

# Accountancy-II

By: Saritha Ravi

This reference book can be useful for  
BBA, MBA, B.Com, BMS, M.Com, BCA, MCA  
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# Sample Preview of The Chapter

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# ACCOUNTANCY-II

## Branch and Departmental Accounts

1

## Branch Accounts-I

### INTRODUCTION

A business organisation, with a view to increase its sales, may run different units at different places either in the same town or in different towns and also in foreign countries. The different units so run are called 'branches' and the main office under which various units are operating is called Head office. This chapter deals with types of branches and its accounting procedures.

### CHAPTER AT A GLANCE

#### NEED FOR BRANCH ACCOUNTING

According to L.C. Cropper, branches are "Departments conducted at a distance". Under sec 2 (9) of the Indian Companies Act, 1956, a 'branch office' in relation to a company is defined as – "any establishment carrying on either the same or substantially the same activity as that carried on by the head office of the company, or any establishment engaged in any production, processing or manufacture....."

The following are the main objectives of maintaining branch accounts:

- To ascertain the profitability of each branch separately for a particular accounting period.
- To ascertain the financial position of each branch separately at the end of that accounting period.
- To assess the progress and performances of each branch.
- To fulfill the audit requirements under Section 228 of the Companies Act. 1956.
- To incorporate the profit or loss made by the branch and its assets and liabilities in the firm's final accounts.
- To ascertain the requirements of stock and cash for each branch.
- To ascertain whether the branch is yielding a satisfactory rate of return on capital invested in it.
- To ascertain whether the branch should be expanded or closed.

- To ascertain the quantity of stock held by each branch at the end of that accounting period.
- To ascertain the amount of commission payable to the manager if that is based on profits.

#### TYPES OF BRANCHES

In order to eliminate middlemen (Wholesalers and Retailers), to retain control over distribution, to keep the business secrets intact, and to avoid the chances of duplicate or similar products being mixed with the genuine ones so as to make customers quality conscious, most organisations rely upon branches. These branches are spread over a big area. These may be located in the same city or different cities within the country or even outside country. The main establishment is known as Head Office and its subsidiary units within a city or country or outside country are known as branches. Thus branches can be divided in three categories:

**1. Dependent Branches:** These branches are booking or executing orders on behalf of the head office. The accounts relating to these types of branches consist mainly of expenditure accounts for salaries, wages, travelling and miscellaneous expenses, etc. Generally the branch manager is provided with a small fund (similar to a petty cash fund, which is replenished periodically) to pay for small items of expense. The branch manager is required to submit periodical (weekly or monthly) expenditure statements to the head office, upon receipt of which, the head office forwards a replacement cheque for the total amount of expenditure. For proper control of branch expenditure the expenditure returns are analysed and total of each type of expenditure are debited to the appropriate Branch Expenditure Account and credited to the Branch Cash Account in the head office books. At the time of preparation of final accounts of the head office, the different Branch Expenditure Accounts are transferred to the Profit and Loss Account of the head office.

**2. Independent or Autonomous Branches**

**3. Foreign Branches:** In India the well-known branches all over the country are that of Binny's Showrooms, Bata Shoe Co., Mafat Lal Group, and OCM Ltd.

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**ACCOUNTING FOR DEPENDENT BRANCHES**

Dependent Branches, as the name itself suggests are wholly and mainly dependent on Head office for all their requirements. These branches get all instructions from the head office in connection with its operation or activities. Such branches are just the Sales Depots or outlets of main establishment (Head office), which perform all functions of sending goods for the branch, meeting expenses thereof, and maintaining accounting records. Dependent branches perform only sales functions and send information relating to sales, Cash or Credit, stock unsold and expenses (petty) incurred if any. The salient features of dependent branches are as follows:

1. Branches get all their supplies (goods) from the Head office. Outside purchase is not allowed.
2. Goods are sold by Branches at a price fixed by the Head office which sends goods either at cost or cost plus profit or at selling price.
3. Branches are allowed to sell goods in cash, on credit or for both as per the instructions of head Office.
4. All expenses of Branch are paid by Head Office.
5. Branch however, may be allowed to maintain Petty Cash Balance.
6. Branches are required to deposit all cash received from Customer in the Head Office Account of a Bank.
7. Branches do not perform accounting function but send all information to Head Office for Accounting purposes. However the branches are required to maintain:
  - (i) A Stock Registers to record movement of goods to and from Head Office.
  - (ii) A Cash Book is used to record cash received from customers, remitted to H.O. received from H.O. and to ascertain balance due from customers or due to H.O.
  - (iii) A Petty Cash Book showing details of petty expenses and the balance, if any.
  - (iv) Debtors Ledger records credit sale.

**DEBTORS SYSTEM**

Under this system, Head Office opens Branch Account which is in the nature of Debtors Account. It debits the Branch Account with the goods sent and cash sent for expenses whereas credits the Branch Account with the amount of Cash received from branch, goods returned by branch and balances of various assets with the branch if any. That is why this system of accounting is known as Debtors System. However the Branch Account so prepared by Head Office is nominal by nature. The excess of credits over debits represents profits and excess of debits over credits shows loss incurred by the branch concerned.

