

ADVANCED ACCOUNTING

3rd SEMESTER

TOPIC:

BRANCH ACCOUNTS

Dependent Branches: Features

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Branch Accounting

Definition:

Branch accounting is a bookkeeping system in which separate accounts are maintained for each branch or operating location of an organization. Typically found in geographically dispersed corporations, multinationals and chain operators, it allows for greater transparency in the transactions, cash flows and overall financial position and performance of each branch.

Branch accounts can also refer to records individually produced to show the performance of different locations, with the accounting records actually maintained at the corporate headquarters. But the term usually refers to branches keeping their own books and later sending them into the head office to be combined with those of other units.

How Branch Accounting Works:

In branch accounting, each branch (defined as a geographically separate operating unit) is treated as an individual profit or cost center. Its branch has its own account. In that account, it records such items as inventory, accounts receivable, wages, equipment, expenses such as rent and insurance, and petty cash. Like any double-entry bookkeeping system, the ledger keeps a tally of assets and liabilities, debits and credits, and ultimately, profits and losses for a set period.

Technically speaking, in bookkeeping terms, the branch account is a temporary or nominal ledger account. It lasts for a designated accounting period. At the period's end, the branch tallies up its figures and arrives at ending balances, which are then transferred to the appropriate head office or head department accounts. The branch account is left with a zero balance until the accounting process begins all over again with the next accounting period or cycle.

Branch Accounting Methods

There are several different methods for keeping branch accounts, depending on the nature and complexity of the business and the operational autonomy of the branch. The most common include:

- ✓ Debtor system
- ✓ Income statement system
- ✓ Stock and debtor system
- ✓ Final accounts system

Where Branch Accounting Applies

Branch accounting can also be used for a company's operating divisions, which usually have more autonomy than branches, as long as the division is not set up legally as a subsidiary company. A branch is not a separate legal entity, although it can (somewhat confusingly) be referred to as an "independent branch" because it keeps its own accounting books.

However, branch accounting is not the same as departmental accounting. Departments may have their own accounts, but they usually operate from the same physical location. A branch, by its nature, is a geographically separate entity.

History of Branch Accounting

Though it seems synonymous with contemporary chain stores and franchise operations, branch accounting actually goes back a long way.

Venetian banks maintained a form of it as early as the 14th century. The ledgers of a firm of Venetian merchants, dating from 1410-18, also show a form of it to try to account for overseas and home accounts. Luca Pacioli's *Summa de Arithmetica* (1494), the first accounting textbook, devotes a chapter to it.

By the 17th century, branch accounting was being widely used by German counting-houses and other businesses. Moravian settlements throughout the thirteen original colonies used it for their books in the mid-1700s.

Pros and Cons of Branch Accounting

The primary advantages (and often the objectives) of branch accounting are better accountability and control since the profitability and efficiency of different locations can be closely tracked.

On the downside, branch accounting may involve added expenses for an organization in terms of manpower, working hours and infrastructure. A separate account coding structure must be maintained for each operating unit. It may be necessary to appoint branch accountants to ensure accurate financial reporting and compliance with head office procedures and processes

Meaning of Branch:

In order to increase the volume of profit, it is the primary aim of all business enterprises to increase their volume of sales. For this purpose, many firms open their shops in different parts of the locality/country. (The parent establishment is known as 'Head Office' and its offshoots are termed as 'Branch'.)

Besides, if branches are opened, particularly in developed regions, both the local consumers and the firms are benefited.

Practically, it is an extension of an existing firm. It should be remembered that a branch has its separate existence but does not possess any separate legal entity. That is why, it is said that it is nearly an extension and a profit centre of an existing firm. Needless to say that all activities of the branches are controlled by the Head Office.

According to Sec. 2 (a) of the Companies Act, 1958, a branch (office) is defined as:

“(a) “any establishment described as a branch by the Company, or,

(b) Any establishment carrying on either the same or substantially the same activity as that carried on by the head office of the company, or

(c) Any establishment engaged in any production, processing or manufacture, but does not include any establishment specified in any order made by the Central Govt., u/s-8.

Similarly according to Sec. 8, the Central Govt., may, by order, declare that in the case of any company any establishment carrying on either the same or substantially the same activity as that carried on by the Head Office of the Company, or any establishment engaged in any production, Passing or manufacture shall not be treated as a branch office of the company for all or any of the purposes of the Act.

