

BRANCH ACCOUNTING

MEANING OF BRANCH ACCOUNT

Branch Accounting is a system in which separate books of accounts are maintained for each branch. These branches are divided as per geographical locations and each branch has its own profit center and cost center. In this accounting system, separate Trial Balance, Profit & loss statement and balance sheet are prepared by each branch.

Types of Branch

1 – Dependent Branch

Dependent branches are those branches that do not maintain separate books of accounts completely, their profit & loss statement and Balance sheets are collectively maintained by the Head office only. Only a few information has been maintained by branches separately like Cash Accounting, Debtors Accounting, and Inventory.

2 – Independent Branch

Independent branches are those branches which maintain separate books of accounts completely and their profit & loss statement and Balance sheets are maintained separately from their Head office. In this case, Head office and Branches are treated separate entity.

E.g. – If Head Office sending material to its branch then the Head office will record sales in the HO book and raise an invoice in the name of branch and branch will record this as purchase in branch books of accounts.

- ❖ Advantages of Branch Accounting
- ❖ It helps to ascertain the Profit & Loss of each Branch
- ❖ It helps to know the debtors, Inventory and cash position of each branch
- ❖ It helps to ascertain the wages, Rent, Salary and other expenses of each branch separately.
- ❖ Separate accounting of each branch helps to take decisions according to branch requirements.
- ❖ By Separate branch accounting, it is easy to track the progress and performance of each branch.
- ❖ It helps to control the overall branch operation.

Disadvantages of Branch Accounting

- ❖ Due to a separate account for each branch, it requires more manpower.
- ❖ It requires a separate branch manager for each branch
- ❖ It requires separate infrastructure at each location or unit
- ❖ It increases the expenses of the company because of a separate set up at each location.

- ❖ In this accounting system, there is a chance of delay in decision making because of multiple authority.
- ❖ In this accounting system, there is a chance of Mismanagement because of decentralized operation and minimum control of the Head office.

Important journal entries of this method are as follows:

Common Journals for both cost and invoice price transactions:

Transactions	Journals
For goods sent to branch.	Branch Stock A/c... Dr. To Goods sent to branch A/c
For cash sent to branch by H.O.	Branch Cash A/c... Dr. To Bank A/c
For cash sales at branch.	Bank A/c... Dr. (Money remitted directly to H.O) Branch Cash A/c... Dr. (Money remitted through branch) To Branch Stock A/c
For credit sale at branch.	Branch Debtors A/c...Dr. To Branch Stock A/c
When goods returned by the branch to the H.O.	Goods sent to branch A/c... Dr. To Branch Stock A/c
For goods returned by the customer to the branch.	Branch Stock A/c... Dr To Branch Debtors A/c
For collection from debtors.	Bank A/c...Dr. Branch Cash A/c... Dr. To Branch Debtors A/c
For discount, allowance & bad debt.	Branch P/L A/c..... Dr. To Branch Debtors A/c
For branch expenses.	Branch Expenses A/c.....Dr. To Bank A/c To Branch Cash A/c
For cash remittance to H.O.	Bank A/c... Dr. To Branch Cash A/c

For purchase of assets at branch.	Branch Asset A/c... ..Dr. To Bank A/c To Branch Cash A/c
For depreciation on branch assets.	Branch P/L A/c..... Dr. To Branch Asset A/c

Additional journals for invoice price transactions:

Transactions	Journals
To reduce the load on the price of Opening Stock.	Stock Reserve A/c... ..Dr. To Branch Stock Adjustment A/c
To reduced load on goods sent to branch.	Goods Sent to branch A/c..... Dr. To Branch Stock Adjustment A/c
To reduced load on goods returned to H.O.	Branch Stock Adjustment A/cDr. To Goods sent to branch A/c
To reduced load on Abnormal loss.	Branch Stock Adjustment A/c..... Dr. To Abnormal loss A/c
To reduce the load on the price of Closing Stock.	Branch Stock Adjustment A/c Dr. To Stock Reserve A/c
For Normal loss.	Branch Stock Adjustment A/c Dr. To Branch Stock A/c
For Apparent Profit.	Branch Stock A/c Dr. To Branch Stock Adjustment A/c

For opening and closing balances of different accounts no separate entry is needed to be made. The balances are to be recorded as “ To Balance B/D or By Balance B/D” for opening and “ By balance C/D or To Balance C/D” for closing values in the corresponding accounts.

