

UNIT 1 BRANCH ACCOUNTS – I

Structure

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1.0 OBJECTIVES

After studying this unit you should be **able** to:

- describe the **need** for branch accounting
- explain the different types of branches from accounting point of view
- describe three systems of maintaining branch accounts for a dependent branch
- prepare branch account under the debtors system both at cost price and at invoice price
- prepare branch account under the final accounts system
- prepare the necessary accounts under the stock and debtors system.

1.1 INTRODUCTION

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, **jewellery**, 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 Kembangan. These are all branches of Snowwhite. Similarly, Bata has its branches all **over the** country and Leventies all over the world. Each branch is treated as a separate profit centre and hence the profit or loss is to be worked out separately **for** each branch. Moreover, the firm has to keep strict control over various activities of **each** branch and ensure its smooth functioning. The accountants, therefore, have developed some **specialised** accounting methods for the recording of transactions at branch level and for incorporating the net effect of all branch transactions in a firm's books,

From accounting point of view, the branches are divided into three categories :
(i) dependent branches. **(ii)** independent branches, and **(iii)** foreign **branches**. In this unit you will learn how the accounts of dependent branches are maintained and how their profit or loss is **worked** out.

1.2 NEED FOR BRANCH ACCOUNTING

As stated earlier, each branch is treated as a separate profit **centre**. 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 **if the** branches keep proper

books of account. Thus, the main reasons of keeping branch accounts can be summarised 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;
- 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.

1.3 TYPES OF BRANCHES

From accounting point of view the branches can be divided into the following categories:

- 1) Branches not keeping full system of accounting;
- 2) Branches keeping full system of accounting;
- 3) Foreign branches,

Let us have an idea about their main characteristics.

Branches not Keeping Full System of Accounting: The branches not keeping full system of accounting are also called dependent branches. The main features of such branches are:

- i) They sell only those goods which are received from the head office and are not usually allowed to make purchases in the open market except with the permission of the head office.
- ii) Goods are supplied by the head office to such branches either at cost price or at invoice price.
- iii) All major expenses of the branch are paid by the head office. The branch manager is allowed to incur only petty expenses like cartage, postage, etc. out of the petty cash provided to him for which he is required to maintain a simple petty cash book.
- iv) The amount received from cash sales and debtors is either remitted to the head office daily or deposited in the account of head office in some local bank,
- v) The branch manager is normally expected to sell the goods for cash, but he may be authorised to sell goods on credit in certain cases.
- vi) Such branches do not keep complete account books. They simply maintain record of sales and prepare debtors accounts, if necessary. They are also required to maintain a stock register and furnish weekly or monthly statements giving complete information about stock position and movement of goods to the head office. This enables the head office to keep proper control over stock at branches.

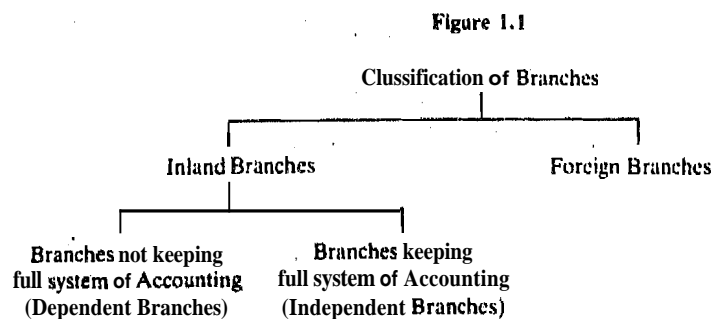
Branches Keeping Full System of Accounting: Branches keeping full system of accounting are called independent branches. They are allowed to purchase goods from the market and also supply to the head office, if necessary. They can incur expenses from the cash realised and operate the bank account in their own names. Thus, they operate as independent units for all practical purposes. Their only link with the head office is that they are owned by the head office and whatever profit they earn or loss they incur ultimately belongs to the head office.

Such branches keep a complete set of books on the double entry system and prepare their own Trial Balance, Trading and Profit & Loss Account and Balance Sheet. Such branches open Head Office Account in their books and record all transactions between the branch and the head office in this account:

Foreign Branches: When a branch is located in a foreign country, it is called a foreign branch. Such branches will keep their books of account in foreign currency. The

distinctive feature of foreign branches is that financial information received from them will be in foreign **currency** which has to be converted into the currency of the country of the **head** office before it can be incorporated in the head office books. For example, if an Indian company has a branch in **Nairobi**, the **branch Trial Balance** will be in Kenyan shillings. The **Trial Balance** must be converted into rupees before it can be incorporated in head office books. For all practical purposes, however, foreign branches are treated as independent branches.

Look at Figure 1.1 for complete classification of branches.



1.4 ACCOUNTING FOR DEPENDENT BRANCHES

You know that the dependent branches do not keep a complete set of books. **Most** of their transactions are recorded at the head office level. The accounting system adopted by head office for a branch depends up on the size of a branch and the degree of control to be exercised by the head office. The following are the **various** methods by which the head office usually keeps branch accounts in its books:

- i) **Debtors System:** This system is adopted generally for those branches which are fairly small in size. Under this system, the head office simply opens a Branch Account for each branch in which it records all transactions relating to the branch. **The Branch Account** is prepared in such a manner that it also helps in ascertaining the branch profit or loss.
- ii) **Final Accounts System:** Under this system, the head office prepares a Trading and Profit and Loss Account in order to find out profit or loss of each branch and a Branch Account to find out the amount due to, or due from, that branch. In this case, the **Branch Account** simply acts as a personal account.
- iii) **Stock and Debtors System:** Under this system, the head office does not open any Branch Account. For each branch, it prepares a Branch Stock Account, a Branch Expenses Account, a Branch Adjustment Account and Goods sent to Branch Account in order to find out the profit or loss of each branch.

