

Branch Accounts

In order to increase the volume of profit it is the primary aim of all business enterprises to increase their volume of sales. For this purpose many firms open their shops/ establishments in different parts of the country/ world.

The place where the main business is conducted or where the administrative or central or registered or controlling office is located is known as head office.

The place where subordinate division of the main office is situated to carry out the similar operation under the control of head office is known as branch office.

Head office sends goods to branches in the beginning in the beginning of the year. Branches sell the goods and at the end of the year, submit sales proceeds along with detailed accounting information to the head office.

Meaning of Branch Accounts

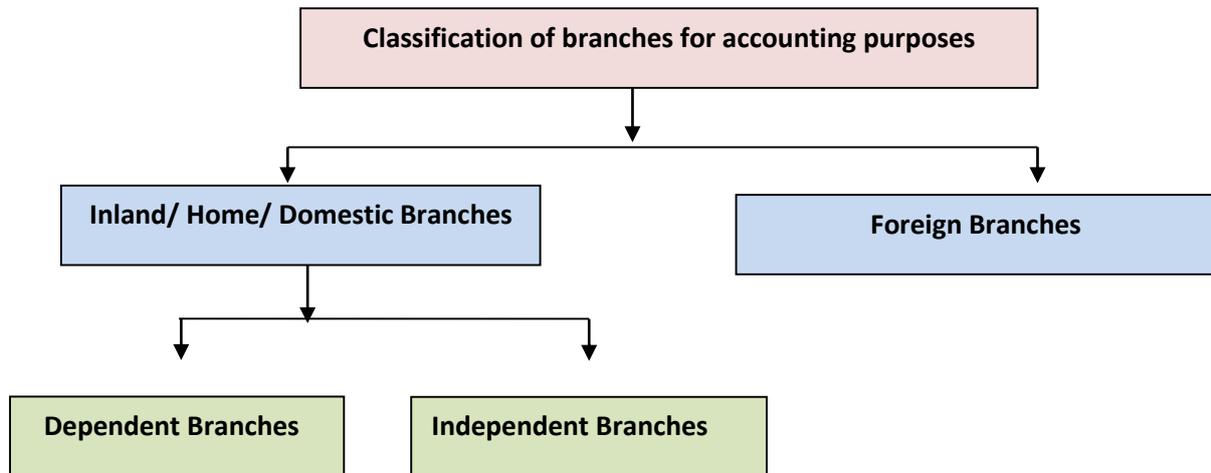
The accounts which are maintained to ascertain the profit or loss of each individual branch as well as of the business as a whole are known as Branch Accounts.

Objectives of Branch Accounts

The Branch Accounts are maintained to achieve the following objectives.

1. To know the profit or loss of each branch separately.
2. To ascertain the financial position of each branch on a particular date.
3. To know the cash and goods requirement of various branches
4. To decide whether a particular branch is to be expanded or closed down
5. To evaluate the progress and performance of each branch
6. To achieve proper control over each branch
7. To calculate commission payable to branch manager based on profits.
8. To meet the requirements of specific laws as all branches of a company must keep the accounts for audit purposes

Types of Branches:



Methods of Accounting

1. Debtors system
2. Final accounts system
3. Stock and debtors system
4. Whole sale branch system

Domestic Branches

Domestic branches are these branches which are located in the same country where the head office is located.

In other words, when the branches and head office are located in same country called Domestic Branches.

Foreign Branches

Foreign branches are those branches and head office are located in different countries they are called Foreign branches.

Dependent branches

Dependent branches are those branches which do not maintain their own books of accounts. All records of such branches are maintained by head office.

Dependent branches are under the control of head office for its administration.

Features of Dependent Branches

The features of dependent branches are as follows

1. The head office maintains a complete record of transactions of its branches.
2. These branches sell the goods supplied by the head office and purchase of goods for sale from local source is prohibited.

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3. The branches do not perform accounting functions only the head office is involved as it maintains complete record of transactions including branches.
4. Goods are supplied from the head office are at cost price or invoice price
5. Petty expenses of branch are paid by the branch manager out of petty cash balance. Petty cash book in the branch may be maintained under simple or on imprest system.
6. All expenses of the branch are paid by the head office.
7. Cash received from cash sales/ from debtors remitted to head office daily or deposited in the account of head office in same local bank.
8. Branch manager sells goods on cash basis and on credit basis only when it is authorized.
9. Branch may keep some registers like stock register to have control on stock, cash book, petty cash book, sales book etc.

Methods of goods sent to Branch

Goods sent to branches may be priced under any of the following two methods.

1. Cost price
2. Invoice price

1. Goods sent at cost price

When goods are sent by the head office to branches at the actual cost of the goods purchased or manufactured it is called goods sent at cost price. In such case, branches are at liberty to sell the goods at any price depending upon local market conditions.

2. Goods sent at Invoice price

Sometimes head office not interested to reveal actual cost of the goods sent to the branch so that the latter may not be in a position to know the actual profit made on goods sold. In such case it adds some amount of profit to the cost of the goods and sends them, it is called goods sent at selling price or Invoice price.

In other words, when the head office sends goods to the branch it adds some percentage of profits to cost price it is called invoice price. This process is also called loading.

Accounting Methods

Head office follows any one of the following accounting methods to maintain the books of dependent branches

1. Debtors system
2. Final account system
3. Stock and Debtors system
4. Whole sale branch system

1. Debtors system

Debtors system is generally adopted in these branches which are fairly small in size.

