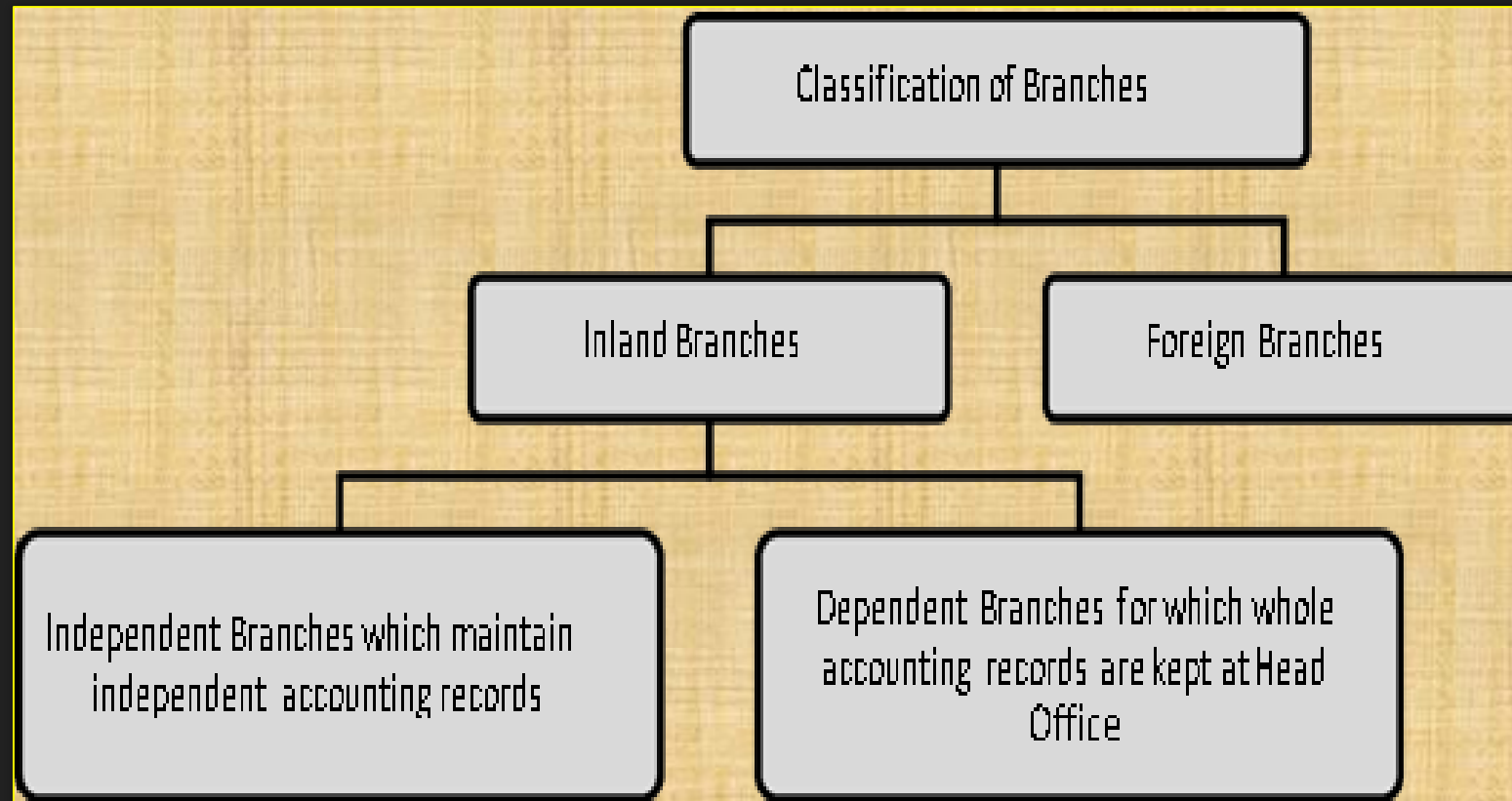


# BRANCH ACCOUNTS

CA.PARVEEN JINDAL

# TYPE OF BRANCHES



# MEANING OF BRANCH

A branch can be described as any establishment carrying on either the same or substantially the same activity as that carried on by head office of the company.

It must also be noted that the concept of a branch means existence of a head office for there can be no branch without a head office - the principal place of business.