1.5 DEBTORS SYSTEM

As stated earlier, under debtors system, the head office simply opens a Branch Account for each branch in which it records all transactions relating to the branch. The Branch Account also helps in ascertaining the profit or loss of the branch.

Goods may be invoiced to a branch at cost or at selling price (also called invoice price). Accordingly, there are two methods of preparing the Branch Account: (i) Cost Price Method, and (ii) Invoice Price Method. Let us now study the preparation of Branch Account under both of **these** methods.

1.5.1 Cost Price Method

When goods are invoiced at **cost**, the **following** journal entries are passed in the books of the head office to record various transactions relating to the branch.

1) For goods sent to branch

Branch A/c	Dr.
To Goods Sent to Branch A/c	
(Being goods sent to branch)	

Branch and Departmental Accounts

- 2) For return of **goods** to head office
 Goods Sent to Branch A/c Dr
 To Branch A/c
 (Being goods returned by the branch)
- 3) For amount sent to branch for expenses
 Branch A/c Dr.
 To Bank A/c
 (Being cheque sent to branch for expenses)
- 4) For amount received from branch
 Bank A/c Dr.
 To Branch A/c
 (Being cash or cheque received from branch)
- 5) For closing **goods** sent to branch account
 Goods Sent to Branch A/c Dr.
 To Purchases/Trading A/c
 (Being balance transferred to Trading Account)
- 6) For closing balances of **assets** at the branch
 Branch Assets A/c Dr.
 (Individually)
 To Branch A/c
 (Being closing **balances** of assets brought into account)
- 7) For closing balances of **liabilities** at the branch
 Branch A/c Dr.
 To Branch Liabilities A/c
 (Individually)
 (Being closing balances of liabilities brought into account)
- 8) For transferring **profit** or **loss** to the General **Profit** and **Loss** Account
 - i) **If profit**
 Branch A/c Dr.
 To General Profit and Loss A/c
 (Being branch profit transferred to General P & L A/c)
 - ii) **If loss**
 General Profit and Loss A/c Dr.
 To Branch A/c
 (Being branch loss transferred to General P & L A/c)

The closing balances of branch assets and liabilities are shown in the Balance Sheet of the head office. At the beginning of the next year, the entire numbers 6 and 7 are reversed so as to show opening balances in the Branch Account,

The Branch Account will appear as given in Figure 1.2.

Figure 1.2
Branch Account

Dt.	Rs.	Rs.
To Opening Balances Stock Debtors Petty Cash Furniture Prepaid expenses		By Opening Balances Creditors Outstanding expenses By Bank Cash Sales Collections from Debtors (for remittances)

To Goods sent to Branch A/c		By Goods Sent to Branch A/c (goods returned by the branch to head office)	
To Bank A/c (for expenses or any payment made by the H.O. on behalf of the Branch)		By Closing Balances	
To Closing Balances Outstanding expenses Creditors		Petty Cash	
To Profit (transferred to General Profit & Loss A/c)		Stock	
		Debtors	
		Furniture (at depreciated value)	
		Prepaid expenses	
		By Loss, if any (transferred to General Profit & Loss A/c)	

Look at **Illustrations 1** and 2 and study how Branch Account is prepared with the help of the given information.

Illustration 1

From the following particulars relating to Delhi Branch for the year ending December 31, 1988 prepare Branch Account in the books of head office.

	Rs.		Rs.
Stock at Branch on 1-1-1988	15,000	Cheques sent to Branch for	
Debtors at Branch on 1-1-1988	30,000	Salaries	9,000
Petty Cash at Branch on 1-1-1988	300	Rent and Taxes	1,500
Goods sent to Branch	2,52,000	Petty Cash	1,100
Cash sales	60,000	Goods returned by the branch	2,000
Received from Debtors	2,10,000	Stock at Branch on 31-12-1988	25,000
Credit Sales	2,28,000	Petty cash at Branch on 31-12-1988	200
		Debtors at Branch on 31-12-1988	48,000

Solution

**Head Office Ledger
Delhi Branch Account**

Dr.	Rs.	Cr.	Rs.
To Balance b/d		By Cash:	
Branch Stock	15,000	Cash Sales	60,000
Branch Debtors	30,000	Received from Debtors	2,10,000
Branch Petty Cash	300		<u>2,70,000</u>
To Goods sent to Branch A/c	2,52,000	By Goods sent to Branch A/c	2,000
To Bank A/c		By Balance d/d	
Salaries	9,000	Branch Stock	25,000
Rent & Taxes	1,500	Branch Debtors	48,000
Petty Cash	1,100	Branch Petty Cash	200
	<u>11,600</u>		
To Profit (transferred to General P & L A/c)	36,300		
	<u>3,45,200</u>		<u>3,45,200</u>

Illustration 2

Sankat Mochan Ltd., Varanasi, opened a branch at Madras on January 1, 1988. The following particulars are available in respect of the branch for the year 1988.

