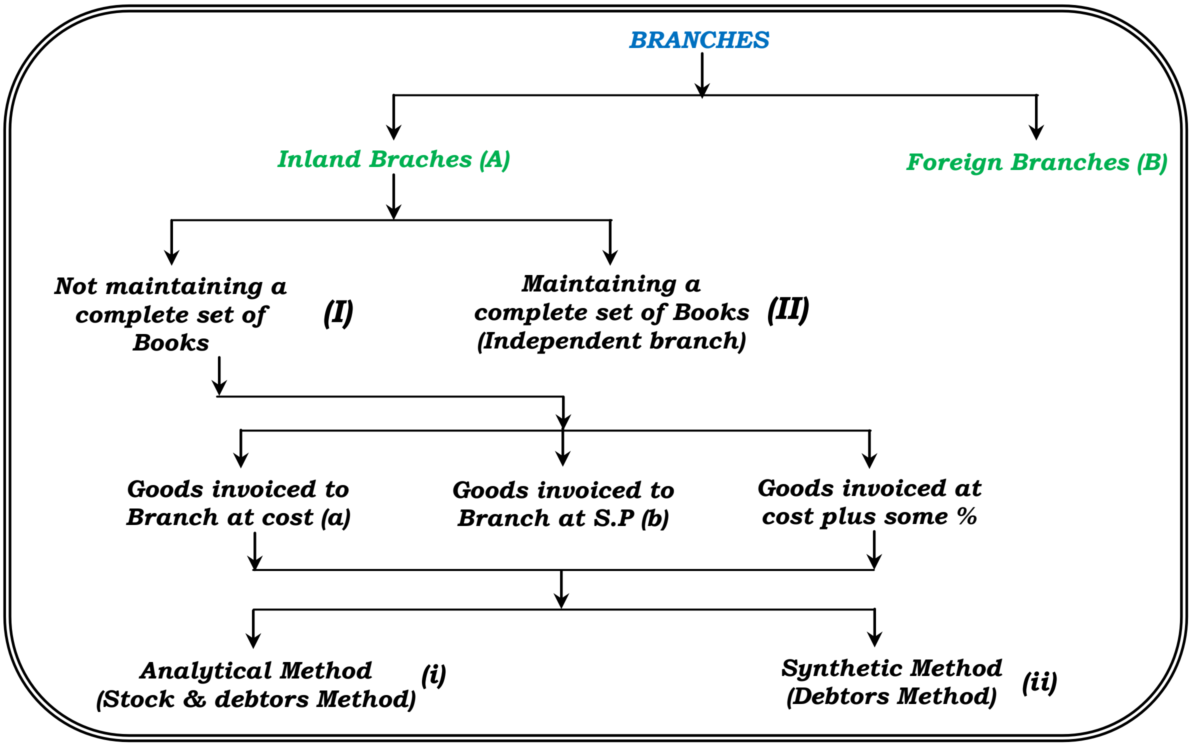
Branch Accounts

Theory

Classification of Branches: From an accounting point of view, branches are classified as:



In case of (A)(I)(a)(i)

Accounting Entries in the books of Head Office (H.O.):

No.	*Particulars*	*Debit*	*Credit*
1.	**For Cost Price of Goods sent to Branch:** Branch Stock A/c Dr To Goods Sent to Branch A/c	XXX	XXX
2.	**For Cost Price of Goods returned by Branch:** Goods Sent to Branch A/c Dr To Branch Stock A/c	XXX	XXX
3.	**For remittance to Branch for expenses:** Branch Cash A/c Dr To Bank A/c	XXX	XXX
4.	**For cash sales at Branch:** Bank A/c *[(or) branch cash, if money is not immediately remitted]* Dr To Branch Stock A/c	XXX	XXX

