Financial Accounting

Unit : V

Bipan

Q. What is Branch Accounting? Or Define Branch Accounting.

Ans :- MEANING : In order to increase the volume of profit, is it the primary objective the firms open their shops in different parts of the locality/country to increase their volume of sales. It is a method to sell goods direct to customers spread over a large territory without an intermediary. The main establishment is called the Head Office and its off shoots are called Branches.

DEFINITION :- "Where a section of a business is segregated physically from the main section it is a branch ; in other words, if the location of activities is separated from the main place of operation, there any be said to be a head office and a branch."

Thus branch is not a separate legal entity apart from its head office. It is an establishment which is a segment of an enterprise, geographically separated from the main establishment carrying on same or substantially the same activity as of the enterprise and acting under the direction and control of the Head office. (The method of accounting which is used by the head office to record the branch activities in order to ascertain profit or loss made by branch is called 'Branch Accounting.')

Q.. What are the special features of Branch Accounting?

Ans : The following are the some important features of branch accounting :-

I. Branches are physically and geographically separated from each other as well as from the head office;

II. Usually all the branches are dealing in same types of goods and services.

III. A branch depends on its head office for its supply of goods except in case of an independent branch.

IV. A branch acting under the direction and control of the head office;

V. A branch is not a separate legal entity ; and

VI. A branch is treated as a separate profit centre from the accounting point of view.

3. What are the needs/ importance for branch accounting.

Ans : The following are the need of branch accounting :-

I. To know the profitability of each branch separately ;

II. To ascertain the financial position of each branch separately on a particular date ;

III. To know the requirements of cash and stock for various branches;:

IV. To evaluate the progress and performance of each branch ;

V. To determine the commission for the manager where such commission is based on branch profit,

VI. To assess whether branch should be expended or closed ;

VII. To give suitable suggestions for the improvement in the working of each branch ; and

VIII. To fulfil the audit requirements under sec. 228 of the Companies Act, 1956.

Q.4. What are the objectives of keeping branch accounts?

Ans : The objectives of keeping separate branch accounting are as follows :-

I. Ascertainment of profit or loss of each branch :- Branch accounting become necessary to ascertain the profit or loss of each branch separately for a particular accounting period ;

II. Ascertainment of financial position :- A separate branch account is opened for each branch at the end of the accounting period to ascertain the financial position ;

III. Fulfillment of requirements :- Branch accounting become necessary to fulfil the requirements of cash and stock of each branch ;

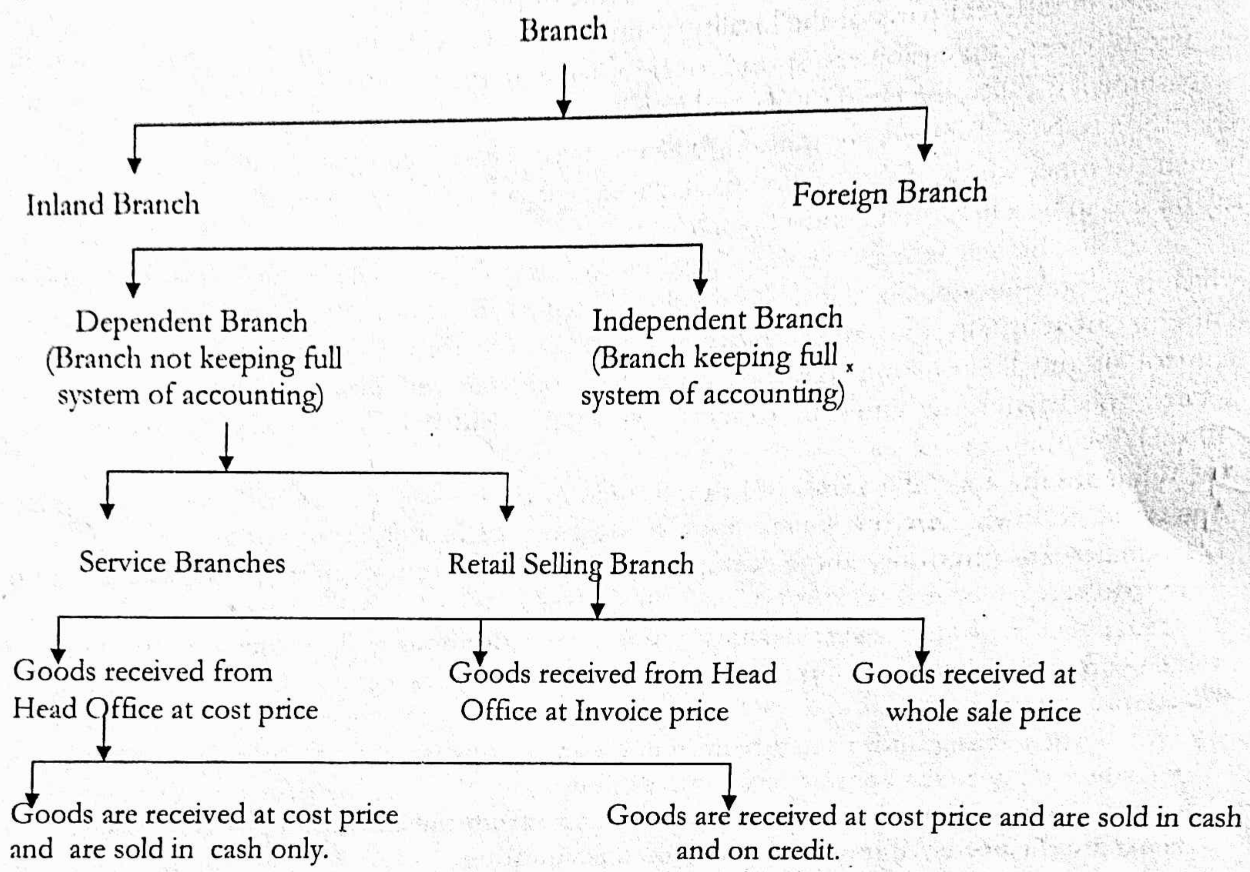
IV. Assessment of Performance :- It provides the management with useful information to assess its progress and performance ;

