

# ADVANCED ACCOUNTING

## 3<sup>rd</sup> SEMESTER

**TOPIC:**

# BRANCH ACCOUNTS methods of accounting , Recording of transaction

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# **Maintaining Accounts of an Independent Branch**

## **Procedure for Maintaining Accounts of an Independent Branch!**

Independent Branch, like the Head Office, keeps all its records separately and independently on Double Entry System. Dependent Branches are those with little power and depend on Head Office for their supplies and expenses and is like a Minor Son.

**Accounting Entries, in the books of Branch, for Normal Transactions**

1. Purchases made at Branch	Purchase Account To Cash/Creditors Account	Dr.
2. Sales effected at Branch	Cash/Debtors Account To Sales Account	Dr.
3. Payment of expenses at Branch	Expenses Account To Cash Account	Dr.
4. Any income received by the Branch	Cash/Bank Account To Concerned Income Account	Dr.

**Accounting Entries for Transactions between Branch and Head Office**

	<i>Branch Book</i>	<i>Head Office Book</i>
1. Goods supplied to Branch by Head Office	Goods Supplied by Head Office A/c                      Dr. To Head Office A/c	Branch Account                      Dr. To Goods Supplied to Branch Account
2. Cash received from Head Office	Cash Account                      Dr. To Head Office A/c	Branch Account                      Dr. To Bank Account
3. Goods returned to Head Office by Branch	Head Office A/c                      Dr. To Goods Supplied by Head Office A/c	Goods Supplied to Branch A/c To Branch Account                      Dr.
4. Cash sent to Head Office by Branch	Head Office Account              Dr. To Cash Account	Bank Account                      Dr. To Branch Account
5. When asset purchased by Branch and the Asset Account is kept by Head Office	Head Office Account              Dr. To Cash Account	Branch Asset Account              Dr. To Branch Account
6. Depreciation for the above	Depreciation A/c                      Dr. To Head Office A/c	Branch Account                      Dr. To Branch Asset A/c
7. Head Office expenses chargeable to Branch	Expense Account                      Dr. To Head Office A/c	Branch Account                      Dr. To Profit & Loss A/c

Independent Branches are those which make purchases from outside, get goods from Head Office, supply goods to Head Office and fix the selling price by itself. Thus an independent Branch enjoys a good amount of freedom like an American Son.

In the books of Sending Branch	Head Office Account <span style="float: right;">Dr.</span> To Goods Supplied Account
In the books of Receiving Branch	Goods Received Account <span style="float: right;">Dr.</span> To Head Office Account
In the books of Head Office	Receiving Branch Account <span style="float: right;">Dr.</span> To Sending Branch Account

## *Characteristics of an Independent Branch:*

1. Independent Branch keeps a complete set of books. Such Branch gets goods from Head Office and from outside parties. It has its own Bank Account. Thus, the Branch keeps full system of accounting.
2. It prepares its own Trial Balance, Trading and Profit and Loss Account and Balance Sheet. Copies of these statements are sent to Head Office for incorporating in the Head Office Books.

3. The books contain an Account called “Head Office Account” or “Head Office Current Account” which is credited with everything received from the Head Office and debited with everything sent to Head Office. That is, all transactions relating to Head Office are recorded in this Account. The Head Office Current Account is thus a Proprietorship Account (i.e. Capital Account).

In-spite of the independent status, the Branch cannot function without resources, and the resources, specially at the initial stage, are provided by the Head Office. Thus, the investments made by the Head Office seen from the Head Office Account are a personal Account in nature. Similarly, the Head Office in its books opens an Account “Branch Current” Account, which is also a running account between the Branch and the Head Office and incorporates all the transactions between Branch and the Head Office.



A special feature is that the Head Office Current Account in the books of Branch and Branch Current Account in the books of Head Office are maintained on a reciprocal basis.

The balance of these Accounts on any date will be equal to the difference between the assets and liabilities at the Branch on that date. The Branch Current Account in the Head Office books and Head Office Current Account in the Branch books show the same but opposite balance on a particular date.

4. There may be inter-branch transactions. That is, goods transferred by one Branch to another Branch of the same Head Office. Such entries have been explained later.

5. On receipt of the accounts and statements by the Head Office, the Head Office reconciles the balances, which is shown in Head Office Account in the Branch books with the Branch Account in Head Office books. Differences are reconciled. This is dealt with separately.

## ***Inter-Branch Transactions:***

When a Head Office has several Branches, transactions may take place among themselves and such transactions are known as inter-branch transactions. No branch need carry an account with any other Branch. Inter-branch transactions are treated as the transactions with the Head Office.

(a) Goods-in-transit	Goods-in-transit Account To Head Office Account	Dr.
(b) Cash-in-transit	Cash-in-transit Account To Head Office Account	Dr.

2. When goods or cash sent by Head Office are in transit, the following entries are to be passed:

(a) Goods-in-transit	Goods-in-transit Account To Branch Account	Dr.
(b) Cash-in-transit	Cash-in-transit Account To Branch Account	Dr.

Ordinarily, the balance shown by Branch Current Account in Head Office books is equal to the balance shown by Head Office Current Account in Branch books. The balances on these Current Accounts should be same, but in opposite sides, in both the set of books.

**The difference arises under the following circumstances:**

1. When a Branch sends goods or cash to the Head Office, an entry is made by the Branch in the Head Office Account. But the same is recorded in the Head Office books only on receipt of goods or cash.

For instance, the goods or cash sent by the Branch just before the closing of the accounting year may not reach the Head Office in the same accounting year.

Therefore, in the books of the Head Office, Branch Account is not credited but at the same time in the books of Branch, Head Office Account is debited. Thus difference between the two books arises.