5.	**For credit sales at Branch:** Branch Debtors A/c Dr To Branch Stock A/c	XXX	XXX
6.	**For Goods returned to Branch by customers:** Branch Stock A/c Dr To Branch Debtors A/c	XXX	XXX
7.	**For Cash collected from Branch Debtors:** Bank A/c [(or) branch cash, if money is not immediately remitted] Dr To Branch Debtors A/c	XXX	XXX
8.	**For Discount & Allowances to Debtors & Bad Debts:** Branch Profit & Loss A/c Dr To Branch Debtors A/c	XXX	XXX
9.	**For remittances to Head Office:** Bank A/c Dr To Branch Cash A/c	XXX	XXX
10.	**For Branch expenses:** Branch Expenses A/c Dr To Bank A/c (or branch cash, if met by branch)	XXX	XXX
11.	**For Purchase of any Fixed Asset at Branch:** Branch Asset A/c Dr To Bank A/c (or branch cash, if paid for by the branch)	XXX	XXX
12.	**For Depreciation on Branch Assets:** Branch Profit & Loss A/c Dr To Branch Assets A/c	XXX	XXX
13.	**For abnormal Loss and Goods:** Branch Profit & Loss A/c (or) Dr Insurance Claim A/c (if covered Insurance) Dr To Branch Stock A/c	XXX XXX	XXX

Ledger Accounts and their details:

- ✓ ***Branch Stock A/c:*** Value of opening stock is shown as opening balance on the debit side of Branch Stock A/c. Similarly, value of closing stock is shown as closing balance on the credit side of Branch Stock A/c. The balance of Branch Stock A/c will now represent Gross Profit/Loss at the branch to be transferred to Branch Profit and Loss A/c.
- ✓ ***Branch Expenses A/c:*** The balance of Branch Expenses A/c will also be transferred to Branch Profit & Loss A/c.
- ✓ ***Branch Debtors A/c:*** The balance of this Account represents the closing Debtors.
- ✓ ***Goods sent to Branch A/c:*** The balance of this account should be t/s to Purchase A/c.
- ✓ ***Branch Profit & Loss A/c:*** The balance of Branch Profit and Loss A/c will represent Net Profit/Loss at the branch to be transferred to General Profit and Loss A/c.

Note: Normal Loss need not be recorded separately.

In case of (A)(I)(a)(ii)

Under this method it is assumed that the branch has a separate entity apart from the head office and, on this basis, a branch account is opened separately for each branch in the books of head office. This account is debited with the value of benefits and cash given to the branch and correspondingly credited with the value of benefits and cash received from the branch.

Branch A/c

Particulars	*Rs.*	*Particulars*	*Rs.*
To Balance b/d		By Bank	XXX
Branch Stock XXX		(Amount remitted by Branch)	
Branch Debtors XXX		By Goods sent to Branch	XXX
Branch Petty Cash XXX	XXX	(Return to H.O)	
To Goods sent to branch	XXX	By Balance c/d:	
To Bank	XXX	Branch Stock XXX	
(Amount remitted to branch)		Branch Debtors XXX	
To Bank	XXX	Branch Petty Cash XXX	
(Branch Exp.'s paid by H.O.)			XXX
To General P & L A/c	XXX		
	XXX		*XXX*

In case of (A)(I)(b&c)(i)

Accounting Entries in the books of Head Office: Under this system, in addition to the accounting entries passed in case of invoicing goods at cost price, the following entries are passed:

No.	*Particulars*	*Amount Rs.*
1.	**For Goods sent to Branch:** **a.** Branch Stock A/c Dr To Goods Sent to Branch A/c	Invoice price
	b. Goods Sent to Branch A/c Dr To Branch Stock Adjustment A/c	Load on goods sent
2.	**For Goods returned by Branch to H.O.:** **a.** Goods Sent to Branch A/c Dr To Branch Stock A/c	Invoice price
	b. Branch Stock Adjustment A/c Dr To Goods Sent to Branch A/c	Load on goods returned

Ledger Accounts and their details:

a. ***Branch Stock A/c:*** There will be an opening balance in this account representing opening stock at branch at selling price and a closing balance representing closing stock at branch at selling price. After all the relevant entries have been passed to this account as already detailed, both sides of this account should agree. Any difference represents surplus or deficiency of stock and will be transferred to a stock discrepancy account. The stock discrepancy account will be closed by transferring the load to branch stock adjustment account and the balance to branch profit & loss A/c.

b. **Branch Stock Adjustment A/c:** This account will be created with the Stock Reserve A/c for the loading included in the opening branch stock (at selling price). Similarly, this account is debited with the Stock Reserve A/c for loading included in the closing branch stock. The difference remaining in this account (after all the relevant entries have been passed) represents gross profit/loss at branch and will be transferred to branch Profit & Loss A/c.