V. Calculation of manager's Commission :- Branch accounting also helps the management to ascertain the amount of commission of the manager if commission is based on branch profit;

VI. Sound policy:- It also provides valuable information to the management to undertake a sound policy towards expansion of branch or closure.

VIII. Suitable suggestion :- It becomes necessary to give suitable suggestion for the improvement in the working of various branches.

Q.5 What are the main classes of branch accounts ? Or,
Write Short notes on different types of branches from the accounting of view.
Ans : The branches can be divided into the following classes :



Branches are divided into two classes on the basis of location :-
(i) Inland Branch ; and
(ii) Foreign Branch.
~~Inland branches are again divided into two classes, VIZ :-~~
(a) Dependent Branch, and (b) Independent Branch
(a) **Dependent Branch** :- Dependent Branches are of three types —
I. Goods are sent to the branch at cost price and sells them only for cash and remits all cash to the head office. All expenses are generally met by the head office.
II. Goods are sent to the branch at cost price. Branch sells them both for cash and on credit and remits all cash to the head office and expenses are met by the head office.
III. Goods are sent to the branch at invoice price. Branch sells them both for cash and on credit and remits all cash to the head office and expenses are met by the head office.

All the above mentioned branches are retail selling branches. They do not maintain any books except preparing cash and stock statements.

(b) **Independent Branch** :- The big branches normally prepare their accounts independently. They receive goods from head office and also purchase goods from the local market. They sell goods both for cash on credit independently. At the end of the year, a trial balance is prepared which is sent to the head office. The head office incorporates all the branch accounts in its books and a "General Profit and loss Account" together with "Balance Sheet" are to be prepared by the head office.

ii] Foreign Branch :- Such branches are located in a foreign country. A foreign branch enjoys a complete autonomy and functions like an inland independent branch. They maintains a complete set of double entry records and prepare a Trading and profit and loss Account and Balance Sheet at the end of the accounting period. The main problem is that a foreign branch keeps its records and prepares its trial Balance at its own currency and remits the same to the head office. Head office converts the trial balance into own currency before the same is incorporated in the head office books.

Q. What are the system of branch accounting under dependent branch?

Ans :- Dependent branch do not maintain proper books but accounts are maintained by the head office only. The system of accounting which is adopted by the head office depends on the size of the branch, the nature and volume of business transactions and degree of control etc. The following are the ways through which head office keep the branch accounts in its books :-

1. Debtors system or synthetic Method,
2. Final Account system,
3. Stock and debtors system or Analytical method, and
4. Wholesale branch system.

Q.7 What are the advantages of the head office by invoicing its goods to the branch at selling price or invoice price ?

Ans :- Sending goods at invoice price has certain advantages which are stated below :-

I) Maintenance of Secrecy :- The head office can keep secret from the branch manager the profit they makes on the sale of the goods. Thus it reduces the possibility of competition in the business. Moreover, it also prevents demand for increased commission.

II) Uniform Selling Price :- All the branches will be directed to sell the goods at invoice price. Thus uniformity of selling price can be maintained.

III) Control over stock :- It facilitates the control of the head office over the unsold stock at branch. Closing stock can be easily calculated. By deducting the sales proceeds from the net invoice price.

IV) Adjustment of price :- Any changes in the price of a product can be adjusted by changing trade discount rate without changing the invoice price.

0.8) What do you mean by inter-branch transactions? State the accounting treatment?

