

ADVANCED FINANCIAL ACCOUNTING II B.COM

BRANCH ACCOUNTS

Meaning :

The dictionary meaning of the word branch is any subordinate division of a business subsidiary shop, office etc. Branch is a part of the business organisation which is operated under the control of the head office. As per section 29 of the Companies Act 1956, Branch is any establishment carrying on either the same or substantially the same activity as that carried on by head office for the purpose of expansion of a business branches are opened in different places. To ascertain the profit or loss of each branch, branch account is opened separately.

Objects of Branch accounts:

Following are the main objects of branch accounts.

- i) To know profit or loss of each branch
- ii) To know the financial position of branch
- iii) To know the requirements of goods or services for each branch
- iv) To control the activities of Branch
- v) To identify the defects of each branch

Types of Branches:

From accounting point of view, Branches may be classified in to three types. They are

- 1. Dependent Branches.
- 2. Independent Branches.
- 3. Foreign Branches.

DEBTOR'S SYSTEM :

Problem 1 : (Branches which sell goods for cash)

Modern Traders of Madurai operate a branch at Bangalore. From the following particulars prepare the Branch accounts as would appear in the books of the head office.

| | |
|---|--------|
| Stock in trade at the branch on 1.1.1998 | 5700 |
| Goods sent to Banaglore Branch | 54,500 |
| Cash sent to Branch for the following: | |
| Salaries Rs. 4,300; Rent Rs. 3600; Other expenses | 1,100 |
| Cash sent by the branch | 86,300 |
| Stock in the trade at the branch on 31.12.1988 | 3,800 |
| Cash in hand at branch on 31.12.1988 | 50 |

Answer:

In the books of Head Office

Dr.

Bangalore Branch account

– Cr.

| Particulars | Rs. | Particulars | Rs. |
|-----------------------------|--------|----------------|--------|
| To Balance b/d: | | By Cash a/c | 86,300 |
| Opening stock | 5,700 | By Balance c/d | |
| To Goods sent to Branch a/c | 54,500 | Stock | 3,800 |
| To Cash a/c: | | Cash in hand | 50 |
| Salaries 4,300 | | | |
| Rent 3,600 | | | |
| Other expenses 1,100 | 9,000 | | |
| To General P&L a/c | 20,950 | | |
| | 90,150 | | 90,150 |

Problem 2 :

The following are the transactions between Head office and its Branch during 1996.

| | |
|----------------------------------|---------|
| Stock at branch on 1.1.1996 | Rs. 750 |
| Petty cash at branch on 1.1.1996 | 250 |
| Cheques sent to branch: | |
| Salaries | 1000 |
| Rent | 2000 |
| Petty Cash | 300 |
| Cash remitted to H.O. | 18000 |
| Goods received from H.O. | 13000 |
| Stock on 31.12.1996 | 1000 |
| Petty cash on 31.12.1996 | 150 |

Give Journal entries in the books to Head Office

Answer:

| Particulars | | Debit Rs. | Credit Rs. |
|---|----|-----------|------------|
| Branch a/c | Dr | 1,000 | |
| To Branch stock a/c | | | 750 |
| To branch petty cash a/c | | | 250 |
| (Being opening balances recorded) | | | |
| Branch a/c | Dr | 13,000 | |
| To Goods sent to branch account | | | 13,000 |
| (Being goods sent branch recorded) | | | |
| Branch a/c | Dr | | |
| To cash | | | 3,300 |
| (Being branch expenses paid) | | | |
| Bank a/c | Dr | | |
| To Branch a/c | | | 18,000 |
| (Being cash received from branch) | | | |
| Branch stock a/c | Dr | | |
| Branch petty cash a/c | Dr | | |
| To branch a/c | | | 1,150 |
| (Being closing balances at the branch recorded) | | | |
| Branch a/c | Dr | | |
| To General profit & Loss a/c | | | 1,900 |
| (Being Branch profit recorded) | | | |

Note : Branch account is prepared in order to find out the branch profit.

Branch Account

| Particulars | Rs. | Particulars | Rs. |
|-------------------------|--------|----------------|--------|
| To balance b/d | | By cash | 18,000 |
| Stock | 750 | By balance c/d | |
| Petty cash | 2,000 | Stock | 1,000 |
| To Goods sent to Branch | 13,000 | Petty cash | 150 |
| To Bank – expenses | | | |
| Salary | 1,000 | | |
| Rent | 2,000 | | |
| Petty cash | 300 | | |
| To General P & L a/c | 1,900 | | |
| | 19,150 | | 19,150 |

Problem 2 :

The Bombay textiles Ltd., Opened a branch at Delhi on 1 st April 2000. From the following particulars prepare Delhi branch account for 2000 – 2001 and 2001 – 2002 in the books of the head office.

| Particulars | 31.03.2001 Rs. | 31.03.2002 Rs. |
|--|-------------------|-------------------|
| Goods sent to Delhi | 45,000 | 1,35,000 |
| Cash sent to branch for : Rent | 6,000 | 6,000 |
| Salaries | 4,800 | 6,800 |
| Other expenses | 2,000 | 3,000 |
| Cash received from branch | 70,000 | 1,60,000 |
| Stock on 31 st March | 7,000 | 26,000 |
| Petty cash in hand on 31 st March | 120 | 260 |

(M.S. University, Nov. 2016)

