xxx
P & L A/c	xxx	Debtors	xxx
		Petty Cash	xxx
		Fixed Assets	xxx
		Prepaid Expenses	xxx
		*By Net Loss t/f to General	
		P & L A/c	xxx
	xxx		xxx

The following items are to be ignored

Preparing Branch Accounts (8 Aspects)

While preparing Branch Accounts, special care should be taken with respect to the following items (points worth noting):

Credit Sales, Bad Debts, Discount Allowed, Sales Returns:

Credit sales, Bad debts, Discount allowed, Returns from Debtors to branch are not direct transactions from the Head office and as such they are not recorded in the Branch Account. However, these items will be taken into consideration while ascertaining the amount of Closing or Opening Balance of Debtors or Cash Received from Debtors, in the Memorandum Branch Debtors Account.

In short, the above items are not shown in the Branch Account, however; the net effect of these items is automatically given effect in the Branch Account, by showing Opening Debtors. Closing Debtors and Cash Received from Debtors.

Loss of Stock, Surplus of Stock:

Shortage or surpluses of stock at the Branch due to normal or abnormal reasons are not shown in the Branch Account.

Depreciation of Fixed Assets:

Depreciation of Branch fixed assets is not shown in the Branch Account. However, the opening balance of the fixed assets and closing balance of the fixed assets (of course deducting depreciation) are shown in the Branch Account.

It is important to note that when opening balance and closing balance of fixed assets are entered in the Branch Account, automatically the effect of depreciation is there.

Goods in Transit:

Goods — in — transit is the difference between goods sent by Head Office and received by the Branch. Such goods will be shown either on both sides of the Branch Account or will be ignored altogether while preparing the Branch Account.

Expenses Incurred by Branch:

Expenses actually paid by Branch are not shown in the Branch Account. But the amount remitted by Head Office to Branch for meeting expenses is debited in Branch Account. If actual amount spent by Branch is less, the cash balance is shown as a part of closing balance, in the credit side of the Branch Account.

This will be clear from the following example:

Example:

If Opening Balance of Branch cash is Rs. 100; cash remitted by Head Office to Branch is Rs. 600 and the closing Balance of cash with Branch is Rs. 50; actual amount spent is Rs. 650 (Rs. 100 + Rs. 600 — 50), these items appear in Branch Account, as under:

	Rs		Rs
The operating balance of cash	100	By closing balance of	
To cash (remitted)	600	cash	50

Purchase of Fixed Asset by Branch:

When the Branch has purchased any fixed asset for cash, the remittance from the Branch to Head Office is to be reduced by the amount and fixed asset should be shown on credit side of Branch Account, as closing balance. If the Branch has purchased fixed asset on credit basis, the liability arising from such purchases should be shown on the debit side of Branch Account as closing balance of liability.

Sale of Fixed Asset:

When the Branch has sold fixed asset for cash, the proceeds is remitted to Head office. The asset will reduce in value to be shown on the credit side of the Branch Account. If the Branch has sold fixed asset on credit basis, the amount due is shown as debtors at the Branch at the close of the accounting period. Loss or profit arising from such sale of fixed asset will not be shown in the Branch Account as this is automatically adjusted through the above adjustments.

In case Opening or Closing balance of Branch Debtors are not given

Memorandum Branch Debtors Account has to be prepared to find out missing figure This account is prepared on the same pattern on which Total Debtors Account is prepared

under Single Entry System. Similarly, if opening or closing balance of Branch stock is missing, then Memorandum Branch Stock Account has to be prepared.

Illustration 1:

The Bombay General Stores invoices goods to their various branches at cost, and the branches sell the goods not only for cash but on credit also. Expenses of branches are paid by the Head Office.

From the following particulars relating to the Calcutta Branch, prepare the necessary account in the head office books:

		Rs
Stock at branch on 1- 4 - 2006		8,000
Debtors at branch on 1- 4 - 2006		4,000
Petty cash at branch on 1- 4 - 2006		500
Furniture at branch on 1- 4 - 2006		6,000
Goods sent to branch during 2006-2007		22,000
Goods returned by branch		800
Cheques sent to branch during 2006-2007	Rs.	
For salaries	2,000	
For rent	1,000	
For petty cash	<u>300</u>	
		3,300
Cash remitted by branch during 2006-2007:		
Cash sales	10,000	
Cash received from debtors	9,000	
Credit sales during 2006-2007		19,000