Branch Stock Adjustment Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Goods sent to branch A/c (load on goods return)		***		By Stock Reserve A/c(Load on Op. Stock)		***
	To Branch Stock A/c (Normal loss)		***		By Goods sent to Branch A/c (load on goods sent)		***
	To Abnormal Loss A/c(load on abnormal loss)		***		By Branch Stock A/c(Apparent profit)		***
	To Branch P/L A/c (gross profit Transfer)		***				
	To Stock Reserve A/c (load on Cl. Stock)		***				
			****				****
			****				****

- In case of transaction at invoice price:** Like gross profit in the debit side of branch stock adjustment account, gross loss may arise in the credit side. In that case branch stock adjustment account will be credited by Branch P/L account.

Goods sent to branch A/c

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Branch Stock A/c (goods return to H O)		***		By Branch Stock A/c(Goods Sent)		***
	To Branch Stock Adjustment A/c (load on goods sent)		***		By Branch Stock Adjustment A/c (load on goods return)		***
	To Purchase A/c(Transfer)		***				
			****				****
			****				****

Abnormal Loss A/c

Dr.

Cr.

Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Branch Stock A/c(Gross loss)		***		By Bank A/c (Claim received)By Branch Stock Adjustment A/c (load on gross loss)		***
			***		By branch P/L A/c(actual loss) (balancing figure)		***
			****				****

Examples:

Problem 1:

The Bombay Trading Company sent goods to its Delhi branch at cost. Branch cash account is maintained by the branch to perform all cash transactions. Following is a transaction summary entered into at the branch during the year ended 31.12.2019.

Stock on January 1, 2019	Rs.7000	Goods returned by customers	Rs. 500
Debtors on January 1,2019		Salaries & Wages	Rs. 6200
	Rs.1260	Rent & Rates	Rs. 1200
0Cash on January 1, 2019	Rs. 200	Sundry expenses	Rs. 800
Goods sent to branch	Rs. 26000	Collection from debtors	Rs. 28500
Goods returned to H. O.	Rs. 1000	Stock on Dec 31, 2019	Rs. 6500
Cash sales	Rs. 17500	Debtors on Dec 31, 2019	Rs. 9800
Credit Sales	Rs. 28400	Cash on Dec 31, 2019	Rs. 100
Allowances to customer	Rs. 200		
Discount to customers	Rs. 1400		
Bad debts	Rs. 600		

Prepare necessary accounts in the books of H.O. under Analytical Method.

Solution:

In the books of Bombay Trading Company
(H.O.) Branch Stock Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.1	To Balance B/D		7000	31.12	By Branch Cash A/c(Cash sales)		17500
31.12	To Goods sent to branch A/c (goods sent to branch)		26000	31.12	By Branch Debtors A/c(credit sales)		28400
31.12	To Branch Debtors A/c(sales return)		500	31.12	By Goods sent to branch A/c (goods return to H.O.)		1000
31.12	To Branch P/L A/c (gross profit transfer)		19900		By Balance C/D		6500
	(balancing figure)			31.12			
			53400				53400

Branch Debtors Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.1	To Balance B/D		12600	31.1	By Branch Cash A/c(collection from debtors)		28500
31.1	To Branch Stock A/c(Credit sales)		28400	2	By Branch P/L A/c		
				31.1	- Allowances		200
				2	- Discounts		1400
					- Bad debts		600
					By Branch Stock A/c(Sales return)		500
				31.1	By Balance C/D		
				2			
				31.12			9800
			41000				41000

Branch Cash Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.1	To Balance B/D		200	31.1 2	By Bank A/c (Cash remitted to H.O) (Balancing figure)		37900
31.1 2	To Branch Stock A/c(Cash sales)		17500	31.1 2	By Branch Exp. A/c - Salaries Wages - Rent & Rates - Sundry Exp.		6200
31.1 2	To Branch Debtors A/c (Collection from debt.)		28500				1200
					By Balance C/D		800
				31.12			100
			46200				46200

Branch Expenses A/c

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.12	To Branch Cash A/c - Salaries Wages - Rent & Rates - Sundry Exp.		6200 1200 800	31.12	By Branch P/L A/c(Transfer)		8200
			8200				8200

Branch P/L Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.1 2	To Branch Exp. A/c(Expenses transfer)		8200	31.1 2	By Bank Stock A/c (gross profit transfer.)		19900
31.1 2	To Branch Debtors A/c - Allowances - Discounts - Bad debts		200 1400 600				
31.1 2	To General P/L A/c (Net profit transfer)		9500				
			19900				19900

Problem 2:

Romit Ltd. Has a branch at Karnojora, where it sends goods at cost plus 50%. From the following particulars regarding the branch, Prepare necessary accounts in the books of head office.