Head office considers each branch as its debtor. It sends goods to branch like goods sold to customer on credit. Hence this system is known as debtors system.

Under this system head office opens a separate account for each branch called branch account in order to ascertain the profit or loss. Branch account is nominal account in nature and prepared in head office books. The balance of the accounts represents either profit or loss and the same is transferred to general profit and loss account. But only transactions between head office and branch will appear in this account. So, transaction between branch and outsiders like, debtors, creditors are excluded from this account.

Branch Account in the books of Head Office

Particulars	Amount	Amount	Particulars	Amount	Amount
To Opening balances			By Opening balance		
Stock	xxx		Creditors	xxx	
Debtors	xxx		Outstanding expenses	xxx	xxxx
Petty cash	xxx		By Bank		
Furniture	xxx		Cash Sales	xxx	
Prepaid expense	xxx	xxx	Collection from Debtors	xxx	xxxx
To Goods sent the Branch A/c		xxx	By goods sent to Branch A/c		xxxx
To Bank A/c (exp paid by the HO)		xxx	(goods returned by branch to HO or sent to other branches)		
To Closing balances			By closing balances		
Outstanding exp	xxx		Petty cash	xxx	
Creditors	xxx	Xxx	Stock	xxx	
			Debtors	xxx	
			Prepaid exp	xxx	
			Furniture	xxx	
			(-) Depreciation	xx	xxxx
To Profit (transferred to general P&L A/c)		Xxx	By LOSS (transferred to general P&L A/c)		xxx
		xxxx			xxxx

Memorandum Branch Debtors Account

If a dependent branch is allowed to make credit Sales, there will be a number of information relating to branch debtors given in the problem. However, branch A/c, under debtors system, requires only opening balance of debtors, closing balance of debtors and cash received from debtors. If any of these information is missing, memorandum branch debtor's account will be prepared.

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Dr	Memorandum Branch Debtor Account		Cr
Particulars	Amount	Particulars	Amount
To balance b/d	xxx	By Cash A/c	xxx
To Credit Sales A/c	xxx	By Return Inwards A/c	xxx
		By Bad Debts A/c	xxx
		By Discount A/c	xxx
		By Bills Receivable A/c	xxx
		By balance c/d	xxx
	xxxx		xxxx

Treatment of Certain Branch Transactions

1. Branch expenses paid by the branch out of petty cash

-Deduct the amount of expenses from branch cash at the close and reduced each is credited to branch Account.

-If such expenses are reimbursed by the HO to the branch (imprest system) it is debited to Branch Account.

Opening petty cash debited and closing petty cash is credited to Branch Account.

2. Depreciation on Fixed Assets: Not shown separately.

Opening Fixed Assets debited and closing Fixed Assets after depreciation is credited to Branch Account.

3. Purchase of Fixed Assets by the branch

a. On cash basis- Branch Account will be credited and remittances to HO will be reduced by the amount.

b. On credit basis: liability is debited to Branch Account and Fixed Asset will be credited.

4. Goods on transit

Shown on both sides of the Branch Account or will be ignored altogether

5. Credit sale, bad debts, Sales returns, discount allowed

Entered in the debtors Account not in the Branch Account

6. Sale of Fixed Asset

On cash basis- Remittances to HO increases and asset value is shown at reduced value.

On credit basis

Profit/ loss on sale will not be shown separately, it is automatically adjusted.

Invoice price method

When the goods are sent by the HO to the branch at selling price or Invoice price (cost and profit), the branch manager is required to sell the goods at Invoice price only

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Goods are marked on Invoice price to achieve the following objectives:

1. In order to keep secret from the branch manager the cost price of the goods and profit mode, so that the branch manager may not start or rival and competitive business with the concern.
2. In order to have effective control on stock i.e. Stock at any time must be equal to opening stock + goods received from HO minus sales made at the branch.

Closing stock should always be valued at cost or market price which ever is lower. This is based on the principle of conservatism. (No profit should be anticipated and all losses should be provided).

The unsold stock lying in the branch will not earn any profit unless sold. Therefore, it is necessary to make provision for the profit element included in the unsold stock.

Calculation of mark up or Load

1. 25% on Cost Price
Cost 100+ profit 25 = Selling price 125
(P= 1/5 of the Invoice price 25/125)
2. 25% on Sale price
Sales= 100, profit= 25 Therefore, cost = 75
Percentage of profit on cost = 25/75= 1/3 or 33 1/3%

2. Final Account System

The profit/ loss made by the branch are determined by preparing Branch Trading and profit and loss Account at cost price. All expenses whether paid by the HO or by the Branch are debited to the Trading and Profit and Loss Account prepared for the branch. The profit/ loss or disclosed by this account is exactly same as that of the Branch Account prepared according to Debtors/ synthetic system.

- Branch Trading and Profit and Loss Account is only a Memorandum Account not forming part of the full accounting system.

- if the Branch Account is also prepared, in addition to the Branch Trading and Profit and Loss account, then such a Branch Account will be treated as a personal Account and not considered in the nature of nominal account under the debtors system then branch account under such circumstances, will show a debit balance which will be equal to net worth or net assets available at branch at the end of the accounting period.

3. Stock and Debtors System (Analytical method)

Separate accounts are opened for various transactions at branch. A separate ledger for each branch will have to be maintained at HO for keeping accounts.