Goods returned by debtors during 2006-2007	25,000
Discount allowed to debtors	400
Bad debts	500
Stock at branch on 31-3-2007	100
Petty cash at branch on 31-3-2007	10,000
Write off depreciation on furniture @10%	200

SOLUTION

IN THE BOOKS OF THE BOMBAY GEENERAL STORES

Dr		CALCUTTA BRANCH ACCOUNT		Cr
Particulars	Rs.	Particulars	Rs.	
To balance b/d 1-4-2006		By Goods Sent To Branch A/C	800	
Stock	8,000	Bank		
Debtors	4,000	Cash sales	10,000	
Petty cash	500	Cash received from debtors	9,000	
Furniture	6,000			19,000
Goods sent to branch A/C	22,000	Balance c/d 31-3-2007		
Bank		Stock		10,000
Salaries	2,000	Debtors		19,000
Rent	1,000	Petty cash		200
Petty cash	300	Furniture		5,400
General profit and loss A/C	<u>10,600</u>			

	54,400		54,400
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The following points may be remembered while you prepare the Branch Account:

No entry is made for credit sales at the Branch in the books of Head Office, Head Office makes entry only for the cash received on account of remittance from the cash sales along with cash received from Branch Debtors.

Petty expenses, paid by the Branch Manager out of petty cash, are not shown in the Branch Account. Branch Account is debited with the opening balance of cash and further sum sent by Head Office to Branch. At the closing time, Branch Account is credited with the closing balance of Petty Cash. Thus, the petty expenses are automatically charged to Branch Account,

Head Office makes no entry for the discount allowed, Bad Debts written off. Returns made by Branch Debtors etc. But these are considered while preparing Branch Debtors Account.

Depreciation of Branch fixed assets is not shown in the Branch Account. However, the Branch Account is debited with the value of the fixed assets in the beginning of the accounting period and credited with the value of fixed assets at the end of the accounting period. Thus the difference i.e., depreciation is automatically charged

Fixed assets may be sold by Branch at a profit or loss, for which no entry is made in the Branch Account. The sale proceeds of such fixed assets are remitted to Head Office, Similarly when purchase of asset is made, remittance is reduced to that extent.

When sale of asset takes place remittance increases and the value of asset decreases; when purchase of asset takes place remittance decreases and the value of asset increases. The Branch Account is recorded with the closing figure i.e., Opening Balance \pm Purchase — Sale Proceeds of asset.

In case Opening and Closing balance of branch Debtors are not given, Memorandum Branch debtors Account has to be prepared to find out missing figure. This account is prepared in the same pattern on which Total debtors Account is prepared under Single Entry System. Similarly, if opening and closing balance of Branch stock is missing, then Memorandum branch Stock Account has to be prepared.

FINAL ACCOUNTS SYSTEM

The profit or loss of a dependent branch can also be worked out by preparing a Memorandum Branch Trading and Profit & Loss Account. This account is prepared on the basis of cost of goods sent to the branch (not the invoice price). Apart from the Branch Trading and Profit & Loss Account, the Head Office also maintains the Branch Account. But, under this system, the Branch Account is in the nature of a personal account which shows only the mutual transactions between the head office and the branch. The balance of Branch Account, therefore, represents the net assets of the branch. Look at Illustration 5 and study how profit or loss is ascertained and how Branch Account is maintained under the final accounts system. Illustration 5 A-one Ltd., Bhopal has a branch at Madras to which the goods are sent at cost plus 25%. The Madras branch keeps its own Sales Ledger and remits all cash received to the head office every day. All expenses are paid by the head office. The transactions for Madras Branch during the year ending December 31, 1988 were as follows:

Debtor systems

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:

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 to 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

BRANCH ACCOUNTING - STOCK AND DEBTOR SYSTEM

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:

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.

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calculated on opening and closing stock balances and also on the net of the goods sent branch.

Goods Sent to Branch Account

This is a supporting account, which is maintained to show second effects of the goods sent to branch and the goods returned from branch at pro-forma invoice price. Although the goods sent to and returned from the branch should be adjusted in the purchases a/c of the head office, but as we know that the branch stock a/c is not

maintained at cost price, therefore, second effect of goods sent to and returned from branch is not recorded directly into the purchases a/c instead this second effect is recorded into the goods sent to.

Tutor Marked Assessment-Study Unit 5

- a) State the objectives of keeping branch accounts acceptable to all businesses.
- b) Explain the importance of branch accounting.
- c) State the advantages and disadvantages of branch accounts.