

FINANCIAL ACCOUNTING-II      CHDC 3 & CGDC 3

UNIT -1

BRANCH ACCOUNTING

**Branch:** Branch may be defined as an establishment that carried on either the same or substantially the same activity as that carried on by the Head Office. In other word it is the extension of current business to mitigate the geographical barrier. It performs operation as directed by the head office.

Though branch is a separate establishment but it has no separate legal identity. It is a representative of existing business (i.e. Head Office.)

**Classification of Branch:** branch can be classified on the basis of two broad categories. (i) On the basis of control and (ii) On the basis of location.

On the basis of control: on the basis of control it is divided into two parts.

Dependent Branch: it is a branch in respect of which books of accounts are prepared and maintained by the head office. Branches may be operated in the following manner.

- (a) A branch set up merely for booking order. such a branch transmits only orders to the head office.
- (b) A branch established at commercial center for wholesale of goods supplied by the head office, and under its direction all collections are made by the head office.
- (c) A branch for retail sale of goods.

Independent Branch: It is a branch that prepares and maintains its books of accounts independently.

On the basis of location: on the basis of location it is divided into two parts.

Domestic Branch: Branches that locate at different places or cities with in the same country where the head office is situated are known as domestic branch.

Foreign branch: Branches located at different places of different countries are called foreign branch.

Methods of charging goods to branches: goods may be invoiced to branches either at cost or at invoice price (cost+ certain percentage of profit). Goods may be invoiced at invoice price on the following reasons.

- (a) To hide the cost price from competitors, if possible.

- (b) When it is not considered desirable to disclose to the branch manager the profit made by the branch. Etc.

### METHODS OF BRANCH ACCOUNTING

For accounting of branch three methods or system are followed. (i) Synthetic Method, (ii) Analytical Method or Stock and Debtors Method, (iii) Final Account Method or Trading and Profit or Loss Account Method.

○ **Synthetic Method:**

**When goods sent at cost price or invoice price (Common adjustments):**

under this method opening balances stock, debtors, petty cash, other current assets (if any) are debited to the branch account. Opening balances of Creditors, outstanding expenses (if any) are credited to the branch account.

The cost of goods sent to the branch as well as expenses (salary, wages, rent etc.) of the branch paid by the head office are also debited to it. On the other hand, amounts remitted by the branch on account of sale, goods returned by the branch to the head office, abnormal loss etc. are credited to the branch account.

Closing balances of stock, debtors, petty cash, other assets (if any) are credited to the branch account and the same balances of creditors, outstanding expenses (if any) are debited to the it.

Along with the branch account Memorandum Debtors Account and Memorandum Petty cash Account are opened to find out different relevant missing figures. In many cases without the help of these missing figures branch account cannot be prepared. (Examples: opening closing balances of debtors, petty cash, collection from debtors, cash sent by head office to branch etc.)

**When goods sent at invoice price (Additional adjustments):**

When goods sent at invoice price to reduce load (unrealised profit) on the prices of different items few special adjustments are done.

To reduce load on invoice price of opening stock, Stock reserve account is credited to branch account. Conversely, Sock reserve account is debited to branch account for reduction of load on invoice price of closing stock. In order to reduce load on invoice price of goods sent, Goods sent to branch account is credited to branch account. For load on invoice price of goods returned by branch and abnormal loss, opposite postings of the original postings are to be made in to the branch account.

Cash sent to branch on account of sale = Cash sales + Collection from debtors. Under this method while preparing branch account total sales (cash sales + credit sales) is not taken into consideration. Credit sale is used to identify different missing figures (if any) from memorandum branch debtor account.

