

Welcome students,

I'll be covering basic of accounting one wherein I'll be covering meaning, features, distinction between branch and department accounting, treatment under debtors system when goods are sent to branch at cost price.

Outline where in I'll be covering meaning, features and types of branches. Distinction between branch and department. Accounting treatment under debtors system when goods are sent to branch at cost price. At the end of this you will be able to explain the meaning, features and types of branches. You will be able to differentiate between the branch and department and carry out the entries under the debtors system when goods are sent to branch at cost price.

Meaning of branch

A branch is a section of an enterprise, geographically separated from the rest of the business controlled by head office and carrying on the same activities as of the enterprise. It is a subordinate unit of an organization. An organization expands activities through operating branches at different places. However, it is not a separate legal entity, but a segment of a business as per the provisions of Section 2, subsection 9 of the Companies Act, 1956.

Branch office in relation to company means any establishment described as a branch by the company. Any establishment carrying out either the same or substantially the same activity as that carried by the head office and any establishment engaged in any production, processing, or manufacture.

Features of branch.

- Branch is fully dependent on the Head Office for purchases, sales, expenses etc.
- Goods may be supplied by the Head office at Cost price / Invoice price.
- Cash sales and collection from debtors are immediately remitted to Head office.
- Branch accounts will be maintained by the Head Office.

Types of branches.

Branches are sub allocated based on location and dependence.

Now under location, branches are classified into local branch and foreign branch.

A branch which is operating within a country is known as a local branch and branch which is operating outside the country is known as a foreign branch. Dependent Branch wherein it is dependent on the head office for all their significant transactions, whereas independent branch is not dependent on the head office for their significant transaction.

Distinction between branch and department.

Branches are located at different places, however, department is located at the same place under one roof. Example, a company may have a branch in Gujarat, Karnataka, Maharashtra whereas a company will have a department like Finance Department, HR department under one roof itself.

Second point independence branches can have independence to varying extent in operation whereas department do not have independence in operation.

Branches are controlled through head office. Whereas departments are directly controlled by the company.

Branches may have independent books of accounts whereas department do not have independent books of accounts.

Methods of accounting.

There are two methods of accounting. One is debtors system and other one is stock and debtors system.

When branches are small in size they follow debtors system and as and when they expand they follow stock and debtors system.

Debtors system

- This system is adopted in the case of those branches which are small in size.
- Head office opens a separate account for each branch for the purpose of finding out profit or loss.
- Branch Account is prepared in head office books only.
- Head office may send goods to branch either at a cost price or invoice price (selling price).

Accounting treatment under debtors system when goods are sent to branch at cost price.

- Branch Account is debited with opening balances of assets such as stock, debtors, petty cash, furniture etc.
- Credited with the opening balances of liabilities of the branch such as creditors, outstanding expenses etc.
- Debited with the amount of goods sent to the branch and various expenses.
- Credited with goods returned by the branch and amount remitted by branch
- Branch Account is debited with closing balances of liabilities.
- Credited with the closing balances of assets.

Now let's see the accounting entries.

The first transaction opening balances of assets at the branch. The entry is branch account debit to branch asset account.

Next, opening balances of liabilities at the branch entry branch Liabilities account debit to branch account.

The third entry goods sent to branch by head office. Branch account debit to goods sent to branch account.

4th Goods returned by Branch to head office. Goods sent to branch account debit to branch account.

Next remittance of cash or cheque to branch for expenses. The entry is branch account debit to cash or bank account.

Next transaction cash remitted by branch to the head office. The entry is cash account or bank account debit to branch account.

Next for closing balances of asset at the branch entry branch asset account debit to branch account.

For closing balances of liabilities at the branch the entry is branch account debit to branch liabilities.

Entry for closing goods sent to branch is Goods sent to branch account debit to purchase account if the purchaser is a trader or to trading account if the person is a manufacturer.

Next for abnormal loss.

The entry is abnormal loss account debit to branch account. The total amount of abnormal loss.

Another part of it General profit and loss account debit insurance claim account debit to abnormal loss account. The claim will be debited to insurance claim. Total amount will be credited to abnormal loss and the loss difference between the total and a claim will be transferred to general profit and loss account.

And then finally transferring of profit or loss of the branch if there is a profit, it is transferred to general profit and loss account. The entry is branch account debit to general profit and loss account and if there is a loss general profit and loss account debit to branch account.

Now let's see the aspect wherein there are no entry.

Credit sales, normal loss or pilferage, goods returned by customers, branch expenses paid by the branch, bad debts, discount allowed to debtors for these transactions there are no entry.

Now this is a proforma of a branch stock account at cost price.

Where in on debit side you take all the opening balances of assets and on credit side, you take all the opening balances of the liabilities. So to balance brought down all your opening balance of assets and by balance brought down opening balance of your liabilities.

Then next item to good send to branch account. Now as head office is sending goods to the branch it is debited because branches receiving the goods so it is entered on debit side as to goods sent to branch account. If Branch is returning goods to the head office, it will come on your credit side as by goods sent to branch account into bracket, I've written return by branch.

Next part, if head office is giving money to the branch it is entered on debit side as to cash or bank that is amount remitted to the branch. Then branch remits the money out of cash sales or credit sales that is collection from debtors to the head office. Now in this case money is going out, so that is why it is entered on credit side as by cash or bank, out of cash sales and out of collection from debtors.

Next, when head office pays the expenses of the branch, it is entered on debit side, because branches receiving money to cash or bank and finally closing balance of liabilities will come on debit side and closing balance of asset will come on your credit side and then balance the accounts. If there is a profit look amount debit side transferred to general profit and loss account and there is a loss write on credit side transferring it to general profit and loss account.

These are the references.

Thank you.