c. Loss of Goods: This will be treated in the following manner:

Normal Loss: Since branch stock adjustment account discloses gross profit, normal loss should be charged to this account by the following entry:

1.	Branch Stock Adj. A/c Dr To Branch Stock A/c	Selling Price

Abnormal Loss: The following entries will be passed for recording abnormal loss:

1.	Abnormal Loss A/c Dr To Branch Stock A/c	Selling Price
2.	Branch Stock Adj. A/c Dr To Abnormal Loss A/c	Load on goods lost
3.	Branch Profit & Loss A/c Dr To Abnormal Loss A/c	Cost price of goods lost

If the goods are insured, insurance claim account will be debited instead of branch Profit & Loss A/c to the extent of claim admitted and the balance will be debited to branch profit & loss A/c.

In case of (A)(I)(b&c)(ii)

Accounting Entries in the books of Head Office:

The branch account will be prepared on the same line as discussed earlier, but as goods are supplied to the branch at loaded price. (1) Opening stock, (2) goods sent to branch, (3) goods returned by branch and (4) closing stock will be recorded in the branch account at this price. Hence, in order to ascertain the true profit or loss at branch it will be necessary to eliminate the loads and bring down these items to cost level.

For this purpose the following adjusting entries will be made:

1.	***For load on Goods sent to Branch:*** Goods Sent to Branch A/c Dr To Branch A/c	XXX	XXX
2.	***For load on Goods returned by Branch to H.O.:*** Branch A/c Dr To Goods Sent to Branch A/c	XXX	XXX
3.	***For load included in the Opening Stock:*** Stock Reserve A/c Dr To Branch A/c	XXX	XXX
4.	***For load included in the Closing Stock:*** Branch A/c Dr To Stock Reserve A/c	XXX	XXX

The balance of stock reserve account at the end of each year will be carried forward to the next year for being transferred to the branch account of that year as shown in item (3) above.

Distinction between Wholesale Profit & Retail profit at Branch:

BRANCH ACCOUNTS

In order to know whether self-retailing through branches is more profitable than wholesaling, it is necessary to make a distinction between wholesale profit and retail profit. The true profit of a branch can, therefore, be determined by charging it with the wholesale price of goods sent and crediting the head office trading account with the same amount. Since closing stock of branch, in such a case, will be valued at wholesale price it will be necessary to create a provision for unrealised profit on stock by debiting the head office Profit & Loss A/c.

For E.g.: Let the cost of an Article be Rs.100, wholesale price be Rs.140 and retail price be Rs.150. If it is market rate is through a detail branch, the profit earned there will be Rs.50. But the true profit of the branch is, however, Rs.10 only, because Rs.40 could have been earned even without having the branch i.e. by selling it on wholesale basis to others.

In case of (A)(II) (Independent Branches)

Part: I – Special Adjustments:

1. **Regarding Goods-in-transit & Remittance-in-transit:**

1.	**If adjustment is made in the books of H.O.:** Goods-in-transit A/c Dr Cash-in-transit A/c Dr To Branch A/c	XXX XXX	 XXX
2.	**If adjustment is made in the books of branch:** Goods-is-transit A/c Dr Cash-in-transit A/c Dr To Head Office a/c	XXX XXX	 XXX

In the balance sheet, goods-in-transit or cash-in-transit will be shown as assets. At the commencement of the next financial year, these entries will be reversed and Transit A/c will be closed.

2. **Regarding Depreciation on Fixed Assets:** Often, the accounts of fixed assets of a branch are maintained in the head office books. In such a case,

1.	**Entry for depreciation in H.O. Books:** Branch A/c Dr To Branch Fixed Assets A/c	XXX	 XXX
2.	**The branch passes the following entry in its own books for Depreciation:** Depreciation A/c Dr To Head Office A/c	XXX	 XXX

Any purchase of fixed assets by the branch, in such a case, should be debited to head office account and credited to bank (or Supplier's A/c) in the branch books. Similarly, in head office books the same should be debited to branch fixed assets account and credited to Branch A/c.