Ans : When goods are transferred from one branch to another branch, under the instructions of the head office is called inter-branch transactions. For example, the Kolkata Head office may instruct the Guwahati branch to send goods to Shillong branch etc. Such transactions are necessitated for non-availability of goods at certain times from the Head office.

Accounting Treatment :-

From the accounting point of view, if such types of transactions occur between branches, they are recorded in the books of a branch in the way the transactions with the Head office are recorded. For example, Nalbari branch transferred goods to Barpeta Branch under the instruction of the Guwahati Head Office.

Journal Entries :

In the books of Nalbari Branch (Supplying Branch)

Head office A/C Dr.
To, Goods Supplied to Branch A/C

In the books of Barpeta Branch (Receiving Branch)

Goods Received from Head office A/C Dr.
To, Head office A/C

In the books of Head office

Barpeta Branch A/C Dr.
To, Nalbari Branch A/C.

Q.9. What do you mean by Debtors/Synthetic system of branch accounts.

Ans :- In this system, a separate 'Branch Account' is maintained for every branch in the books of Head office. This system is usually applicable for those branches which are fairly small in size and it depends on Head office for goods. Branch account is treated as a nominal account which calculates the profit/ loss made by the branch and transferred it to the general profit and loss account. Under this system all the transactions are recorded assuming that the branch is a debtor of the Head Office. Hence this system is called debtors system. So any transaction take place between branch and the third party does not find any place in the branch account. For example, sales (cash and credit), discounts, bad debts, sales returns and expenses paid by branch are not recorded in the branch account, because it involves branch and their customers.

The main problem in this system is that it does not provide full and accurate information for analysis of branch profit or loss. In short the various transactions and their recording under this system are, Branch Account is debited with the opening balance of branch assets, goods sent to branch (cost or cost + loading) less returns, cheque sent for expanses of the branch and branch liabilities at the end and credited by branch liabilities at the beginning, cheque received for remittance and branch assets at the end. The difference between the two sides will be profit or loss of the branch.

Q.10. What is stock and Debtors/Analytical system of branch accounting?

Ans :- This system is very useful where the transactions and turnover of a branch sufficiently large and when goods are sent to branch usually at an invoice price (i.e. selling price). Under this system, instead of opening one branch account, separate accounts are opened for various transactions. Under this system, the Head office maintains for every branch, Branch stock Account, Goods sent to Branch Account, Branch Debtors Account, Branch Stock Adjustment Account, Branch Expenses Account and Branch profit and loss Account.

i) Branch Stock Account:- This account is debited with opening stock at branch, goods sent to branch and goods returned by branch debtors. Cash sales, credit sales, goods returned by the branch to the head office, any normal and abnormal losses and closing stocks of goods are recorded on the credit side. The difference between the two sides represents surplus or shortage of stock should be transferred to branch stock adjustments account.

ii)Goods sent to Branch Account :- This account is credited with the value of goods sent to branch at invoice price and debited with the value of goods returned by the branch at same invoice price. At last after adjusting 'loading' the balance of this account transferred to Purchases Account.

iii)Branch debtors Account:- This account is prepared by debiting the account with opening balance and credit sale and crediting the account with cash received from debtors, goods returned by the customers, discount allowed, bad debts written off, the balance represents the closing debtors.

iv) Branch stock Adjustment Account:- This account is prepared for ascertaining gross profit at branch. This is done by eliminating the 'loading' included in stock (i.e. opening stock, goods sent to branch, goods returned by debtors, surplus of stock, goods returned by branch, shortage of stock and closing stock at branch). The balance represents the gross profit or loss which is transferred to branch profit and loss Account.

v) Branch Expenses Account :- It records all the expenses incurred by a branch including expenses and loss relating to branch debtors. The balance of this account transferred to branch profit & loss Account.

vi)Branch Profit and Loss Account :- This account is debited with the branch expenses and with the cost of loss of stock and credited with gross profit and with the cost of surplus of stock. The balance represent branch Net profit or loss ultimately transferred to General profit & loss Account.

Q.ll. What is Final Account system of branch Accounting ?

Ans :- Under this system, branch profit or loss is ascertained by preparing Branch Trading and Profit & loss Account at cost price. It should be noted that Branch Trading and Profit & Loss Account is not a part of full accounting, it is only prepare on memorandum basis. It also prepares a branch account which contains the transaction taken place between the branch and the head office. It is treated as a personal account and shows a debit balance which represents the net amount due from the branch at close.

Final Account system contains all the transactions at the cost price. If these figures are given at invoice price, they need to be converted to the cost price by removing 'load' before ascertaining the branch profit or loss.

Q.ll. What are the main features of dependent branch?

Ans :- The following are the main features of dependent branches :-

i)These types of branches are generally allowed to sell only those goods which are received from head office.

ii)Goods are sent to the branches either at cost price or at invoice price.

iii)All the expenses of the branch are paid by the head office.

iv)Petty expenses of the branch are paid by the branch manager out of petty cash balance.

v)The amount received by way of cash sales or cash received from debtors are directly remitted to the head office daily.

vi)The branch manager is normally allowed to sell the goods for cash only but sometimes he may be authorised to sell goods on credit.

