

Branch Accounts

As businesses expand, they often establish branches in different locations to reach a broader market. Branch accounting involves maintaining separate accounts for each branch to achieve several objectives:

- Profit or Loss Assessment: Determining the profitability of each branch to identify and address underperforming branches.
- Control Over Operations: Monitoring and managing the activities and finances of each branch.
- Record of Transactions: Keeping accurate records of goods supplied to branches and cash received from them.
- Coordination: Ensuring smooth and efficient operations across various branches.

Types of Branches

In the accounting system, branches are typically categorized based on the nature of their operations and the extent of control exercised by the head office. The primary types of branches are:

- a) Dependent Branches:
- b) Independent Branches:
- c) Foreign Branches:
- d) Agency Branches:
- e) Service Branches:

1. Dependent Branches:

These branches rely on the head office for supplies, funding, and control. They usually do not maintain complete accounting records independently.

Features:

- Sell goods supplied by the head office.
- All major expenses are paid by the head office.
- Maintain limited records; detailed accounting is done by the head office.

Accounting System for Dependent Branches:

- Goods Sent to Branch: The head office maintains a "Goods Sent to Branch" account to track goods dispatched to the branch.
- Branch Account: The head office maintains a "Branch Account" to record transactions related to the branch.
- Branch Trading and Profit & Loss Account: At the end of the period, the head office prepares a Branch Trading and Profit & Loss Account to determine the branch's profit or loss.

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2. Independent Branches:

These branches operate more autonomously and maintain their own complete set of accounting records. They can carry out their own purchases and sales.

Features:

- Engage in local purchases and sales.
- Maintain complete double-entry bookkeeping.
- Prepare their own financial statements and send them to the head office.
- Retain cash for their operational needs and remit excess funds to the head office.

Accounting System for Independent Branches:

- **Complete Records:** Independent branches maintain their own accounting records, including ledgers, journals, and cash books.
- **Trial Balance:** At the end of the accounting period, they prepare a trial balance from their ledger.
- **Final Accounts:** They prepare their own final accounts (Trading, Profit & Loss Account, and Balance Sheet) and send copies to the head office.
- **Inter-Branch Transactions:** The head office and branches maintain reciprocal accounts to track transactions between them. The head office maintains a "Branch Account," while the branch maintains a "Head Office Account."

Dependent Branch Example

Head Office:

- Sends goods worth ₹50,000 to the branch.
- Pays expenses (salary, rent, etc.) worth ₹10,000 on behalf of the branch.

Branch:

- Sells goods for ₹70,000.
- Incurs petty expenses worth ₹2,000 from the cash provided by the head office.

Head Office Records:

1. Goods Sent to Branch:
Debit "Goods Sent to Branch" ₹50,000
Credit "Branch Account" ₹50,000
2. Cash Sales by Branch:
Debit "Branch Account" ₹70,000
Credit "Sales Account" ₹70,000



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3. Expenses Paid by Head Office:
Debit "Branch Account" ₹10,000
Credit "Cash/Bank" ₹10,000

4. Petty Expenses:
Debit "Branch Account" ₹2,000
Credit "Cash/Bank" ₹2,000
Summary:

Branch Trading and Profit & Loss Account:

- Sales: ₹70,000
- Less: Cost of Goods Sold: ₹50,000
- Less: Expenses: ₹10,000 + ₹2,000 = ₹12,000
- Profit: ₹70,000 - ₹50,000 - ₹12,000 = ₹8,000

Independent Branch Example

Branch:

- Purchases goods locally worth ₹30,000.
- Sells goods worth ₹60,000.
- Incurs expenses of ₹15,000.

Branch Records:

1. **Purchases:**
Debit "Purchases Account" ₹30,000
Credit "Cash/Bank" ₹30,000

2. **Sales:**
Debit "Cash/Bank" ₹60,000
Credit "Sales Account" ₹60,000

3. **Expenses:**
Debit "Expenses Account" ₹15,000
Credit "Cash/Bank" ₹15,000

4. Trial Balance:

Account	Debit (₹)	Credit (₹)
Purchases Account	30,000	
Expenses Account	15,000	
Sales Account		60,000
Cash/Bank	45,000	
Total	90,000	60,000

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5. Final Accounts:

Trading and Profit & Loss Account:

- Sales: ₹60,000
- Less: Cost of Goods Sold: ₹30,000
- Less: Expenses: ₹15,000
- Net Profit: ₹60,000 - ₹30,000 - ₹15,000 = ₹15,000

Branch Trading and Profit & Loss Account:

- Sales: ₹60,000
- Less: Cost of Goods Sold: ₹30,000
- Less: Expenses: ₹15,000
- Net Profit: ₹15,000

Connection Between Branch and Head Office:

- The head office maintains a "Branch Account" which reflects the branch's financial transactions.
- The branch maintains a "Head Office Account" to keep track of transactions with the head office.

3. Foreign Branches:

Located in other countries, foreign branches may follow local accounting practices and currency.

Features:

- Operate under local regulations and accounting standards.
- Convert financial results to the home country's currency for consolidation.
- May face additional challenges such as exchange rate fluctuations and different tax regulations.

4. Agency Branches:

Function more like an agent for the head office, often involved in activities like sales, collections, and customer service.

Features:

- Limited operational scope.
- Do not maintain separate accounts; financial transactions are recorded by the head office.
- Focus on specific functions like marketing and customer relationship management.

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5. Service Branches:

Provide services rather than selling goods, such as customer support, repairs, or consulting.

Features:

- Maintain records relevant to their service operations.
- Often report directly to the head office for financial and operational oversight.
- Service-specific expenses and revenues are tracked separately.

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