# DIFFERENCE BETWEEN DEPARTMENT & BRANCH

Basis of distinction		Branch Accounts	Departmental Accounts	
1.	Maintenance of accounts	Branch accounts may be maintained either at branch or at head office.	Departmental accounts maintained at one place only.	
2.	Allocation of	No allocation problem	Common	expenses
	common expenses	arises since the	distributed	among
		expenses in respect of each branch can be identified.	departments concerned on some equitable basis considered suitable in the case.	
3.	Reconciliation	Reconciliation of head office and branch accounts is necessary in case of independent branches at the end of the accounting year.	No such problem arises.	
4.	Conversion of	At the time of finalization	No such	problem arises
	foreign currency	of accounts, conversion	departmental accounts.	
	figures	of figures of foreign		
		branch is necessary.		

# DEPENDENT BRANCH

When the business policies and the administration of a branch are wholly controlled by the head office and its accounts also are maintained by it the branch is described as Dependant branch.

Branch accounts, in such a case, are maintained at the head office out of reports and returns received from the branch. Some of the significant types of branches that are operated in this manner are described below.

- A branch set up merely for booking orders that are executed by the head office. Such a branch only transmits orders to the head office;
- A branch established at a commercial centre for the sale of goods (wholesale) supplied by the head office, and under its direction all collections are made by the H.O.; and
- A branch for the retail sale of goods, supplied by the head office.

