

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. **Final Accounts:**

Branch Trading and Profit & Loss Account:

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

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### 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.

### 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.