	Rs.		Rs.
Goods sent to branch	75,000	Cash remittance to branch towards Petty Cash	6,000
Cash sales at branch	50,000	Petty Cash at branch on 31-12-1988	500
Credit sales at branch	60,000	Debtors at branch on 31-12-1988	5,000
Salaries of branch staff paid by head office	15,000	Stock at branch on 31-12-1988	27,000
Office expenses of branch paid by head office	12,000		

Prepare Branch Account to show the profit/loss from the branch for the year 1988.

Solution

Books of Sankat Mochan Ltd.
Madras Branch Account

Dr.		Cr.	
	Rs.		Rs.
To Goods sent to Branch A/c	75,000	By Bank A/c Cash Sales	50,000
To Bank A/c Salaries 15,000		Received from Debtors	55,000
Office expenses 12,000	27,000	By Balance c/d:	
To Bank A/c (for petty expenses)	6,000	Branch Petty Cash	500
To Profit (transferred to General P & L A/c)	29,500	Branch Debtors	5,000
	1,37,500	Branch Stock	27,000
			1,37,500

Note: The amount of cash received from debtors is not given. It has been found by preparing the Memorandum Branch Debtors Account as follows:

Memorandum Branch Debtors Account

Dr.		Cr.	
	Rs.		Rs.
To Credit Sales	60,000	By Cash Received (balancing figure)	55,000
		By Balance c/d	5,000
	60,000		60,000

Some Peculiar Items

Petty cash expenses: No entry is made in respect of petty cash expenses incurred by the branch out of its petty cash. As per practice, the Branch Account is debited with the opening balance of petty cash and the amount of petty cash sent by head office, and it is credited with the closing balance of petty cash. This amounts to a net debit to Branch Account which is equal to the amount of petty expenses incurred by branch. For example, the opening balance of petty cash with a branch was Rs. 200, the cash sent by head office for petty expenses was Rs. 300, and the petty expenses incurred by branch were Rs. 400. When we debit the Branch Account with Rs. 200 (opening: petty cash balance) and Rs. 300 (amount sent by head office) and credit it with Rs. 100 (closing petty cash balance), the Branch Account stands debited by a net amount of Rs. 400 (Rs. 200 + Rs. 300 - Rs. 100) which is equal to the amount of petty cash expenses (Rs. 400) incurred by the branch.

Credit sales, sales returns, bad debts, discount allowed to debtors, etc. : All these items relate to branch debtors and will not be shown in the Branch Account. The reasoning is similar to that of petty cash expenses. When the Branch Account is debited with the opening balance of branch debtors and credited with cash received from debtors and the closing balance of branch debtors, the amount of credit sales etc. automatically stand accounted for.

Shortage or surplus of stock: It is possible that, at the time of checking the stock of a branch, certain amount of shortage or surplus is detected. These are not to be shown in the Branch Account because the closing stock credited to the Branch Account is the actual amount of stock and thus the shortage or surplus is automatically covered.

Depreciation of fixed assets: This is also not shown in the Branch Account because, as per practice, the closing balance of the fixed asset after deducting the amount of depreciation is shown on the credit side of the Branch Account.

Thus you should note that while preparing the Branch Account for dependent branches, the following items will be ignored:

- 1) Petty Cash Expenses
- 2) Credit Sales
- 3) Sales Returns
- 4) Bad Debts
- 5) Discount Allowed to Debtors
- 6) Shortage or Surplus of Stock
- 7) Depreciation

Look at Illustration 3 and see how Branch Account is prepared without specifically showing the above items, if given.

Illustration 3

Pratap Tractors Ltd., Allahabad, has a branch at Hissar. From the following particulars relating to the branch for the year ending December 31, 1988, prepare the Branch Account in the head office books :

	Rs.		Rs.
Stock at Branch on 1-1-1988	10,000	Discount Allowed to Debtors	100
Branch Debtors on 1-1-1988	4,000	Cash sent to Branch	
Petty Cash on 1-1-1988	500	Rent	2,000
Furniture on 1-1-1988	2,000	Salaries	2,400
Prepaid Insurance on 1-1-1988	150	Petty Cash	1,000
Salaries Outstanding on 1-1-1988	100	Insurance (up to 31-3-1989)	600
Goods sent to Branch	80,000	Goods Returned by Branch	1,000
Cash Sales	1,30,000	Goods Returned by Debtors	2,000
Credit Sales	40,000	Stock at Branch on 31-12-1988	5,000
Cash received from Debtors	35,000	Petty Expenses paid by Branch	850
Cash paid by Debtors (direct to head office)	2,000		

Provide depreciation on furniture @ 10% p.a.

Solution

Hissar Branch Account

	Rs.		Rs.
To Balance b/d		By Balance b/d	
Branch Stock	10,000	Branch Outstanding	
Branch Debtors	4,000	Salaries	1,00,000
Branch Petty Cash	500		

Branch and Departmental Accounts

Branch Furniture	2,000	By Cash		
Branch prepaid insurance	150	Cash Sales	30,000	
To Goods sent to		Cash Received from Debtors	37,000	1,67,000
Branch	80,000	By Balance c/d		
Less : Return from		Branch stock		5,000
Branch	1,000	Branch Petty Cash		650
To Bank		Branch Debtors		4,900
Rent	2,000	Branch Furniture		1,800
Salaries	2,400	Branch Prepaid Insurance		150
Petty Cash	1,000			
Insurance	600			
To Profit (transferred to Gencrrl P & L A/c)	77,950			
	<u>1,79,600</u>			<u>1,79,600</u>

Notes : 1) Cash received from debtors include Rs. 2,000 which the debtors directly paid to the head office.