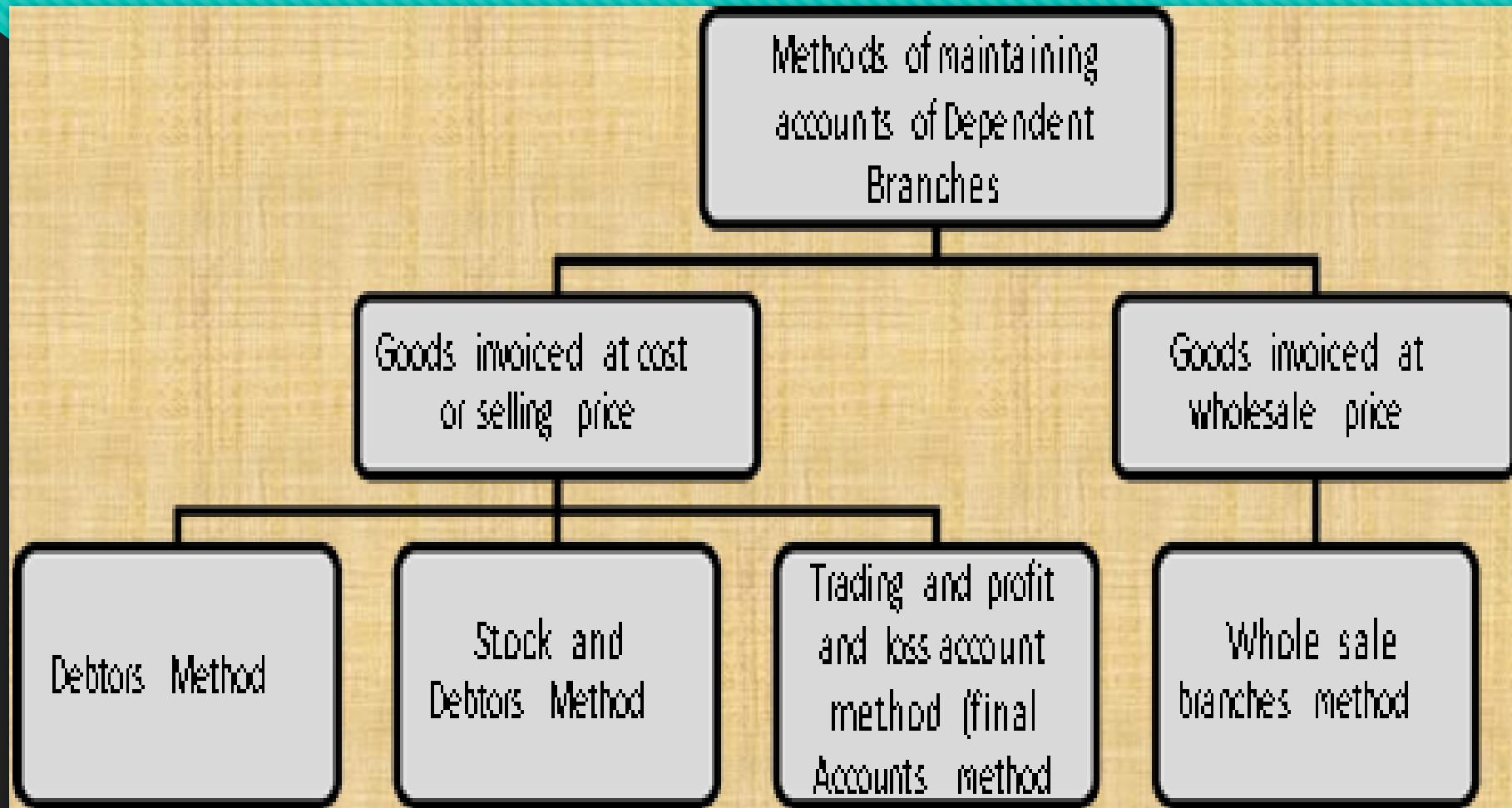
# DEPENDENT BRANCH

Accounting in the case of first two types is simple. But however a retail branch is essentially a sale agency that principally sells goods supplied by the head office for cash and, if so authorised, also on credit to approved customers.

Generally, cash collected is deposited into a local bank to the credit of the head office and the head office issues cheques thereon for meeting the expenses of the branch.

In addition, the Branch Manager is provided with a 'float' for petty expenses which is replenished from time to time on an imprest basis.

# ACCOUNTING FOR DEPENDENT BRANCH



# STOCK & DEBTORS METHOD

If the branch is also allowed to purchase goods locally and to incur expenses out of its cash collections, it would be necessary to maintain (i) a Branch Cash Account, and (ii) branch assets.

Account	Purpose
1. Branch Stock Account (or Branch Trading Account)	Ascertainment of shortage or surplus
2. Branch Profit and Loss Account	Calculation of net profit or loss
3. Branch Debtors Account	Ascertainment of closing balance of debtors
4. Branch Expenses Account	Ascertainment of total expenses incurred
5. Goods sent to Branch Account	Ascertainment of cost of goods sent to branch



# STOCK & DEBTORS METHOD

	Transaction	Account debited	Account credited
(a)	Cost of goods sent to the Branch	Branch Stock A/c	Goods sent to Branch A/c
(b)	Remittances for expenses	Branch Cash A/c	(H.O.) Cash A/c
(c)	Any assets (e.g. furniture) provided by H.O.	Br Asset (Furniture) A/c	(i) (H.O.) Cash A/c or (ii) Creditors A/c (iii) (H.O.) Furniture A/c
(d)	Cost of goods returned by Branch	Goods sent to Branch A/c	Branch Stock A/c

# STOCK & DEBTORS METHOD

(e)	Cash Sales at the Branch	Branch Cash A/c	Branch Stock A/c
(f)	Credit Sales at the Branch	Branch Debtors A/c	Branch Stock A/c
(g)	Return of goods by debtors to the Branch	Branch Stock A/c	Branch Debtors A/c
(h)	Cash paid by debtors	Branch Cash A/c	Branch Debtors A/c
(i)	Discount & allowance to debtors, bad debts	Branch Expenses A/c	Branch Debtors A/c
(j)	Remittances to H.O.	(H.O.) Cash A/c	Branch Cash A/c
(k)	Expenses met by H.O.	Branch Expenses A/c	(H.O.) Cash A/c

# STOCK & DEBTORS METHOD

*Closing Stock:* Credit the Branch Stock Account with the value of closing stock at cost. It will be carried down as opening balance (debit) for the next accounting period. The Balance of the Branch Stock Account, (after adjustment therein the value of closing stock), if in credit, will represent the gross profit on sales and vice versa.

## Other Steps

- Transfer Balance of Branch Stock Account to the Branch Profit and Loss Account.
- Transfer Balance of Branch Expenses Account to the debit of Branch Profit & Loss Account.
- The balance in the Branch P&L A/c will be transferred to the (H.O.) Profit & Loss Account.
- The credit balance in the Goods sent to Branch Account is afterwards transferred to the Head Office Purchase Account or Trading Account (in case of manufacturing concerns), it being the value of goods transferred to the Branch.