3. **Regarding Inter-Branch Transactions:** Where there are number of branches, inter-branch transactions are likely to take place, e.g., cash or goods sent by one branch to another or expenses incurred by one branch on behalf of another. Such transactions are usually adjusted assuming that they were entered into under the instructions from the H.O. Suppose Kolkatta branch transfers some goods to Mumbai branch under the directions of the H.O. The entries will be as follows:

1.	**In the books of Kolkatta Branch:** Head Office A/c Dr To Goods Supplied to Branch A/c	XXX	 XXX
2.	**In the books of Mumbai Branch:** Goods received from Branches A/c Dr To Head Office A/c	XXX	 XXX
3.	**In the books of Head Office:** Mumbai Branch A/c Dr To Kolkatta Branch a/c	XXX	 XXX

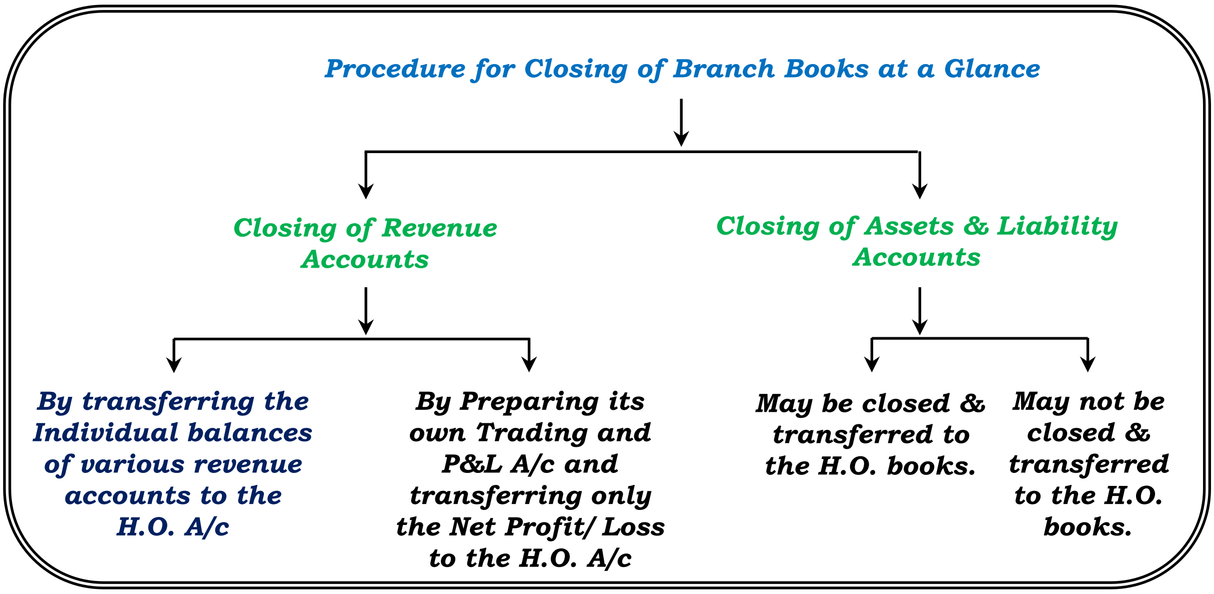
Note: Inter-branch transactions without the knowledge of head office may be passed as between the branches only in the usual manner.

4. **Regarding Charges made by H.O.:** The head office may make a charge to the branch for services rendered by it, or for a portion of head office overheads applicable to branch management on the principle that the branch should be debited with all relevant expenses and charges applicable to it.

1.	**In head office books the entry will be:** Branch A/c Dr To The Relevant Expenses A/c	XXX	 XXX
2.	**In Branch books the entry will be:** The Relevant Expenses A/c Dr To Head Office A/c	XXX	 XXX

5. **Remittances A/c:** Sometimes the branch remits cash to the head office quite frequently. In such a case, the head office finds it convenient to open a branch remittances account. The periodical total of this account will be transferred to the credit of branch account. If the branch so desires, it can also open a remittances to head office account the periodical total of which will be transferred to the debit of head office account. Similar treatment can be made for goods sent to branch also.