2) Branch petty cash balance at the end is not given. It is ascertained as follows :

Petty Cash at the beginning	500
Add amount sent by head office	<u>1,000</u>
	1,500
Less petty cash expncs	<u>850</u>
	650

3) Furniture at the end has been shown after deducting Rs. 200 for depreciation.

4) Prepaid insurance on 31-12-1988 is one-fourth of Rs. 600.

5) The closing balance of branch debtors is not given. It has been worked out by preparing that Memorandum Branch Debtors Account as follows :

Memorandum Branch Debtors Account

To Balance b/d	Rs. 4,000	By Cash Received from Debtors	Rs. 37,000
To Sales (Credit)	40,000	By Sales Returns	2,000
		By Discount Allowed	100
		By Balance c/d (balancing figure)	4,900
	<u>44,000</u>		<u>44,000</u>

1.5.2 Invoice Price Method

As in the case of consignment (you have studied about it in the elective course ECO-02), the goods may be invoiced to branches at a price higher than the cost (termed as invoice price). This is done primarily to have an effective control over stock with branches and keep the margin of profit secret from the branch manager. In such a situation, all entries relating to goods are made in the Branch Account at invoice price and necessary adjustments for loading (difference between I.P. and C.P.) are recorded at the end by passing the following additional journal entries:

1) For adjustment of loading in opening stock at branch

Stock Reserve A/c
To Branch A/c

Dr.

- 2) For adjustment of loading in goods sent to branch less returns
 Branch A/c Dr.
 To Goods Sent to Branch A/c
- 3) For adjustment of loading in closing stock at branch
 Branch A/c Dr.
 To Stock Reserve A/c

Look at Illustration 4 and see how Branch Account is prepared when goods are invoiced at a price higher than cost.

Illustration 4

The Mukund Gas Co., Varanasi have a sales branch at Ghaziabad and invoiced goods to the branch at cost price plus 33 $\frac{1}{3}$ per cent. It is arranged that all cash received by the branch is to be paid daily to the Head Office Account with the Banaras State Bank Ltd. and the necessary advice sent to the Head Office. From the following particulars, prepare Branch Account and Goods sent to Branch Account in the Head Office ledger showing the actual profit or loss of the branch for the year ending December 31, 1988.

	Rs.		Rs.
Stock on 1-1-1988 (at invoice price)	12,000	Rent, Rates and Taxes	3,200
Goods Sent to Branch (at invoice price)	96,000	Salaries and Wages	4,800
Debtors on 1-1-1988	1,500	Debtors on 31-12-1988	1,600
Cash Sent to Head Office	77,100	Goods Returned to Head Office (at invoice price)	16,000
Sales	77,000	Shortage of stock (at invoice price)	200

Solution

Ghaziabad Branch Account

Dr.	Rs.		Cr.
To Balance b/d		Dy Cash Received	77,100
Branch Stock	12,000	Dy Goods Returned by Branch A/c	16,000
Branch Debtors	1,500	Dy Stock Reserve A/c (loading in op. stock)	3,000
To Goods sent to Branch A/c	96,000	By Goods sent to Branch A/c (loading in goods sent less returns)	20,000
To Bank		By Balance c/d	
Rent, Rates & Taxes 3,200		Branch Stock	14,800
Salaries & Wages 4,800	8,000	Branch Debtors	1,600
To Stock Reserve A/c (loading in cl. stock)	3,700		
To Profit (transferred to General P & L A/c)	11,300		
	1,32,500		1,32,500

Goods Sent to Branch Account

	Rs.		Rs.
To Ghaziabad Branch A/c	16,000	By Ghaziabad Branch A/c	96,000
To Ghaziabad Branch A/c (loading on Rs. 80,000)	20,000		
To Trading A/c (transfer)	60,000		
	96,000		96,000

Notes : 1) The branch stock at the end has not been given. It can be worked out by preparing Memorandum Branch Stock Account as follows.

2) Loading is 25% of invoice price

To Balance hld	Rs. 12,000	By Goods returned to head office	Rs. 16,000
To Goods received from head office	96,000	By Sales	77,000
To Goods returned by Customers	-	By Shortage of Stock	200
		By Balance cld	14,800
	<u>1,08,000</u>		<u>1,08,000</u>

It should be noted that all figures in Memorandum Branch Stock Account have been recorded at the invoice price.

Check Your Progress A

- 1) What do you mean by dependent branch?

- 2) Fill in the blanks:
 - i) The branch expenses paid by the head office are to the Branch Account.
 - ii) The balance in Goods sent to Branch Account is transferred to Account.
 - iii) If the cost price is Rs. 100 and the invoice price is cost plus 20% on invoice price, the invoice price is Rs.
 - iv) Loading is the between cost price and invoice price.
 - v) If opening or closing stock is not given, the same can be worked out by preparing Account at price.
- 3) List the items which are nbt to be shown in Branch Account prepared under the Debtors System.

