

BRANCH ACCOUNT

1. INTRODUCTION:

A large concern may have a main office (Head office or H.O) and many local offices (branches) indifferent cities. A branch is a local office which is a part of a large business concern. Branches are opened to increase a sale in various areas which cannot be directly served from H.O. invests funds to set up and run the branches. The profit of the branch belongs to the H.O.

The basic purpose of branch accounting is to ascertain the branch income, branch expenses, branch assets and branch liabilities. The branch accounts help the H.O. to decide whether a particular branch is earning profits and should be continued.

An independent branch keeps all accounts on its own and can independently ascertain its income, expenses, assets and liabilities. In case of a dependent branch, its accounts are kept by the H.O. and hence its income, expenses, assets and liabilities can be ascertained only by the H.O.

Branches are also classified into different types based upon their location method of accounting, method of pricing goods sent by H.O. to branches and so on.

2. DEPENDENT BRANCH:

1. Features:

- I. **Meaning:** A branch is said to be dependent when its accounting is done at the H.O. i.e. the branch income, branch expenses, branch assets and branch liabilities are ascertained at the H.O.
- II. **Goods:** H.O sends goods to the DB, either at cost or invoice price. DB sells goods supplied by the H.O. only. DB sells goods to customers at prices fixed by H.O. either for cash or on credit as directed by the H.O. excess goods may be sent back to H.O. by the branch. Some branch customers may return the goods either to the branch or directly to the H.O. there may be transfer of goods among different branches under instructions of the H.O.
- III. **Cash:** H.O. sends cash to the branch for its petty expenses. Branch petty cash may be kept on impress system. Major expenses are met by the H.O. directly.
- IV. **Accounts:** the branch keeps only memorandum accounts of petty cash, debtors, creditors, stock etc. to ascertain day-today balances and to prevent fraud or theft of cash or stock. The branch sends to the H.O. a periodical statement giving summary of such memorandum accounts. These details help the H.O. in updating the branch

accounts kept at H.O. other direct transactions by H.O. such as goods/cash send/ received by H.O. are also recorded in the branch accounts kept by H.O.

Distinction between branch and departmental A/c.

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 are maintained one place only.
2. allocation of common expenses	No allocation problem arises since the expenses in respect of each branch can be identified.	Common expenses are distributed among the 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 foreign currency figures	At the time of finalization of accounts, conversion of figures of foreign branch is necessary.	No such problem arises in departmental accounts.

GOODS SENT AT COST:

1. Branch account to record the transactions between the H.O. and branch. The branch is treated as a debtor of the H.O. for accounting purpose. Therefore, entries in this a/c follow the rule: debit the receiver and credit the giver, i.e. branch A/c debited for the items received by it and credited for the items given back to H.O. by it.
2. Goods sent to Branch account to records all transactions of goods with the branch. It should be noted that when goods are send to a branch, it is not an actual sale but a mere transfer of goods.

ENTRIES – GOODS SENT ON COST

1	Goods sent to branch (a) by H.O. or (b) by another branch: Branch A/c To goods sent to branch A/c	Dr.
2	A. cash sent to branch or b. expenses of branch met by H.O. branch A/c	Dr.

	to cash/bank A/c	
3	Goods returned to H.O. (a) by branch or (b) by branch customers or (c) goods sent by this branch to another branch. Goods sent to branch A/c. To branch A/c	Dr.
4	Cash remitted to H.O. (a) by branch or (b) by branch customers: Cash/bank A/c To branch A/c	Dr.

FORMAT OF BRANCH ACCOUNT [GOODS SENT AT COST]

BOOKS OF HEAD OFFICE

Dr. Branch account Cr.