Part II – Closing of Branch Books:



Explanation: At the end of each financial year the branch prepares a trial balance and proceeds to close its books of accounts. The subject of closing the books consists of two activities: (a) Closing of Revenue accounts; (b) Closing of Asset & Liability accounts.

Closing of Revenue Accounts: Two different methods may be applied for closing the revenue accounts.

First method: Under this method the branch simply transfers the individual balance of various revenue accounts to the H.O. A/c, thereby closing the revenue accounts. The entries will be as follows:

1.	**For debit balances of revenue items:** Head Office A/c Dr To Sundry Revenue A/c	XXX	 XXX
2.	**For credit balances of revenue items:** Sundry Revenue A/c Dr To Head Office A/c	XXX	 XXX

Second method: Under this method, the branch prepares its own Trading and Profit & Loss A/c and transfers only the Net Profit or Loss (instead of all the revenue balances) to the H.O. A/c in the same way as Profit or Loss is transferred to Capital A/c in an ordinary business. The revenue accounts are thus closed, and the Profit or Loss transferred to the H.O. A/c.

Closing of Asset & Liability Accounts: The balances of Assets & Liabilities may or may not be transferred to the H.O. books. If it is decided to transfer them, the under mentioned entries will be passed to close the accounts in the branch books:

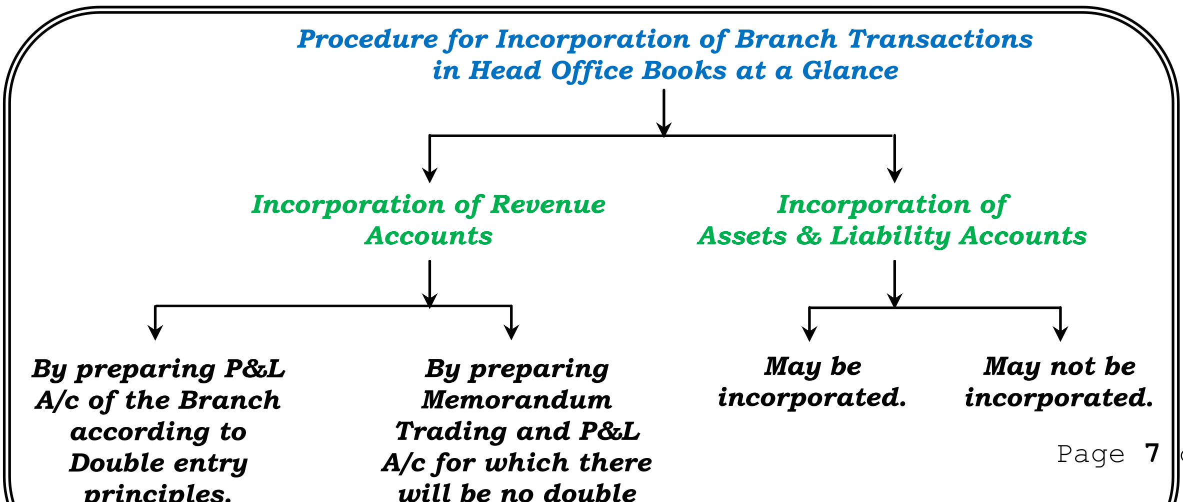
1.	**For Assets:** Head Office A/c Dr To Sundry Asset A/c	XXX	 XXX
2.	**For Liabilities:** Sundry Liability A/c Dr To Head Office A/c	XXX	 XXX

After such transfer, the H.O. A/c in branch books will have no balance.

Note:

- ✓ At the commencement of the next accounting period it is necessary to restore the balance of Assets & Liabilities in the branch books by passing a reverse entry.
- ✓ If, however, these are not transferred, there will remain a balance in H.O. A/c equal to the net assets (i.e. assets *less* liabilities). Thus, in this case, the branch may prepare a Balance Sheet.

Part III – Incorporation of Branch Trial Balance in H.O. Books:



Explanation: The branch sends its trial balance (together with its trading and P & L A/c and Balance Sheet, if these are prepared by the branch) to the H.O. for incorporation in H.O. books. When the H.O. receives the branch Trial Balance, it proceeds to incorporate the same in its books. The incorporation procedure may be broken up into two parts: **(a)** Incorporation of revenue accounts of branch and **(b)** Incorporation of assets and liabilities of branch.