Q.13. Write shore notes on the followings

a) Branch :- . In order to increase the volume of profit, it is the primary objective the firms open the shops in different parts of the locality/country to increase their volume of sales. It is a method to se goods direct to customers spread over a large territory without any intermediary. The main establishment is called the Head Office and its off-shoots are called Branches.

The branch is not a separate legal entity apart from its head office. It is an establishment which is a segment of an enterprise, geographically separated from the main establishment, caning on same or substantially the same activity as of the enterprise and acting under the direction ar. control of the Head office.

b) Dependent branch :- The dependent branches do not keep proper set of accounting books. These types o branches depend upon head office for ascertaining their results of operation. Branches keep record of only some information relevant for their activities such as the Stock Register, the cast book and the petty cash books. Such branches sell only those goods which are received from heat office. Goods are received from head office either at cost price or at invoice price. All expenses o the branch such as rent, salary of the staff, wages, advertisement etc. are paid by the head office Petty expenses like cartage, freight etc. are paid by the branch manager out of petty cash boot balance. The amount received from cash sales or cash received from debtors in case of credi sales is either remitted to the head office daily or deposited in the head office account in some loca bank. The branch manager is usually allowed to sell the goods for cash only. If however, the branch is authorised to make credit sales, a Sales Day Book and a Debtors Ledgers will also required to b maintained by the Branch. The following are the ways to know the results of a branch :-

a) Debtors system (Synthetic Method);

b) Final Account System (cost basis);

c) Final Account system (whole-sale price basis); and

d) Stock and Debtors System (Analytical Method)

c) Independent Branch ::- These are the branches which maintain their own set of accounting books and prepares it own Trial Balance and Profit and Loss Account in order to ascertain its own profit or loss. As far as their accounting paint of view, both dependent and independent branch are completely dependent on the head office. All the major decision is taken by the head office. Goods are sent to the branch and cash collected by the branch is remitted to the head office etc. In this system, the head office prepares a consolidated Balance sheet after incorporating the branch trial balance into that books of the head office. Thus, classification of branches into dependent and independent depend solely on the accounting procedures followed for determination of profit or loss branch.

d) Cash-in-transit : Cash-in-transit or remittance-in-transit means when cash is actually remitted by a branch to its head office at the end of the accounting period, such cash may not reach the head office within the accounting period. When cash sent by the branch, branch recorded it in the credit side of the Head office Account but at the same time head office does not record the same in its books as it ii not received by the head office. In that case, the branch passes an adjustment entry may be passed by the head office also in its book.

n) Purchase of Fixed Assets :- In the books of the head office the Branch Account will be credited, if the branch h purchased any fixed asset and on the other hand the remittance from the branch to the head office will be reduced by the amount (in case of cash purchase). But in case of credit purchase the liability arises from such purchase will be shown on the debit side of a Branch Account.

o) Sale of fixed asset : In case of cash sale, the cash position at branch will increased an at the same time value fixed assets will reduce in value. In such a case both the entries are recorded on the credit side Branch Account. Cash remittance will increase from the branch but asset will reduce in value w be shown on the credit side of the Branch Account. Any profit or loss arising from such sale «j not be shown in the Branch Account because it is automatically adjusted from the above adjustments.

Q. Mention clearly the differences between Debtors System of Branch Accounting and stock and Debtors System of branch Accounting Marks.

Ans :- Difference between Debtors System and stock & Debtors System of Branch Accounting -

Points	Debtors System	Stock & Debtors System
1 Ascertain of Branch Profit	It is also known as synthetic system where branch profit is ascertained by preparing branch Account in Head Office Book.	It is also known as analytical system where branch profit is ascertained b preparing some necessary ledger ac- counts. Here Branch Stock Account prepared to ascertained Apparent goods profit / Loss, Branch Adjustment Account is prepared to ascertained Grew Profit/Loss and Branch Profit & Los Account is prepared to ascertained N -Profit / Loss of the Branch in He Office Book.
2. Treatment of Abnormal Loss.	Items in respect of Abnormal Loss i.e., pilferage of goods, goods lost by fire, etc., are not considered in Branch Account.	Items is respect of Abnormal Loss pilferage of goods, goods lost by fir: etc. are considered.
3. Usefulness.	It is not much useful to the branch where transactions in a branch are large in numbers.	It is much useful to the branch whet, transactions in a branch are large in number. Besides it exercises control over branch stock.
4. Application.	This system can be applied in both the cases irrespective of the fact whether goods are sent either at cost price or at invoice price.	This system is generally applied in a case when goods are sent to branch at' invoice price. ^