2. Similarly, Head Office may send cash or goods to Branch. On sending them, the Branch Current Account is debited in the books of Head Office. The corresponding entry is not passed in the Branch books, if the items are not received by them.

In this way, goods or cash sent by Head Office to Branch or Branch to Head Office and have not been received by the recipient, are known as in-transit.

## When goods or cash sent by the Branch are in transit, the following entries are to be passed:

### (a) Items Relating to Trading and Profit and Loss Account

1.	Branch Trading Account To Branch Account (Being incorporation of Opening Stock, purchases, goods from Head Office, carriage etc. from Branch Trial Balance)	Dr.	
2.	Branch Account To Branch Trading Account (Being incorporation of Sales less returns, Closing Stock etc. from Branch Trial Balance)	Dr.	
3. (a)	Branch Trading Account To Branch Profit & Loss Account (Being transfer of gross profit)	Dr.	
(b)	Branch Profit and Loss Account To Branch Trading Account (Being transfer of gross loss)	Dr.	
4.	Branch Profit and Loss Account To Branch Account (Being incorporation of Salaries, Rent, and similar items)	Dr.	
5.	Branch Account To Branch Profit and Loss Account (Being incorporation of Branch incomes)	Dr.	
6. (a)	Branch Profit and Loss Account To General Profit and Loss Account (Being transfer of Net Profit)	Dr.	
(b)	General Profit and Loss Account To Branch Profit and Loss Account (Being transfer of Net Loss)	Dr.	



The above said entries remain in the books for a short period or till the arrival of cash in transit or goods. When the in-transit goods or cash is received by the recipient, the entries made should be reversed and thus Transit Account is closed.

### **Incorporation of Branch Trial Balance in Head Office Books:**

When the Branches are dependent, the accounting for such Branches is done at Head Office itself and therefore the incorporation of Branch results is relatively simple.

The profit is transferred from Branch Account, under Debtors System or Branch Adjustment Account, under Stock Debtors System to General Profit and Loss Account. Independent Branch, which has its own accounting system 'prepares a Trial Balance and sends a copy of it to the Head Office.

After the receipt of Trial Balance from Branch, Head Office passes incorporating entries in order to prepare Branch Trading and Profit and Loss Account and a combined Balance Sheet.

With the help of Branch Trial Balance Head Office records in its books regarding Branch; this process is known as Incorporation of Branch Trial Balance.

**There are two ways:**

**(A) Incorporation of all the Items in Trial Balance:**

**The items are divided into two parts:**

- (a) Items relating to Trading and Profit and Loss Account
- (b) Items relating to Balance Sheet.

**(a) Items Relating to Trading and Profit and Loss Account**

1.	Branch Trading Account To Branch Account (Being incorporation of Opening Stock, purchases, goods from Head Office, carriage etc. from Branch Trial Balance)	Dr.	
2.	Branch Account To Branch Trading Account (Being incorporation of Sales less returns, Closing Stock etc. from Branch Trial Balance)	Dr.	
3. (a)	Branch Trading Account To Branch Profit & Loss Account (Being transfer of gross profit)	Dr.	
(b)	Branch Profit and Loss Account To Branch Trading Account (Being transfer of gross loss)	Dr.	
4.	Branch Profit and Loss Account To Branch Account (Being incorporation of Salaries, Rent, and similar items)	Dr.	
5.	Branch Account To Branch Profit and Loss Account (Being incorporation of Branch incomes)	Dr.	
6. (a)	Branch Profit and Loss Account To General Profit and Loss Account (Being transfer of Net Profit)	Dr.	
(b)	General Profit and Loss Account To Branch Profit and Loss Account (Being transfer of Net Loss)	Dr.	

By passing the above six journal entries, the Head Office prepares the Branch Trading and Profit and Loss Account.

**If the Head Office desires to close the Branch book by incorporating the assets and liabilities of the Branch, the following two more entries should be passed:**

**(b) Items Relating to Balance Sheet**

7.	Branch Cash Account	Dr.	
	Branch Furniture Account	Dr.	
	Branch Stock Account	Dr.	
	Branch Asset Account	Dr.	
	To Branch Account		
	(Being incorporation of various assets from Branch Trial Balance)		
8.	Branch Account	Dr.	
	To Branch Liabilities Account		
	(Being incorporation of various liabilities from Branch Trial Balance)		

After passing all these eight entries, total of debit side of Branch Account will be equal to total of credit side Branch Account and thus the Branch Account in Head Office books will be automatically balanced. That is, if the branch assets and liabilities are incorporated, the Branch Account in Head Office books prepared after adjustments and incorporating will leave no balance.

If the Branch assets and liabilities are not incorporated, the Branch Account in Head Office books prepared in the above manner will leave a closing balance equal to net assets (Assets less liabilities) as on the closing date.

### **(B) Incorporation of Net Profit/Loss, Liabilities and Assets of Branch:**

Instead of transferring all the items, the Branch may prepare a Trading and Profit and Loss Account and only the Net Profit or Loss may be transferred to Head Office with or without assets and liabilities.



If the assets and liabilities are transferred, the Head Office will leave no balance. If, however, the assets and liabilities are not transferred, there will remain a balance in Head Office Account equal to net assets. At the time of preparing consolidated Balance Sheet, however, this account is substituted by Branch assets and liabilities.

1. To transfer the assets	Branch Assets Account To Branch Account Dr.
2. To transfer the liabilities	Branch Account To Branch Liabilities Account Dr.
3. To transfer the profit	Branch Account To General Profit & Loss Account Dr.
Reverse entry for loss	

# Preparing Branch Accounts

## *(1) 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.

***(2) 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.

### *(3) 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.

#### ***(4) 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.

#### ***(5) 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.

### ***6) 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.

### *(7) 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.

**(8)** 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.

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.

THANK YOU