**(I) COST PRICE METHOD**

Under this method, at the beginning of the year the Branch Account is debited with the opening balances of assets such as stock (at cost), debtors, petty cash, furniture, prepaid expenses, accrued income, etc., lying with the branch. Similarly, it is credited with the opening balances of liabilities of the branch such as, creditors, outstanding salaries, rent etc. The Branch Account is then debited with the amount of goods sent to the branch (at cost) and other amounts remitted to meet various expenses such as, salaries, rent, rates and taxes etc.

Likewise, the Branch Account is credited with the return of goods (at cost) by the branch, and receipts from debtors and cash sales. At the year end, Branch Account is debited with the closing values of liabilities and credited with the closing values of assets. The difference between the two sides represents profit or loss for the branch for a particular period.

**Journal Entries**

1. For opening balances of assets at the branch  
Branch Account Dr.  
    To (Individual) Branch Assets Account.
2. For opening balances of liabilities at the branch  
Branch Liabilities Account Dr. (Individual)  
    To Branch Account.
3. For goods sent to branch  
Branch Account Dr. (At cost)  
    To Goods Sent to Branch Account.
4. For return of goods by branch to head office  
Goods Sent to Branch Account Dr.  
    To Branch Account.
5. For remittance of cash/cheque to branch for expenses (e.g., salaries, rent, petty expenses, etc)  
Branch Account Dr. (Actual)  
    To Cash/Bank Account.
6. For cash/cheque received from branch (Cash sales plus collection from debtors)  
Cash/Bank Account Dr.  
    To Branch Account  
    [Actual including direct from debtors].
7. For 'closing balances of assets' at the branch  
Branch Assets Account Dr. (Individual)  
    To Branch Account.
8. For 'closing balances of liabilities' at the branch  
Branch Account Dr.  
    To Liabilities (Individual) Account.
9. For closing goods sent to branch account  
Goods Sent to Branch Account Dr.  
    To Purchase Account (Trader)  
    To Trading Account (Manufacturer).
10. For abnormal loss
  - (a) Abnormal Loss Account Dr. (Total)  
    To Branch Account
  - (b) General Profit and Loss Account Dr. (Loss)  
    Insurance Claim Account Dr. (Claim)  
    To Abnormal Loss Account (Total)In this context, it should be noted that Branch Account is prepared to know the correct profit of the branch without being affected by, any abnormal loss.
11. Pilferage  
One of the commonest feature of retail trade is 'shoplifting' and this has come to be regarded as a normal business loss — hence no entry is required for it.
12. For transferring profit or loss of the branch
  - (i) **If profit:**  
Branch Account Dr.  
    To General Profit and Loss Account
  - (ii) **If loss:**  
General Profit and Loss Account Dr.  
    To Branch Account

In the Books of Head Office  
**BRANCH ACCOUNT (AT COST) (A Format)**

Dr. Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d		By Balance b/d (liability)	
Petty Cash		Outstanding Rent/Salaries	
Debtors		By Cash/Bank (Remittances)	
Prepaid Expenses		Cash Sales	
Stock at Cost		Cash Collected from Debtors	
Furniture		By Goods Sent to Branch	
To Goods Sent to Branch (at Cost)		(Returns by branch at Cost)	
To Cash/Bank		By Balance c/d	
Salaries		Petty Cash	
Rent		Debtors	
Advertisement or Other Expenses		Prepaid Expenses	
To Balance c/d (liabilities)		Stock at Cost	
Outstanding expenses		Furniture-Depreciation	
To Profit* transferred to General P & L A/c (B.F.)		By Loss* transferred to General P & L A/c (B.F.)	

\*-Balancing figure (B.F) is either profit or loss

**SOME TYPICAL ITEMS**

The following items are to be ignored while preparing Branch Account under this method:

(i) Credit sales: Sales returns; Bad debts; Discount allowed; etc., (ii) Depreciation of fixed assets, (iii) Petty cash expenses paid by the branch, (iv) Shortage or surplus of stock and (v) Profit or loss arising out of sale of a fixed asset.

The reasons are explained below:

**(i) Credit Sales and other Related Matters:** (such as, sales returns, bad debts, discount allowed, etc.

The Branch Account is debited with the opening balance of debtors and credited with cash received from debtors and closing balance of debtors. Credit sale, sales returns, bad debts, discount allowed, etc., are related to Debtors Account. For calculating closing debtors balance all these items have already been taken into consideration. Therefore these items are to be ignored for the preparation of Branch Account.

**(ii) Depreciation on Fixed Assets:** The Branch Account is debited with the opening balance of fixed assets and credited with the closing balances of fixed assets after deducting depreciation. Depreciation is automatically accounted for and it should not be shown in the Branch Account separately.

**(iii) Petty Cash Expenses paid by the Branch:** The Branch Account is debited with the opening balance of petty cash and the amount of petty cash sent by the head office and is credited with the closing petty cash. For calculating closing petty cash, all expenses paid by the branch are taken into consideration. Therefore, it should be ignored for preparation of Branch Account.

