

# BRANCH ACCOUNTS

## B.COM-Part-I

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### **Branch keeping full system of accounting**

Branches keeping full system of accounting or independent branches are those branches which also purchase goods from the market besides getting the goods from the head office. They can also supply goods to the head office, pay expenses from the cash realised and deposit cash in their own account. In other words, these branches operate as an independent unit for all practical purposes but their only link with the head office is that they are owned by the head office and whatever their profit or loss will be, that belongs to the head office.

Such branches keep complete set of double entry books and prepare their own trial balance, trading and profit and loss account and balance sheet. Such branches open head office account in their books. This account is debited by cash sent to the head office, goods supplied to head office, payment made by the branch for purchase of assets and loss to be borne by the head office and credited by cash received from the head office, goods received from the head office, depreciation of branch fixed assets, charge made by head office for rendering services and profit earned by the branch. Similarly the head office will also maintain a branch account for each branch. This account will have the same entries but on the reverse sides.

The certain transactions which require special attention are :

(i) *Purchase of Branch Fixed Assets* : Generally the branch fixed assets are maintained in the books of head office. When an asset is purchased, the following entries are passed.

(a) If the payment is made by the branch

**Head Office Books**

Branch Assets A/c	Dr.
To Branch A/c	

**Branch Books**

Head Office A/c	Dr.
To Cash A/c	

(b) If the payment is made by the head office

**Head Office Books**

Branch Assets A/c	Dr.
To Bank A/c	

**Branch Books**

No Entry

(ii) *Depreciation of Fixed Assets* : As branch fixed assets are maintained in the books of head office so entries relating to depreciation will also be passed through head office account. The following entry will be passed :

**H.O. Books**

Branch Account	Dr.
To Branch Asset A/c	

### **Branch Book**

Profit & Loss A/c    Dr.  
To Head Office A/c

(iii) *Head Office Expenses* : If some services such as administration or technical are rendered by the head office to the branch then a proportionate charge for such expenses will be made to each branch by the head office and entry for that will be as follows :

### **H.O. Books**

Branch Account    Dr.  
To Profit & Loss A/c

### **Branch Books**

Profit & Loss A/c    Dr.  
To Head Office A/c

(iv) *Reconciliation of transit items* : The balance of head office account (in branch books) and branch account (in head office books) should normally be same and one will make debit and other will credit for all transactions affecting these accounts. But these accounts may differ in balances because of the following reasons :

(a) *Cash in transit* : Sometimes the branch is remitting the cash to the head office before the close of the accounting year, say on 28<sup>th</sup> December, when the accounts are closed on 31st December. While remitting the cash to the head office the branch will debit the head office account but if the remittance is received by the head office after the closing date of accounting year, say on 4th January, then head office will not give a credit for the same amount of remittance on 31st December, so the two balances, i.e. H.O. A/c (in Branch

books) and Branch Account (in H.O. books) will differ. In order to reconcile these balances, an adjusting entry will be passed in the books of branch or head office (if the intimation of such remittance is received by the head office).

### **Branch Books**

Cash in Transit A/c                      Dr.  
    To Head Office A/c

OR

### **Head Office Books**

Cash in Transit A/c                      Dr.  
    To Branch A/c

(b) *Goods in transit* : Similarly the two balances may differ because of goods in transit. Suppose the head office sent goods to the branch on 28th December but those goods were received by the branch on 4th January (next year). Head office must have debited the account of branch in its books but there will be no corresponding credit to head office account in the books but there will be no corresponding credit to head office account in the books of branch; so on the last day of accounting year, i.e., 31st December the head office will pass the following adjusting entry :

Goods in Transit A/c Dr. To Branch A/c

Cash in transit or goods in transit will be shown as an asset in the balance sheet.

(v) *Inter-branch transactions* : If the head office has many branches and there is a possibility that some branch may supply goods or send cash to the other branch, such transactions among the branches are called inter branch



(vii) *Cash collected by branch on behalf of Head Office* : If the branch has collected some cash on behalf of Head Office (say for calls in arrears from the shareholders of Head Office) then the following journal entries will be passed in the books of Head Office and the branch :

**Head Office Books**

Branch A/c	Dr.
To Calls in Arrears	

**Branch Books**

Cash A/c	Dr.
To Head Office A/c	

(vii) *If a bill is drawn by one branch on another branch* : If a bill is drawn by Agra Branch on Bombay Branch and the Head Office is at Delhi, then the following entries will be passed in the books of Head Office and branches :

**Head Office Books**

Agra Branch A/c	Dr.
To Bills Payable	

B/R A/c	Dr.
To Bombay Branch	

**Agra Branch**

B/R A/c	Dr.
To Head Office	

**Bombay Branch**

Head Office A/c	Dr.
To B/P A/c	

**Illustration 1 :** A Calcutta based firm whose accounting year ends on 31st December has two branches - one at Agra and the other at Varanasi. The branches keep a complete set of books. On 31st December, 2005, the Agra and Varanasi Branch Accounts in the Calcutta books showed debit balances of Rs. 30,450 and Rs. 45,000 respectively before taking the following information into account :

- (a) Goods worth Rs. 2,000 were transferred from Agra to Varanasi under instructions from Head Office.
- (b) The Agra Branch collected Rs. 2,500 from an Agra customer of the Head Office.
- (c) The Varanasi Branch paid Rs. 5,000 for certain goods purchased by the Head Office in Varanasi.
- (d) Rs. 5,000 remitted by the Agra Branch to Calcutta on 29th December, 2005 received in Calcutta on 3rd January next.
- (e) The Varanasi Branch received on behalf of the Head Office Rs. 1,500 as dividend from a Varanasi Company.
- (f) For the year 2005, the Agra Branch showed a net loss of Rs. 1,250 and the Varanasi Branch a net profit of Rs. 5,400.

Pass Journal entries to record these matters in the Head Office books, and write up the two Branch Accounts therein.

**Solution :**

**HEAD OFFICE JOURNAL**

			Rs.	Rs.
2005 Dec. 31	<div style="display: flex; justify-content: space-between;"> <div style="width: 80%;">                     Varanasi Branch Account                      To Agra Branch Account                      (Being the Goods transferred from                      Agra to Varanasi Branch)                 </div> <div style="width: 15%; text-align: right;">Dr.</div> </div>		2,000	2,000

Agra Branch Account	Dr.	2,500	
To Sundry Debtors Account (Being debts collected Agra Branch)			2,500
Purchases Account	Dr.	5,000	
To Varanasi Branch Account (Being goods purchased paid for by Varanasi Branch)			5,000
Cash in Transit Account	Dr.	5,000	
To Agra Branch Account (Being cash sent by Agra Branch still in transit)			5,000
Profit & Loss Account	Dr.	1,250	
To Agra Branch (Being Agra Branch Loss for 1998)			1,250
Varanasi Branch Account	Dr.	5,400	
To Profit and Loss Account (Being Varanasi Branch profit for 1998)			5,400

#### Agra Branch Account

2005		Rs.	2005		Rs.
Dec.31	To Balance b/d	30,450	Dec.31	By Varanasi Branch Account	2,000
	To Sundry Debtors	2,500		By Cash in Transit Account	5,000
				By Profit and Loss A/c	1,250
				By Balance c/d	24,700
		32,950			32,950

#### Varanasi Branch Account

2005		Rs.	2005		Rs.
Dec.31	To Balance b/d	45,000	Dec.31	By Purchases A/c	5,000
	To Agra Branch A/c	2,000		By Balance c/d	48,900
	To Dividend Account	1,500			
	To Profit and Loss A/c	5,400			
		53,900			53,900



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