Stock at cost (1.04.2019)	Rs.20000	Bad debt	Rs.200
Debtors (1.04.2019)	Rs. 18000	Sales Return to branch	Rs. 3000
Cash (1.04.2019)	Rs. 5000	Branch expenses paid by H.O.	Rs.
Goods sent to branch at I.P.	Rs.	10000Cash remitted to H.O.	Rs.
99000Cash Sales	Rs.	80000	
27000		Csah (31.03.2020)	Rs. 6000
Credit Sales	Rs.79000	Stock at I.P. (31.03.2020)	Rs. 27000
Normal Loss at cost	Rs. 2000	Debtors (31.03.2020)	Rs. 30000

** I.P.= Invoice Price.

Solution:

As the problem is a problem of invoice price, we need to make entries at invoice price. Thus all transactions given at cost price are to be translated in to invoice price. After making entries at invoice price we have to reduce load on invoice prices at Branch Stock Adjustment Account.

Invoice price = Cost * 150% Or Invoice price = Cost +(Cost * 50%)

- I.P. of Opening Stock= Rs.20000*150%= Rs.30000
- I.P. of Normal Loss= Rs.2000*150%= Rs.3000

In the books of Romit Ltd.(H.O.)
Branch Stock Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.04	To Balance B/D		30000	31.03	By Branch Cash A/c(Cash sales)		27000
31.03	To Goods sent to branch A/c (goods sent to branch)		99000	31.03	By Branch Debtors A/c(credit sales)		79000
31.03	To Branch Debtors A/c(sales return)		3000				
31.03	To Branch Stock Adjustment A/c (Apparent Profit) * (balancing figure)		4000	31.03	By Branch Stock Adjustment A/c (Normal loss)		3000
					By Balance C/D		27000
			136000				136000

* As Normal loss is given in the problem and branch stock account reflects a debit balance, So it is treated as Apparent profit.

Branch Stock Adjustment Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.03	To Branch Stock A/c(Normal loss)		3000	31.03	By Stock Reserve A/c(Load on Op. Stock) (30000*50/150)		10000 ***
31.03	To Branch P/L A/c (gross profit Transfer) (Balancing Figure)		35000	31.03	By Goods sent to Branch A/c (load on goods sent) (99000*50/150)		33000 4000
31.03	To Stock Reserve A/c(load on Cl. Stock) (27000*50/150)		9000	31.03	By Branch Stock A/c(Apparent profit)		
			47000				47000

Branch Debtors Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.04	To Balance B/D		18000	31.03	By Branch Cash A/c(collection from debtors) (balancing figure)		63800
31.03	To Branch Stock A/c(Credit sales)		79000	31.03	By Branch P/L A/c - Bad debts		200
				31.03	By Branch Stock A/c(Sales return)		3000
				31.03	By Balance C/D		30000
			97000	31.03			97000

Branch Cash Account **

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
1.04	To Balance B/D		5000	31.03	By Bank A/c (Cash remitted to H.O)		80000
31.03	To Branch Stock A/c(Cash sales)		27000				9800
31.03	To Branch Debtors A/c(Collection from debt.)		63800	31.03	By Branch Exp. A/c(Expenses paid by <u>Branch</u>) (Balancing figure)By		6000
			95800	31.03	Balance C/D		95800

Branch Expenses A/c

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.03	To Branch Cash A/c(Expenses paid by Branch)		9800	31.03	By Branch P/L A/c(Transfer)		19800
	To Bank A/C (Expenses paid by H.O)		10000				
			19800				19800

Branch P/L Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
31.12	To Branch Exp. A/c (Expenses transfer)		19800	31.12	By Bank Stock A/c (gross profit transfer.)		35000
31.12	To Branch Debtors A/c - Bad debts		200				
	To General P/L A/c (Net profit transfer)		15000				
31.12			35000				35000

** As cash sent to H.O, Opening and Closing Balances of cash are given in the problem so, Branch Cash Account is prepared to identify expenses paid by the branch.

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