## Journals under Synthetic Method (In the books of Head Office)

○ Common entries (Goods sent at cost price or invoice price) :

1. Goods sent to branch by the head office.	<b>Branch A/c.....Dr. To Goods sent to branch A/c</b>
2. Cash sent to branch by head office for meeting different expenses.	<b>Branch A/c.....Dr. To Bank/Cash A/c</b>
3. Cash remitted by branch to head office on account of sale.	<b>Bank/Cash A/c.....Dr. To Branch A/c</b>
4. Goods returned by branch to the head office.	<b>Goods sent to branch A/c.....Dr. To Branch A/c</b>
5. Abnormal loss in the branch.	<b>Abnormal Loss A/c.....Dr. To Branch A/c</b>
6. Claim received from insurance company on account of abnormal loss.	<b>Bank/Cash A/c.....Dr. To Abnormal Loss A/c</b>
7. Actual loss due to abnormal loss. ( Value of 5-6)	<b>General P&amp;L A/c.....Dr. To Abnormal Loss A/c</b>

○ Additional entries (Only if goods sent at invoice price):

1. To reduce load on opening stock.	<b>Stock Reserve A/c.....Dr. To Branch A/c</b>
2. To reduce load on goods sent to branch by the head office.	<b>Goods sent to branch A/c.....Dr. To Branch A/c</b>
3. To reduce load on goods returned by branch to the head office.	<b>Branch A/c.....Dr. To Goods sent to branch A/c</b>
4. To reduce load on abnormal loss in the branch.	<b>Branch A/c.....Dr. To Abnormal Loss A/c</b>
5. To reduce load on closing stock.	<b>Branch A/c.....Dr. To Stock Reserve A/c</b>

**Formats of Branch Account, Memorandum Debtors Account & Memorandum**

**Petty cash Account:**

In the books of Head Office (H.O.)

..... Branch Account

Dr.

Cr.

PARTICULARS	RS.	RS.	PARTICULARS	RS.	RS.
To Balance B/D			By Balance B/D		
- Stock	***		- Creditors	***	
- Debtors	***		- O/s expenses	***	
- Petty cash	***		-		****
- Other assets (if any)		****	By Stock Reserve A/c (load on Op. stock)		****
To Goods sent to branch A/c (Goods sent to branch)		****	By Bank A/c		
To Bank A/c (Cash sent to branch)		****	- Cash sales	***	
To Goods sent to branch A/c (load on goods returned to H.O.)		****	- Collection from debtors	***	
To Abnormal Loss A/c (load on abnormal loss)		****	(Cash remitted by branch)		****
To General P/L A/c (Branch profit transfer)		****	By Goods sent to branch A/c (goods returned to H.O)		****
To Stock Reserve A/c (load on Cl. stock)		****	By Abnormal Loss A/c		****
To Balance C/D			By Goods sent to branch A/c (load on goods sent to branch)		****
- Creditors	***		By General P/L A/c (Branch loss transfer)		****
- o/s expenses	***		By Balance C/D		
		****	- Stock	***	
		*****	- Debtors	***	
			- Petty cash	***	
			- Other assets (if any)	***	
					****
					*****

- Common entries.

- Additional entries in case of invoice price.

### Memorandum Branch Debtors Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Balance B/D		***		By Bank A/c (collection from debtors)		***
	To Sales A/c (Credit sales)		***		By Bad Debts A/c		***
					By Discount		***
					Allowed A/c		
					By Return in ward A/c		***
					By Allowance A/c		***
					By Balance C/D		***
			****				****

### Memorandum Petty Cash Account

Dr.				Cr.			
Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Balance B/D		***		By Petty Expenses A/c (branch expenses)		***
	To Bank A/c (Cash remitted by H.O)		***				
					By Balance C/D		***
			****				****

- May be identified in different problems (Possible missing figures).

Problem:

1. Roy & Co. Kolkata has a branch at Guwahati for sale of its goods. For the year ending March 31, 2014 the following particulars are furnished:

Goods sent to branch		Rs. 142000
Goods returned by the branch		Rs. 4000
Cash Sales		Rs. 79000
Credit Sales		Rs. 202000
Cash received from customer		Rs. 189500
Branch expenses paid by H.O.:		
Rent	Rs. 10000	
Salaries	Rs. 30000	
Cash sent by the H.O. to branch for petty cash		Rs. 5000
Other details:		
	<u>1<sup>st</sup> April, 2013</u>	<u>31<sup>st</sup> March, 2014</u>
Branch Stock	Rs. 44500	Rs. 27000
Branch debtors	Rs. 23500	?
Petty cash at branch	Rs. 100	Rs. 150

Prepare Guwahati branch account in the books of Head Office.