Particular	₹	Particular	₹
To balance of Br. Assets b/d:		By balance of Br. Liabilities b/d:	
<ul style="list-style-type: none"> • Stock • Debtors • Cash • Fixed assets • Pre-paid expenses 		<ul style="list-style-type: none"> • Creditors • Outstanding expenses 	
To goods sent to branch A/c		By goods sent to branch A/c	
<ul style="list-style-type: none"> • Sent to Br. By H.O. • Sent to Br. By another Br. 		<ul style="list-style-type: none"> • Returned to H.O. by Br. • Returned to H.O. by Br. Customers • Sent to another Br. 	
To cash/bank A/c		By cash/bank A/c	
<ul style="list-style-type: none"> • Creditors • Outstanding expenses 		<ul style="list-style-type: none"> • Remitted to H.O. by Br. • Remitted to H.O. by Br. customers 	
By net profit tfd. To P&L A/c (balance figure)		By balance of Br. Assets C/d:	
		<ul style="list-style-type: none"> • Stock • Debtors • Cash • Fixed assets • Pre-paid expenses 	
		By net loss tfd. To P&L A/c (balance figure)	

Notes:

1. Opening balance: the net opening balance of the branch A/c (assets – liabilities) indicates the amount due from the branch as a debtor of H.O. at the beginning of the year.
2. Debits: the branch A/c is debited for the goods/cash given by the H.O. to the branch.

3. Credits: the branch A/c is credited with the goods/cash received back from the branch.
4. Closing balance: the net closing balance of the branch A/c (assets – liabilities) indicates the amount due from the branch as a debtor of H.O. at the end of the year.
5. Balance-Dr. /Cr: after recording the above details, the branch A/c is now balanced.
6. Profit: if the credit total is more than the debit total, it indicates the profit made by the H.O. from that branch. This profit is transferred to the credit of the general P&L A/c. the profit arises because the total amount received back from the branch is more than the total amount sent to the branch.
7. **Loss:** if the debit total is more than the credit total, it indicates the loss made by the H.O. from that branch. This loss is transferred to the debit of the general P&L A/c. the loss arises because the total amount sent to the branch is more than the total amount received back from the branch.
8. **Transaction recorded:** the branch account is maintained in H.O. books by the H.O. and records only the transactions between the H.O. and the branch.
9. **Transaction not recorded:** the following direct transactions between the branch and the outsiders are **not recorded** by the h.O. in the branch a/c.
 - Cash transaction by branch with outsiders e.g. receipt from branch debtors, payments towards expenses, purchase of goods or fixed assets, creditors;
 - Credit transactions by branch with outsiders e.g. purchase or sales of goods or fixed assets by branch;
 - Adjustments by branch with its debtors e.g. discount allowed, bad debts, goods returned by debtors to branch etc.
 - Depreciation, profit/loss on sale of fixed assets.
 - Abnormal losses e.g. loss of stock/fixed asset in fire etc.

10. **Missing figures:** the figures of opening/closing balances of branch assets and liabilities are normally given in an examination problem. If not so given, these have to be ascertained by preparing memorandum ledger accounts of concerned items such as branch stock, branch cash, branch debtors, branch fixed assets etc. such accounts will record all transactions by the branch whether with the H.O. or with outsiders, and adjustments such as bad debts, depreciation etc. the balancing figure of such account will indicate the amount of the missing item.

Illustration 1: (basic)

Hari is having his head office at Mumbai and branch office at Nasik. Prepare the branch account in the books of the head office from the following transactions with the branch:

Particular	₹	Particular	₹
Opening balance at branch:		Amounts remitted to the branch for:	
• Petty cash	1000	• Petty cash expenses	4,000

• Stock	39,500	• Salary	12,000
• Debtors	21,000	• Rent and taxes	3,500
Goods supplied to branch during the year	3,10,000	Closing balance at branch:	
Amounts remitted by the branch:		• Petty cash	950
• Cash sales	1,13,200	• Stock	53,000
• Realization from debtors	2,30,300	• Debtors	26,500

Illustration 2: (first year/ new branch)

Babubhai of Mumbai opened a branch at Nasik on 1st January 2013. During the year ended 31st December 2013, the following transaction have taken place -

Goods sent to Nasik		60,000
Cash sent to Nasik		5,000
Goods returned from Nasik		6,000
Cash received from Nasik		58,000
Rent for branch paid by head office		3,000
Expenses paid by branch:		
• Salaries	6,000	
• Conveyance	500	
• postage	500	
• carriage	400	7,400

Discount allowed to customers was ₹ 800. Sales on credit amounted to ₹ 68,000. Cash sales amounted to ₹ 8,000. On 31st December, 2013. Stock worth ₹ 6,000 was at branch. ₹ 5,000 was due from debtors and cash on hand was ₹ 1,000.

Show branch account in the books of babubhai.