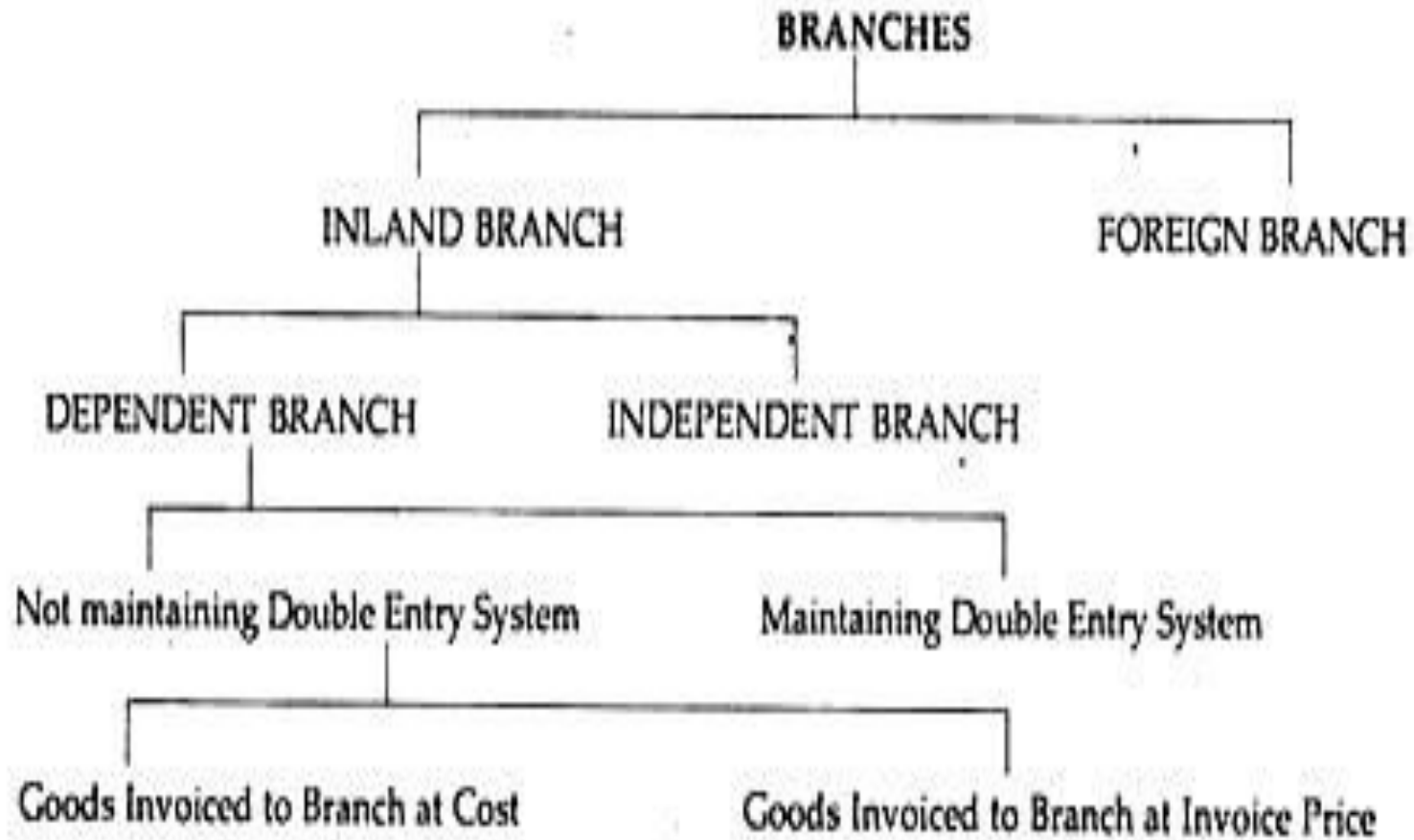
It has already been stated above that a branch is an extension and a profit centre of the Head Office. Consequently profit of the branch is to be ascertained periodically by the Head Officer this purpose proper accounting should be maintained both in the books of branch as well as in the books of Head Office.

As the activities of branches vary from branch to branch, system of branch accounting depends on their nature, type, size, locality i.e., area of operation etc.

Types of Branches:

There are different types of branches according to their nature and magnitude of operation, although all the branches are operated under the instruction of Head Office. As a result, the system of branch accounting is not the same in all the cases.

However, branches may be classified as:



(i) Inland Branch (also known as Domestic Branch or Home Branch):

These branches are situated within the territory of the country. These branches do not maintain accounts under Double Entry System. They simply read out periodical statements to Head Office relating to goods received, goods sold, amounts returned, expenses, stock position (both at the beginning and at the end.)

These branches are not allowed to purchase goods from outside market. As all collections are directly remitted to Head Office, naturally, expenses of branches are met by Head Office. In other words, these branches are operated and controlled by Head Office.

Dependent Branch:

Dependent branches are those which do not maintain separate books of account and wholly depend on Head Office.

The result of the operation, i.e., profit or loss, is ascertained by Head Office. In other words Head Office maintains and opens a Branch Account in its book in order to find out the result of the operation. Branches supply some related information to the Head Office, i.e., position of cash, debtors stocks, etc.

Independent Branch:

Independent branches are those which maintain complete system of accounting.

This particularly happens when their sizes are very large due to various functional complexities. In short, they prepare their accounts independently, i.e., they also purchase and sell goods for cash and credit independently in addition to the goods that are supplied by the Head Office.

They may supply goods to Head Office, pay expenses and deposit cash in their own account like an independent unit.

Thus, they maintain their own accounts under Double Account System. That is why they are called Independent Branch.

(ii) Foreign Branch:

These branches are located outside the country. They are operated in the foreign country which has a different currency and, as such, question of rate of exchange will arise. These branches may be of: (i) Dependent Branch or (ii) Independent Branch depending on the method of accounting.

THANK YOU