**(iv) Shortage or Surplus of Stock:** The Branch Account is debited with the opening balance of branch stock and credited with its closing balance. At the time of calculating closing balance of branch stock, shortage/surplus is taken into consideration. Therefore, it should be ignored for preparation of Branch Account.

**(v) Profit/Loss on Sale of a Fixed Asset:** If an asset is sold for cash, the Branch Account is credited with the remittances. If it is sold on credit, the Branch Account will be credited with the Debtor for sale of asset. The profit/loss on sale of asset is already included in the remittance/debtors figure. Therefore, at the time of preparing Branch Accounts profit/loss on sale of asset should not be shown separately.

**(vi) Purchases by Branch:** The Branch Account is debited with the amount of remittance from head office. Therefore, any direct purchase by branch should not be shown separately in the Branch Account.

**Illustration 1:** From the following information relating to the Nagpur Branch for the year ending 31st March, 2001. Prepare the Branch Account in the books of head office.

**Opening balance on 1-4-2000:**

	Rs.
Stock at Branch	37,500
Debtors at Branch	75,000
Petty cash at Branch	750
Goods sent to Branch	6,30,000
Cash sales	1,50,000
Cash received from Debtors	5,25,000
Goods returned by Branch	5,000
Credit sales	5,70,000

	Rs.
Cheque sent to Branch	22,500
Salaries	3,750
Rent and Taxes	2,750
Petty Cash	2,750
Closing balances on 31.3.2001:	

	Rs.
Stock at Branch	62,500
Debtors at Branch	1,20,000
Petty Cash at Branch	500

**Solution:** In the books of the Head Office

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Dr.			Nagpur Branch Account			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount			
2000 April 1st	To Balance b/d: Stock	37,500	2000 April, 1st	By Goods Sent to Branch A/c (Returns)	5,000			
	Debtors	75,000		By Bank A/c:				
	Petty Cash	750		Cash sales	1,50,000			
2001 March 31st	To Goods Sent to Branch A/c:	6,30,000	2001 Mar. 31st	Cash received from debtors	5,25,000			
	To Bank A/c:			By Balance c/d:				
	Salaries	22,500		Stock	62,500			
	Rent and Taxes	3,750		Debtors	1,20,000			
	Petty Cash	2,750		Petty Cash	500			
	To General profit & Loss A/c	90,750						
		<b>8,63,000</b>			<b>8,63,000</b>			

**Note:** In this method credit sales and petty expenses are ignored.

**Illustration 2:** From the following particulars, Prepare Branch Account showing the profit or loss of the branch for the year ended 31.12.2000.

	Rs.
Opening stock at branch	30,000
Goods sent to branch	90,000

Cash sales	1, 20,000
Expenses met by head office:	
Salaries	10,000
Other expenses	4,000
Closing stock could not be ascertained, but it is known that the branch usually sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profit of the branch before charging such commission.	

**Solution:** In the books of the Head Office.

Dr.			Branch Account			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount			
2000 Jan 1	To Balance b/d		2000 Dec.31	By Bank A/c:	1,20,000			
	Stock:	30,000		Cash sales				
	To Goods Sent to Branch A/c	90,000		By Balance c/d				
Dec.31	To Bank A/c:			Stock	20,000			
	Salaries	10,000						
	Other expenses	4,000						
	To Balance c/d							
	Manager's Commission	300						
	To General Profit & Loss A/c	5,700						
		<b>1,40,000</b>			<b>1,40,000</b>			

**Working Note:**

(1) Calculation of Closing Stock:

	Rs.
Opening stock	30,000
Goods sent to branch (at cost)	90,000
	1,20,000
<b>Less:</b> Cost of goods sold	<u>1,00,000</u>
(Rs 1,20,000 x 100/120)	<u>20,000</u>

(2) Profit before commission is Rs (1,20,000 + 20,000) – Rs. (30,000 + 90,000 + 10,000 + 4,000) = Rs. 1,40,000 – Rs. 1,34,000 = Rs. 6,000. Manager's commission is payable @5%. So commission is Rs. 6,000 x 5/100 = Rs. 300. Manager's Commission is still payable, and therefore there is a liability for the business at the end of the accounting period.

**(II) Invoice Price Method:** Sometimes the head office may prefer to send goods to the branch at a higher price than cost (termed as invoice price). Method of sending goods at invoice price is excellent from the point of view of stock control. As the goods are invoiced at selling price, the head office can dictate pricing policy to branches, as well as save work at the branch because prices have already been decided. Invoicing at selling price is generally done where goods are of standard type, pre-packed and unlikely to fluctuate in price. Where head office has little control over selling prices (as for example, with perishable goods like fruits, fish, milk, etc.) the most suitable method is that of invoicing at cost price. In addition, goods may be invoiced at selling price to keep the margin of profit a secret from the branch manager.

The method of preparation of Branch Account is the same as in the cost price method, excepting that all journal