Incorporation of Revenue Accounts: This can be done in two different methods:

First method: Under this method, a Trading and Profit & Loss A/c of the branch is prepared by H.O. The entries to be passed are as follows:

1.	**For items which will appear on the debit side of Trading A/c:** Branch Trading A/c Dr To Branch A/c	XXX	 XXX
2.	**For items which will appear on the credit side of Trading A/c:** Branch A/c Dr To Branch Trading A/c	XXX	 XXX
3.	**For Gross profit made by branch:** Branch Trading A/c Dr To Branch P & L A/c	XXX	 XXX
4.	**For items which will appear on the debit side of P & L A/c:** Branch P & L A/c Dr To Branch A/c	XXX	 XXX
5.	**For items which will appear on the credit side of Trading A/c:** Branch A/c Dr To Branch P & L A/c	XXX	 XXX
6.	**For Net Profit made by the branch:** Branch P & L A/c Dr To General P & L A/c	XXX	 XXX

Second method: Under this method, Branch Trading and Profit & Loss A/c is prepared in H.O. books which is merely a Memorandum A/c, and therefore, the entries made in this account do not have any double entry effect. The only object of this Memorandum A/c is to ascertain the net profit/loss of the branch. This net profit/loss is incorporated (and not the individual balances as in the first method) in the head office books by the following entry:

1.	**In case of Net Profit:** Branch A/c Dr To General Profit & Loss A/c	XXX	 XXX
2.	**In case of Net Loss:** General Profit & Loss A/c Dr	XXX	

	To Branch A/c		XXX

Incorporation of Assets & Liabilities: The head office may or may not be incorporate the Assets & Liabilities of the branch. If incorporated the following entries shall be necessary:

1.	***For Branch Assets:*** Sundry Branch Asset A/c Dr To Branch A/c	XXX	 XXX
2.	***For Branch Liabilities:*** Branch A/c Dr To Sundry Branch Liability A/c	XXX	 XXX

After such incorporation of Assets & Liabilities, the Branch A/c (in which adjustment entries have already been posted) in H.O. books will be closed.

Note:

- At the commencement of the next accounting period, the entries passed for incorporation of Assets & Liabilities will be reversed, and then the Branch A/c will again be restored showing the opening balances of these items.
- If the Branch Assets & Liabilities are not incorporated, the Branch A/c in H.O. books will have closing balance equal to net assets of the branch.
- While preparing a Balance Sheet of the H.O. all the Assets & Liabilities of the H.O. and those of the branch will be taken into consideration.

FOREIGN BRANCHES

Introduction: A Foreign branch usually maintains a complete set of books under double entry principles. So, the accounting principles of a Foreign Branch will be the same as those applying to an Inland Branch. Before a Trial Balance of the Foreign Branch is incorporated in the H.O. books, it has to be converted into home currency.

Rules for conversion: In case of fluctuating rates of exchange, the following rules for conversion are applied:

No	***Nature of Account***	***Exchange Rate Applicable***
1.	Fixed Assets	Rates ruling at the time they were acquired.
2.	Fixed Liabilities	Rates ruling as on the date of the Trial Balance.
3.	Current Assets & Liabilities	Rates ruling as on the date of the Trial Balance.
4.	Remittances sent by the branch	At the actual rates at which they were made.
5.	Goods received from H.O. as well as goods returned to H.O.	At the rates ruling on the date of dispatch or the date of receipt.
6.	The Nominal A/c's (except next two)	Average rate ruling during the accounting period.
7.	Depreciation on Fixed Assets	Rate of conversion applicable in case of the particular asset concerned [as indicated in (a) above].
8.	Opening and Closing stocks	Rates ruling of on the opening and closing dates respectively.
9.	Balance in H.O. A/c	Value at which the Branch A/c appears in H.O. books on the date.

Difference in Exchange: As a result of conversion of branch trial balance in home currency, a difference in the trial balance is will often arise. If a loss (Dr.) results, it should be debited to Profit & Loss A/c, if a profit (Cr.) results, the prudent course is to credit it to an exchange Reserve A/c so as to provide for future losses on exchange.