1.6 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:

	Rs.		Rs.
Stock (1-1-1988)	11,000	Return Inwards	,500
Debtors (1-1-1988)	100	Cheques sent to Branch	

	Rs.		Rs.
Petty Cash	100	Rent	600
Cash Sales	2,650	Wages	200
Credit Sales	23,950	Salary and other expenses	900
Goods sent to Branch	20,000	Stock (31-12-1988)	13,000
Collection on Ledger A/c	21,000	Debtors (31-12-1988)	2,000
Goods returned to H.O.	300	Petty Cash (31-12-1988)	
Bad Debts	300	(including miscellaneous income Rs. 25 not remitted.)	125
Allowances to Customers	250		

Prepare the Memorandum Branch Trading and Profit & Loss Account and Madras Branch Account for the year ending December 31, 1988.

Solution

Memorandum Branch Trading and Profit & Loss Account for the year ending 31-12-1988

Dr.	Rs.		Cr.	Rs.
To Opening Stock (11,000 - 2,200)	8,800	By Sales		
To Goods sent to Branch (20,000 - 4,000)	16,000	Cash	2,650	
To Wages	200	Credit	23,950	
To Gross Profit c/d	11,740		26,600	
		Less Returns	500	26,100
		By Goods sent to 1-1.0. (300 - 60)		240
		By Closing Stock (13,000 - 2,600)		10,400
	36,740			36,740
To Bad Debts	300	By Gross Profit b/d		11,740
To Allowances	250	By Misc. Income		25
To Rent	600			
To Salaries and other expenses	900			
To Profit transferred to General Profit & Loss A/c	9,715			
	11,765			11,765

Madras Branch Account

	Rs.		Rs.
To Balance b/d		By Bank A/c	
Stock	8,800	Cash Received from	
Debtors	100	Debtors	21,000
Petty Cash	100	Cash Sales	2,650
To Goods sent to Branch A/c	16,000	By Goods sent to Branch (returns to H.O.)	240
To Bank A/c		By Balance c/d	
Rent	600	Stock	10,400
Wages	200	Debtors	2,000
Salaries and other expenses	900	Petty Cash	125
To Profit as per Branch Trading and P & L A/c	9,715		
	36,415		36,415

1.7 STOCK AND DEBTORS SYSTEM

Under Stock and Debtors System, the head office does not open a Branch Account in its books. It maintains a few control accounts for recording the various branch transactions. These accounts usually are : (i) Branch Stock Account, (ii) Branch Debtors Account, (iii) Branch Expenses Account, (iv) Branch Cash Account, (v) Goods sent to Branch Account, and (vi) Branch Fixed Assets Account. At the end of the accounting year, it prepares the Branch Adjustment Account and the Branch Profit & Loss Account. This system is used only when goods are invoiced at selling price which the branch is not allowed to vary.

Let us now study the working of each account opened by the head office when such a system is followed.

Branch Stock Account: This is the most important account which helps the head office in controlling the branch stock. It shows all branch transactions relating to goods. The goods sent to branches and the sales returns are shown on its debit side, and the sales (both cash and credit) and the goods returned to head office on the credit side. All these items are recorded at the invoice price. Hence, if the figure of any of these items is given at cost, the same should be converted into invoice price before recording it in the Branch Stock Account. The balance of this account would show the unsold goods (stock) lying with the branch. If it is found that the actual stock with the branch is less than the balance shown by the Branch Stock Account, it means that there is a 'shortage' in the stock with the branch. Similarly, if the actual stock with the branch is more than the balance shown by the Branch Stock Account, it would reflect 'surplus'. Both situations warrant investigation. But, so far as their recording goes, the shortage will be shown on the credit side of the Branch Stock Account and if there is surplus, the same will be recorded on its debit side. Then, the balance of the Branch Stock Account will be the exact amount of actual stock with the branch. In other words, while preparing the Branch Stock Account, you will show the actual stock with branch as the balance in this account, and then if the totals of both sides do not tally, you will show the difference as shortage or surplus as the case may be.

Branch Debtors Account: This account shows all transactions relating to branch debtors. The credit sales are shown on its debit side, and cash received from debtors, sales returns, bad debts, discount allowed, etc. on the credit side. The balance of this account represents the closing debtors of the branch.

Branch Expenses Account: This account shows all expenses incurred by the branch. In addition, the items like bad debts, discount allowed, depreciation on branch fixed assets, etc. are also debited to this account. This account is closed by transfer to the Branch Adjustment Account.

Branch Cash Account: This account shows all cash transactions of the branch where the branch is not required to remit all collection of cash immediately to the head office but use it for branch expenses and remit the balance to the head office from time to time. This account helps the head office to keep control over branch cash. Normally, the dependent branch is not allowed the freedom to retain cash collections. Hence, this account need not be maintained.

Branch Fixed Assets Account: The head office maintains separate account for each type of branch asset such as furniture, equipment, building, etc. These accounts are prepared in the usual manner. The depreciation on branch fixed assets is, however, debited to Branch Expenses Account and credited to the respective account.

Goods Sent to Branch Account: This account is prepared in the same manner as in case of branches to which the goods are sent at the invoice price (Sub-section 1.5.2).

Branch Adjustment Account: This account is like a Trading Account of the branch. It is prepared to ascertain the gross profit or gross loss made at the branch by recording the loading (difference between invoice price and cost price) on various items. The loading on branch closing stock and shortage is shown on its debit side while the loading on branch opening stock, goods sent to branch (less returns) and surplus on the credit side. The balance of this account reflects the gross profit or gross loss which is transferred to Branch Profit & Loss Account.