Solution:

In the books of Kolkata Head Office (H.O.)  
Guwahati Branch Account

Dr.

Cr.

PARTICULARS	RS.	RS.	PARTICULARS	RS.	RS.
To Balance B/D			By Bank A/c		
- Stock	44500		- Cash sales	79000	
- Debtors	23500		- Collection from debtors	189500	
- Petty cash	100	68100	(Cash remitted by branch)		268500
To Goods sent to branch A/c (Goods sent to branch)		142000	By Goods sent to branch A/c (goods returned to H.O)		4000
To Bank A/c					
- Rent	10000				
- Salaries	30000				
- Cash (Cash sent to branch)	5000	45000			
To General P/L A/c (Branch profit transfer)		80550	By Balance C/D		
			- Stock	27000	
			- Debtors	36000	
			- Petty cash	150	
					63150
		335650			335650

Memorandum Branch Debtors Account

Dr.

Cr.

Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Balance B/D		23500		By Bank A/c (collection from debtors)		189500
	To Sales A/c (Credit sales)		202000		By Balance C/D (Balancing figure)		36000
			225500				225500

Problem

2. A Patna based merchant has a branch at Gaya to which it charges out goods at cost plus 25%. The Gaya branch keeps its own sales ledger and remits all cash received to Patna head office every day. The transactions for the Gaya branch are as follows:

Stock on 1.1.2014	Rs. 11000	Return in ward	Rs. 500
Debtors on 1.1.2014	Rs. 1700	Cheques sent to branch:	
Petty cash on 1.1.2014	Rs. 100	Rent	Rs. 600
Cash sales	Rs. 2650	Wages	Rs. 200
Goods sent to branch	Rs. 20000	Salary & Expenses	Rs. 900
Collection from debtors	Rs. 21000	Stock on 31.12.2014	Rs. 13000
Goods returned to H.O.	Rs. 400	Debtors on 31.12.2014	Rs. 2000
Bad debts	Rs.300	Petty cash on 31.12.2014	Rs. 100
Allowances to customers	Rs. 250		

Prepare Gaya branch account in the books of Patna Head Office.



Solution:

In the books of Patna Head Office (H.O.)  
Gaya Branch Account

Dr.					Cr.
PARTICULARS	RS.	RS.	PARTICULARS	RS.	RS.
To Balance B/D			<b>By Stock Reserve A/c</b> <b>(load on Op. stock)</b> <b>(11000 * 25/125)</b>		<b>2200</b>
- Stock	11000		By Bank A/c		
- Debtors	1700		- Cash sales	2650	
- Petty cash	100	12800	- Collection from debtors	21000	
To Goods sent to branch A/c (Goods sent to branch)		20000	(Cash remitted by branch)		23650
To Bank A/c			By Goods sent to branch A/c (goods returned to H.O)		400
- Rent	600				
- Wages	200		<b>By Goods sent to branch A/c</b> <b>(load on goods sent to branch)</b> <b>(20000 * 25/125)</b>		<b>4000</b>
- Salary & Exp. (Cash sent to branch)	900	1700			
To Goods sent to branch A/c (load on goods returned to H.O.) (400 * 25/125)		80			
To General P/L A/c (Branch profit transfer)		8170	By Balance C/D		
To Stock Reserve A/c (load on Cl. stock) (13000 * 25/125)		2600	- Stock	13000	
			- Debtors	2000	
			- Petty cash	100	
					15100
		45350			45350

### Memorandum Branch Debtors Account

Dr.

Cr.

Date	Particulars	J. F.	Rs.	Date	Particulars	J. F.	Rs.
	To Balance B/D		1700		By Bank A/c (collection from debtors)		21000
	To Sales A/c (Credit sales)		22350		By Bad Debts A/c		300
	(Balancing figure)				By Return in ward A/c		500
					By Allowance A/c		250
					By Balance C/D		2000
			24050				24050

Suggested readings:

- [Hanif & Mukherjee, Financial Accounting](#)
- [Amitabha Basu, Financial Accounting II](#)
- [Basu Das, Financial Accounting, Corporate Accounting](#)
- [Basu Das, Selected problems on Accountancy, Volume -1 \(Only for Practice\)](#)