Answer: **Branch account for the year ended 31.03.2002**

| Particulars | Rs. | Particulars | Rs. |
|---|----------|---|----------|
| To balance b/d | | By Bank a/c | 1,60,000 |
| Stock 7,000 | | By balance c/d | |
| Petty Cash <u>120</u> | 7,120 | Stock 26,000 | |
| To Goods sent to Branch | 1,35,000 | Petty cash <u>260</u> | 26,260 |
| To Bank a/c | | | |
| Rent 6,000 | | | |
| Salaries 6,800 | | | |
| Other expenses <u>3,000</u> | 15,800 | | |
| To Profit & Loss a/c | 28,340 | | |
| | 1,86,260 | | 1,86,260 |

Problem : 3

From the following particulars prepare Nellai branch account showing profit or loss

| | |
|-----------------------------|--------|
| | Rs. |
| Opening stock at the branch | 15,000 |
| Goods sent to the branch | 45,000 |
| Sales | 60,000 |
| Salaries | 5,000 |
| Other expenses | 2,000 |

Closing stock could not be ascertained but it is known that the branch usually sells at cost plus 25. The branch manager is entitled at a commission of 5% on profit before charging such commission.

Answer: **Nellai Branch account**

| Particulars | Rs. | Particulars | Rs. |
|--------------------------|--------|------------------|--------|
| To opening Stock | 15,000 | By Bank a/c | |
| To Goods sent to Branch | 45,000 | Sales | 60,000 |
| To Bank: | | By Closing stock | 12,000 |
| Salaries 5,000 | | | |
| Other exp. 2,000 | 7,000 | | |
| To Commission to Manager | 250 | | |
| To Profit | 4,750 | | |
| | 72,000 | | 72,000 |

Problem : 4

Naga of Trichy has a branch at Madras. Goods are sent by H.O. at invoice price which is cost plus 20%. All expenses are paid by H.O. From the following particulars, prepare branch account in the H.O. books.

Stock (invoice price) Rs. 11,000; Debtors Rs. 1,700; Petty Cash Rs. 100

Goods sent to branch (invoice price) Rs. 20,000

Expenses paid by H.O.

Rent Rs. 600; Wages Rs. 200; Salary Rs. 900

Remittances to H.O.

Cash sales Rs. 2,650; Cash from debtors Rs. 21,000. Goods returned to

H.O. (invoice price) Rs. 400

Balance at the end.

Stock (invoice price) Rs. 13,000; Debtors Rs. 2,000; Petty cash Rs. 25

Answer: **Branch account**

| Particulars | Rs. | Particulars | Rs. |
|-------------------------|--------|-----------------------------|--------|
| To balance b/d; | | By Bank a/c | |
| Stock 11,000 | | Cash sales 2,650 | |
| Debtors 1,700 | | Recd from Drs <u>21,000</u> | 23,650 |
| Petty cash <u>100</u> | 12,800 | By Goods sent to Branch | |
| To Goods sent to Branch | 20,000 | (Returned) | 400 |
| To Bank a/c: | | By Stock Reserve | 1,833 |
| Rent 600 | | By Goods sent to Branch | 3,267 |
| Wages 200 | | By balance c/d: | |

| | | | | | |
|----------------------|------------|-------|------------|--------|--------|
| Salary | <u>900</u> | 1,700 | Stock | 13,000 | |
| To Stock Reserve | | 2,167 | Debtors | 2,000 | |
| To Profit & Loss a/c | | 7,508 | Petty cash | 25 | 15,025 |
| 44,175 | | | 44,175 | | |

Workings:

Goods sent at invoice price – cost plus 20%

Let Cost price be Rs. 100

Add: Profit Rs. 20

Invoice price Rs. 120

Problem : 5

Arun & Co. of Mumbai has a branch at Coimbatore. Goods are sent by the head office at invoice price. (i.e. profit of 20% on invoice price). All the expenses of the branch are paid by the head office. From the following particulars, prepare branch accounts in the head office books, showing the goods at invoice price.

| | Rs. |
|---|--------|
| Opening balances: | |
| Stock at invoice price | 11,000 |
| Petty Cash | 100 |
| Goods sent to branch at invoice price | 20,000 |
| Expenses paid by the head office: | |
| Rent | 600 |
| Wages | 200 |
| Salary | 900 |
| Income received by the head office directly | 25 |
| Remittances made to the head office: | |
| Cash sales | 2,650 |
| Cash collected from debtors | 21,000 |
| Goods returned by the branch at invoice price | 300 |
| Credit Sales | 22,800 |
| Balance at the end: | |
| Stock at Invoice price | 13,000 |
| Debtors at the end | 2,000 |
| Petty Cash | 100 |

| | |
|-----------------------------|-----|
| Bad Debts | 300 |
| Discount to customers | 500 |
| Goods returned by customers | 700 |

Answer: Coimbatore Branch Account

| Particulars | Rs. | Particulars | Rs. |
|-------------------------|--------|--------------------------|--------|
| To balance b/d | | By Bank a/c | |
| Stock 11,000 | | Cash Sales 2,650 | |
| Petty Cash 100 | | Recd from Debtors 21,000 | 23,650 |
| Debtors <u>1,700</u> | 12,800 | By Goods sent to Branch | 300 |
| To Goods sent to Branch | 20,000 | By Bank a/c | 25 |
| To Bank a/c | | By Stock Reserve | 2,200 |
| Rent 600 | | By Goods sent to Branch | 3940 |
| Wages 200 | | By Balance c/d: | |
| Salary 900 | 1,700 | Stock 13,000 | |
| To Stock Reserve | 2,600 | Debtors 2,000 | |
| To Profit & Loss a/c | 8,115 | Petty Cash 100 | 15100 |
| | 45,215 | | 45,215 |