Branch Profit & Loss Account: This account is prepared to ascertain the net profit or net loss made at the branch. As stated earlier, the gross profit or gross loss ascertained by the Branch Adjustment Account is transferred to this account. It is debited with branch expenses as per the Branch Expenses Account and the loss on account of shortage being the cost of such shortage. In case the Branch Stock Account reveals some surplus, the amount equal to the cost of such surplus will be shown on the credit side of the Branch Profit & Loss Account. The balance of the Branch Profit & Loss Account represents the net profit or net loss made at the branch which is transferred to the General Profit & Loss Account.

The following journal entries are passed in the head office books for opening the above accounts relating to the various branch transactions:

- 1) When goods are sent to the branch (at invoice price)

Branch Stock A/c	Dr.
To Goods Sent to Branch A/c	
- 2) When goods are returned by the branch to the H.O. (at invoice price)

Goods Sent to Branch A/c	Dr.
To Branch Stock A/c	
- 3) When sales are made by the branch
 - i) For Cash Sales

Cash A/c	Dr.
To Branch Stock A/c	
 - ii) For Credit Sales

Branch Debtors A/c	Dr.
To Branch Stock A/c	
- 4) When cash is received from debtors

Cash A/c	Dr.
To Branch Debtors A/c	
- 5) For sales returns

Branch Stock A/c	Dr.
To Branch Debtors A/c	
- 6) For discount allowed, bad debts, etc.

Branch Expenses A/c	Dr.
To Branch Debtors A/c	
- 7) For shortage of stock

Branch Adjustment A/c (with amount of loading)	Dr.
Branch P & L A/c (with cost of shortage)	Dr.
To Branch Stock A/c	

For surplus at branch, the reverse entry will be passed.
- 8) For Branch expenses paid in Cash

Branch Expenses A/c	Dr.
To Cash A/c	
- 9) For closing branch expenses account

Branch P & L A/c	Dr.
To Branch Expenses A/c	
- 10) For adjustment of loading on the opening stock

Stock Reserve A/c	Dr.
To Branch Adjustment A/c	
- 11) For adjustment of loading on the closing stock

Branch Adjustment A/c	Dr.
To Stock Reserve A/c	
- 12) For adjustment of loading on net goods sent to branch

Goods Sent to Branch A/c	Dr.
To Branch Adjustment A/c	
- 13) For transfer of gross profit

Branch Adjustment A/c	Dr.
To Branch P & L A/c	

14) For transfer of net profit to **General Profit & Loss Account**
 Branch Adjustment A/c Dr.
 To General P & L A/c

The entry will be reversed if there is net loss.

15) For closing the Goods Sent to Branch Account Dr.
 Goods Sent to Branch A/c
 To Trading A/c

Look at Illustration 6 and see how the accounts for various branch transactions are prepared under Stock and Debtors System.

Illustration 6

Indiana Traders, Jaipur opened a branch at Jodhpur on 1-7-1987. The goods were sent by the head office to the branch invoiced at selling price of the branch which was 125% of the cost price of the head office.

The following are the particulars relating to the transactions of Jodhpur Branch :

	Rs.		Rs.
Goods sent to branch (at cost to head office)	2,80,000	Cash sent to branch for :	
Sales — Cash	1,24,000	Wages	3,000
Sales — Credit	1,75,000	Freight	11,000
Cash collected from debtors	1,56,000	Other expenses including godown rent	<u>6,000</u>
Discount allowed	4,000		20,000
Spoiled cloth in bales written off at invoice price.	500	Stock on June 30, 1988 (at invoice price)	55,500

Ascertain the profit or loss for the Jodhpur Branch for the year ended June 30, 1988 by preparing accounts under the Stock and Debtors System.

Solution

Branch Stock Account

	Rs.		Rs.
Dr.		Cr.	
To Goods Sent to Branch A/c	3,50,000	By Cash A/c (cash sales)	1,24,000
To Branch Debtors A/c (sales returns being balancing figure)	5,000	By Branch Debtors A/c (credit sales)	1,75,000
		By Branch Adjustment A/c (spoilage-loading)	100
		By Branch P & L A/c (spoilage-cost)	400
		By Balance c/d	55,500
	3,55,000		3,55,000

Note: Total of the credit side of Branch Stock A/c exceeds the debit side by Rs. 5,000. It is assumed to be on account of returns by customers.

Goods Sent to Branch Account

	Rs.		Rs.
To Branch Adjustment A/c (loading)	70,000	By Branch Stock A/c	3,50,000
To Trading A/c	2,80,000		
	3,50,000		3,50,000

Branch Debtors Account

	Rs.		Rs.
To Branch Stock A/c	1,75,000	By Cash A/c	1,56,000

	By Branch Stock A/c (returns)	5,000
	By Branch Expenses A/c (discount allowed)	4,000
	By Balance c/d	10,000
<u>1,75,000</u>		<u>1,75,000</u>

Branch Expenses Account

	Rs.	By Branch P & L A/c	Rs.
To Cash A/c			24,000
Wages	3,000		
Freight	11,000		
Other Expenses	6,000		
To Branch Debtors A/c (discount)	4,000		
	<u>24,000</u>		<u>24,000</u>

Branch Adjustment Account

	Rs.	By Goods Sent to Branch A/c (loading)	Rs.
To Branch Stock A/c (loading on spoilages)	100		70,000
To Stock Reserve A/c (loading on closing stock)	11,100		
To Branch Profit & Loss A/c	58,800		
	<u>70,000</u>		<u>70,000</u>

Branch Profit & Loss Account

	Rs.	By Branch Adjustment A/c	Rs.
To Branch Expenses A/c	24,000		58,800
To Branch Stock A/c (spoilage-cost)	400		
To Net Profit transferred to General P & L A/c	34,400		
	<u>58,800</u>		<u>58,800</u>

It should be noted that if there is any theft or spoilage of goods at the branch, or some goods are lost in transit, these are to be treated in accounts in the same way as the shortage of goods. If, however, some amount is received from the insurance company for such abnormal losses of stock, the same will be credited to the Branch Profit and Loss Account.