# IF GOODS ARE TRANSFERRED AT SELLING PRICE

	Transaction	Accounts debited		Accounts credited	
(a)	Sale price of the goods sent from H.O. to the Branch		Branch Stock A/c (at selling price)	(i)	Goods sent to Branches A/c with cost of the goods sent.
				(ii)	Branch Adjustment A/c (with the loading i.e., Difference between the selling and cost price).
(b)	Return of goods By the Branch to H.O.	(i)	Goods sent to Branch A/c (with the cost of goods returned).		Branch Stock A/c
		(ii)	Branch Adjustment A/c (with the loading)		
(c)	Cash sales at the Branch		Cash/Bank A/c		Branch Stock A/c
(d)	Credit Sales at the Branch		Branch Debtors A/c		Branch Stock A/c
(e)	Goods returned to Branch by customers		Branch Stock A/c		Branch Debtors A/c (at selling price)
(f)	Goods lost in Transit or stolen	(i)	Goods Lost in Transit A/c or Goods Stolen A/c (with cost of the goods)		Branch Stock A/c
		(ii)	Branch Adjustment A/c (with the loading)		



# DEBTORS METHOD

## (net effect of stock & debtors)

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To balance b/d:		By opening stock reserve	xxxxx
Stock	xxxxx	By loading in GSTB (net)	xxxxx
Debtors	xxxxx	By H.O cash (remittances)	Xxxx
Cash	xxxxx	By balance c/d:	
Petty cash	xxxxx	Stock	Xxxx
Fixed assets	Xxxx	Debtors	Xxxx
To GSTB (net)	Xxxx	Cash	Xxxx
To H.O cash (expenses paid by HO)	Xxxx	Petty cash	Xxxx
To H.O cash (assets purchased by HO)	Xxxx	Fixed assets	xxxxx
To H.O cash (petty cash received)	Xxxx		
To Closing stock reserve	Xxxx		
To net profit	Xxxx		

# DEBTORS METHOD

## (net effect of stock & debtors)

### Note:

- Having credited the Branch Account by the actual cash received from debtors, it would be wrong to debit the Branch Account, in respect of discount or allowances to debtors.
- The accuracy of the trading results as disclosed by the Branch Account, so maintained, if considered necessary, can be proved by preparing a Memorandum Branch Trading and Profit & Loss Account, in the usual way, from the balances of various items of income and expenses contained in the Branch Account.

# Branch Trading and Profit and Loss Account (Final Accounts Method)

In this method, Trading and Profit and Loss accounts are prepared considering each branch as a separate entity. The main advantage of this method is that, it is easy to prepare and understand. It also gives complete information of all transactions which are ignored in the other methods. It should be noted that Branch Trading and Profit and Loss account is merely a memorandum account and therefore, the entries made there in do not have double entry effect.



# RETAIL BRANCH

Under this method, the Head Office (particularly, the manufacturing concern) supplies goods to its retail branches at wholesale price which is cost plus wholesale profit. The profit attributable to such branches is the difference between the sale proceeds of goods at the shops and the wholesale price of the goods sold. For the purpose, it is assumed that the manufacturer would always be able to sell the goods on wholesale terms and thereby realizes profit equal to the difference between the wholesale price and the cost. Many concerns, therefore, invoice goods to such shops at wholesale price and determine profit or loss on sale of goods on this basis. Accordingly, Branch Stock Account or the Trading Account is debited with:

- the value of opening stock at the Branch; and
- price of goods sent during the year at wholesale price. It is credited by:
- sales effected at the shop; and
- closing stock of goods valued at wholesale price.



# RETAIL BRANCH (ABNORMAL LOSS)

The value of goods lost due to accident, theft etc. also is credited to the Branch Stock Account or Trading Account calculated at the **wholesale price**. At this stage, the Branch Stock or Trading Account will reveal the amount of gross profit (or loss). It is transferred to the Branch Profit and Loss Account. On further being debited with the expenses incurred at the shop and the wholesale price of goods lost, the Branch Profit and Loss Account will disclose the net profit (or loss) at the shop.

Since the closing stock at the branch has to be valued at wholesale price, it would be necessary to create a stock reserve equal to the difference between its wholesale price and its cost (to the head office) by debiting the amount in the Head Office Profit and Loss Account. This Stock Reserve is carried down to the next year and then transferred to the credit of the (Head Office) Profit and Loss Account.