Check Your Progress B

1) How is the Branch Account prepared under the Debtors System different from the Branch Account prepared under the Final Accounts System.

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2) Fill in the blanks:

- i) The closing balance of Branch Account under the Final Accounts System represents at the branch.
- ii) Branch Expenses Account under the Stock and Debtors System is closed by transfer to Account.
- iii) Under Stock and Debtors System, all figures in Branch Stock Account are recorded at price.
- iv) Under Stock and Debtors System, Account is credited when the branch returns goods to the head office.
- v) Under the Stock and Debtors System, Bad Debts are credited to Branch Debtors Account and debited to Account.
- vi) If the balance shown by Branch Stock Account is different from actual stock with the branch, the difference reflects

1.8 LET US SUM UP

From accounting point of view, each branch is treated as a separate profit centre. Hence, accounting for branch transaction is designed in such a way that profit or loss made at each branch can be correctly worked out and proper control can be exercised over their financial activities. For this purpose, the branches are divided into three categories: (i) branches not keeping full system of accounting (dependent branches), (ii) branches keeping full system of accounting (independent branches), and (iii) foreign branches.

Where branches do not keep full system of accounting, the head office has to maintain proper record of branch transactions. There are three methods that can be followed for this purpose: (i) Debtors System, (ii) Final Accounts System, and (iii) Stock and Debtors System.

Debtors System is usually adopted for small branches which merely act as sales depots. Under this system, the head office simply opens a Branch Account for each branch in which it records all related transactions. The Branch Account is maintained like a Consignment Account which also helps in ascertaining the profit or loss made by the branch.

Under the Final Accounts System of maintaining branch accounts, the head office prepares a Memorandum Trading and Profit & Loss Account for each branch from the data provided by the branch and ascertains its profit or loss for the accounting period. Then it also maintains a Branch Account for recording mutual transactions between the head office and the branch which finally reveals the amount due to, or due from, the branch. Its balance, in fact, will be equal to the net assets with the branch.

Stock and Debtors System is followed where the goods are invoiced to the branch at selling price. Under this system, no Branch Account is opened. The head office maintains (i) Branch Stock Account, (ii) Branch Expenses Account, (iii) Goods Sent to Branch Account, and (iv) Branch Fixed Assets Account. At the end of the accounting period, it prepares Branch Adjustment Account and Branch Profit and Loss Account for ascertaining the branch gross profit/gross loss and the net profit/net loss respectively. This system also enables the head office to exercise effective control on branch stock.

1.9 KEY WORDS

Branch Adjustment Account : An Account prepared under Stock and Debtors System for ascertaining the gross profit or gross loss made by a branch.

Debtors System : A system of accounting for transactions of a branch by opening Branch Account which also helps to ascertain branch profit or loss.

Dependent Branch : A small branch which does not keep full system of accounting.

Final Accounts System : A system of accounting for transactions of a branch under which branch profit or loss is ascertained by preparing Memorandum Branch Trading and Profit & Loss A/c.

General Profit & Loss Account : Profit and Loss Account of the Head Office which shows the profit or loss of the business unit as a whole.

Independent Branch : Branch keeping full system of accounting.

Loading : Difference between the cost price and the price at which goods are invoiced to the branch.

Stock and Debtors System : A System of accounting for transactions of a branch without opening a Branch Account. Under the system, branch profit or loss is ascertained through Branch Adjustment Account.

1.10 ANSWERS TO CHECK YOUR PROGRESS

- A** 2) i) debited ii) Trading iii) 125 iv) difference
v) Memorandum Branch Stock, invoice price
- B** 2) i) net assets ii) Branch Adjustment iii) invoice
iv) Branch Stock v) Branch Expenses vi) Shortage or surplus

1.11 TERMINAL QUESTIONS/EXERCISES

Questions

- 1) What are the objectives of keeping branch accounts?
- 2) Name the three systems of maintaining the accounts of a dependent branch and describe how profit is ascertained under each system.
- 3) Explain how Branch Stock Account helps in keeping effective control over the branch stock.

Exercises

- 1) Kabir & Co. of Moradabad have their branch at Kanpur. The following are the transactions relating to the branch for the year ending December 31, 1988:

		Rs.
Opening Stock on January 1, 1988		20,000
Goods supplied to Branch		50,000
Cash sent to Branch for :		
Rent	200	
Other Expenses	100	
		300
Cash received from Branch during the year		60,000
Closing Stock on December 31, 1988		15,000
Closing balance of Petty Cash on December 31, 1988		10

From the above information, pass the necessary journal entries and prepare Kanpur Branch Account and other necessary accounts in the books of the Head Office.

(Answer: Branch Net Profit Rs. 4,710)

- 2) A Meerut Company has a retail branch in Kota which is supplied with all goods from Meerut. The branch keeps its own Sales Ledger, receives cash against the ledger accounts and remits the whole of the cash received daily to the head office. All wages and branch expenses are drawn by cheque weekly from the Head Office upon the imprest system. From the under mentioned particulars supplied by the Branch Manager, show how the Branch Account would appear in the Head Office books as on December 31, 1988.

	Rs.		Rs.
Six month's credit sales	2,387	Stock December 31, 1988	1,121
Return inwards	20	Debtors July 1, 1988	1,227
Cash received on Ledger accounts	2,384	Goods received from Head Office	2,178
Cash Sales	1,214	Rent, Taxes etc. paid	375
Stock July 1, 1988	720	Sundry Expenses	396
Bad Debts	100		

(Answer: Net Profit Rs. 933; Missing Figure; Closing Debtors Rs. 1,110)

- 3) Royal Store of Kanpur opened a selling branch at Madras on July 1, 1988. Goods are sent to branch from the head office at cost plus 25%. The branch is advised to deposit cash every day in the bank in head office account. From the following particulars, prepare Branch Account in the books of head office for the period ending December 31, 1988. Petty Cash at branch is maintained on imprest system.

	Rs.		Rs.
Cash sent to branch for meeting petty expenses	1,500	Cash sales by the branch	80,000
Furniture purchased for the branch	12,000	Credit sales during 6 months	30,000
Goods sent to branch at invoice price	1,60,000	Cash received from the debtors	22,000
Expenses paid by the Head Office :		Discount allowed to debtors	400
Rent	2,200	Goods returned by debtors (at invoice price)	800
Advertisement	800	Bad debts written off	100
Salaries	4,600	Petty expenses paid by the branch	1,000
Insurance (up to June 30, 1989)	400	Stock at invoice price on December 31 (excluding stock received from debtors)	40,000

Provide depreciation on furniture at 10% p.a.

(Answer: Profit Rs. 3,940; Debtors at the end Rs. 6,700)

- 4) X Ltd. of Bombay has a branch in Delhi. The head office sends goods to the branch at cost plus 50%. From the following data, prepare the necessary accounts in the books of head office under Stock and Debtors System.

	Rs.		Rs.
Goods sent from Head Office (at invoice price)	50,000	Credit Sales	8,000
Returns to Head Office	1,000	Opening Stock	10,000
Cash Sales	35,500	Closing Stock	11,000

(Answer: Profit Rs. 11,500; Shortage of Goods Rs. 4,500)

- 5) Shyam Brothers of Delhi has a branch at Hyderabad. In order to maintain strict control over stocks, it invoices goods to the branch at selling price including profit of 25% on selling price. From the following particulars, prepare Branch Stock Account, Branch Debtors Account, Goods Sent to Branch Account, Branch Adjustment Account, and Branch Profit and Loss Account.

	Rs.
Stock January 1, 1989	30,000
Debtors on January 1, 1989	22,800
Goods invoiced to Branch at invoice price	1,34,000
Sales at the branch	
Cash	62,000
Credit	74,800
Cash received from Debtors	80,000
Bad Debts written off	500
Discount allowed to customers	600
Expenses at the branch	13,400
Stock on December 31, 1989	26,800

(Answer: Gross Profit Rs. 34,200; Net Profit Rs. 19,400)

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.

UNIT 2 BRANCH ACCOUNTS – II

Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Accounting System of an Independent Branch
- 2.3 Some Peculiar Items
 - 2.3.1 Goods in Transit
 - 2.3.2 Cash in Transit
 - 2.3.3 Head Office Expenses Chargeable to Branch
 - 2.3.4 Depreciation on Branch Fixed Assets, Accounts Maintained by Head Office
 - 2.3.5 Inter-branch Transactions
- 2.4 Incorporation of Branch Trial Balance in the Head Office Books
 - 2.4.1 Detailed Incorporation
 - 2.4.2 Abridged Incorporation
- 2.5 Closing Entries in Branch Books
- 2.6 A Comprehensive Illustration
- 2.7 Let Us Sum Up
- 2.8 Key Words
- 2.9 Answers to Check Your Progress
- 2.10 Terminal Questions/Exercises

2.0 OBJECTIVES

After studying this unit you should be able to:

- describe the features of the accounting system of an independent branch.
- make adjustment entries in the books of both head office and branch for certain peculiar items relating to independent branches
- pass necessary journal entries for the incorporation of branch balances in the books of the head office
- make closing entries in the books of the branch
- prepare consolidated balance sheet of the business.

2.1 INTRODUCTION

In Unit 1 you learnt about the systems of accounting for a dependent branch. Dependent branch is usually a small branch which merely functions as a sales depot. It does not keep full system of accounting. The main accounting records for such branches are maintained at the head office level. But, when a branch functions as an independent unit and enjoys certain amount of operational autonomy, it keeps full system of accounts. Such branches are termed as independent branches and maintain complete set of books on double entry system. They prepare their own Trial Balance, Profit & Loss Account and Balance Sheet. At the end of the accounting year, their summarised results and the assets and liabilities are incorporated in the books of the head office. In this unit you will learn how does the head office incorporate all branch balances in its books and what sort of records are maintained for mutual transactions between the branch and the head office.

2.2 ACCOUNTING SYSTEM OF AN INDEPENDENT BRANCH

You know an independent branch enjoys certain amount of operational autonomy. Besides receiving goods from the head office, it may also purchase goods from the outside parties. It maintains its own bank account and remits money from time to time to head office as per the instructions of the head office. It is treated as a separate accounting entity. The main features of the accounting system of such branches are as follows: