1. **Introduction**

A branch can be described as any establishment carrying on either the same or substantially the same activity as that carried on by the head office. The concept of branch means the existence of a head office for there can be no branch without a head office- the principal place of business. From the companies’ point of view, branches may be classified as follows;

1. Branches in respect of which the whole of the accounting records are kept at the head office (Dependent branches).
2. Branches which maintain independent accounting records (Independent branches).
3. Foreign branches.
4. **Dependent branches**

When the business policies and the administration of a branch are wholly controlled by the head office, and the accounts are also maintained at the head office, the branch is described as a dependent branch. Some of the significant types of depend branches that are operated in this manner are described below;

1. A branch set up merely for booking orders that are executed by the head office. Such a branch only transmits orders to the head office.
2. A branch established at a commercial centre for the sale of goods (wholesale) supplied by the head office, and under its direction, all collections are made by the head office.
3. A branch for the retail sale of goods, supplied by the head office.

Accounting for the first two types is simple. Only a record of expenses incurred at the branch has to be maintained. In the last case, there are various methods of recording transactions between the head office and the branch.

* 1. **Methods of charging goods to branches.**

Goods may be invoiced to branches (1) at cost; or (2) at selling price; or (3) in the case of retail branches, at wholesale price.

* + 1. When goods are invoiced at selling price

Selling price method is adopted where the goods would be sold at a fixed price by the branch. It is suitable for dealers in such products as petroleum and tea, among others. In this way, greater control can be exercised over the working of the branch because the branch balance in the head office would always be composed of the value of unsold stock at the branch and remittances or goods in transit. The arbitrary price method is usually adopted if the selling price is not known or when it is not considered desirable to disclose to the branch manager the profit made by the branch.

* + 1. When goods are invoiced at cost

If goods are invoiced to the branch at cost, the trading results of the branch can be ascertained by following either the **Debtors method** or the **Stock and Debtors method**. For this purpose, it is assumed that the branch is an entity separate from the head office. On that basis, a branch account is stated in the head office books to which the price of goods or services provided or expenses paid out are debited, and the value of benefits and cash received from the branch are credited.

2.1.2.1 Debtors method

The opening stock of stock, debtors (if any), petty cash (if any), are debited to the branch account; the cost of goods sent to branch as well as expenses of the branch paid by the head office e.g. salaries, rent, insurance, e.t.c., are also debited to it. Conversely, the amounts remitted by the branch and the cost of goods returned by the branch are credited. At the end of the year, the value of unsold stock, the total customer balances outstanding and that of petty cash are brought into the branch account on the credit side, and then, the branch account will reveal a profit or a loss.

Debit balance will be the loss suffered by the working of the branch and vice versa. If the branch also is allowed to make small purchases of goods locally as well as to incur expenses, details of such expenditure will be furnished by the branch to the head office.

On the other hand, if purchases are made out of cash receipts, it will only be necessary for the branch to supply to the head office a copy of the cash account, showing details of cash collections and disbursements.

Below is an illustration of the branch account (as maintained by the head office).

**Branch Account**

**DR CR**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Ksh.** |  | **Ksh.** |
| **Balance b/d:** |  | Cash remitted to Head Office |  |
| Stock |  | Goods Returned to Head Office (cost) |  |
| Debtors |  | **Balance c/d** |  |
| Petty cash |  | Cash |  |
| **Goods sent to branches:** |  | Debtors |  |
| Bank |  | Petty cash |  |
| Salaries |  | **P& L- Profit ( if debit side larger)** |  |
| Rent |  |  |  |
| Sundry/ other Expenses |  |  |  |
| **P& L- Profit ( if credit side larger)** |  |  |  |
|  |  |  |  |

NB:

1. Having credited the branch account by the actual cash received from the debtors (cash remitted to head office), it would be wrong to debit the branch account with the discounts or allowances to debtors.
2. The accuracy of the trading results as disclosed by the branch account, so maintained, if considered necessary, can be proved by preparing the memorandum branch, trading and profit and loss account, in the usual way, from the balances of various items of income and expenses contained in the branch account.

**EXAMPLE 1**

Laikipia LTD has a branch at Naivasha. They send goods at cost to their branch at Naivasha. However, direct purchases are also made by the Naivasha branch for which payments are made at the head office. All the daily collections are transferred from the branch office to the head office.

From the following, prepare Naivasha Branch Account in the books of the head office using the debtors’ method. Assume that the petty cash expense for the year was Ksh. 4,000.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Ksh.** |  | **Ksh.** |
| Imprest cash | 2,000 | Bad debts | 1,000 |
| Sundry debtors | 25,000 | Discount to customers | 2,000 |
| Stock: Transferred from H/O | 24,000 | Remittances to H/O (Recorded by H/O) | 165,000 |
| Direct purchases | 16,000 | Remittances to H/O (Not yet Recorded by H/O) | 5,000 |
| **Opening balance 1.1.2012** |  | Branch expense paid directly by head office | 30,000 |
| Cash sales | 45,000 | **Closing balance 31.12.2012** |  |
| Credit sales | 130,000 | Stock: Direct purchase | 10,000 |
| Direct purchases | 45,000 | Transfer from H/O | 15,000 |
|  |  | Debtors | ? |
| Returns from customers | 3,000 | Imprest cash | ? |
| Goods sent to branch from H/O | 60,000 |  |  |
| Transfer from H/O for petty cash | 4,000 |  |  |
|  |  |  |  |

**Branch Account**

**DR CR**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Ksh.** |  | **Ksh.** |
| **Balance b/d: Assets** |  | **Bank- Remittances** |  |
| Stock: Transferred from H/O | 24,000 | Received from the branch |  |
| Direct purchases | 16,000 | Cash sales | 45,000 |
| Debtors | 25,000 | Cash from debtors (W1) | 120,000 |
| Imprest cash | 2,000 | Cash from debtors in transit | 5,000 |
|  |  |  |  |
| Goods sent to branch a/c | 60,000 | Branch assets at close: |  |
| Creditors (Direct purchases) | 45,000 | Stock: |  |
| Bank (Sundry expenses) | 30,000 | Transfer from H/O | 15,000 |
| Bank (Petty cash expenses) | 4,000 | Direct purchase | 10,000 |
|  |  | Sundry debtors (W2) | 24,000 |
|  |  | Imprest cash (W3) | 2,000 |
|  |  |  |  |
|  |  |  |  |

**Workings**

W1 Collection from debtors

Total remittances 170,000.00

Less cash sales 45,000.00

Less Cash in transit 5,000.00

Cash from debtors 120,000.00

W2. Sundry debtors closing balance

Opening balance 25,000.00

Credit sales 130,000.00

Less: Returns, discounts, bad debts and collections) (3,000+2,000+1,000+125,000) 131,000

Sundry debtors: **24,000.00**

W3. Imprest cash

Opening balance 2000.00

Received 4000.00

Expenses (4000.00)

Balance **2000.00**

**Exercise:** Draw a branch trading, profit and loss account.

* + - 1. Stock and debtors method

If it is desired to exercise a more detailed control over the working of a branch, the accounts of the branch are maintained using the stock and debtors method. Under this method, the following accounts are kept.

* Branch stock account (or branch trading account),
* Branch profit and loss account.
* Branch debtors account (if any).
* Branch expenses account.

If the branch is also allowed to purchase goods locally and to incur expenses out of its cash collections, it would be necessary to maintain also (i) a branch cash account, and (ii) an independent record of branch assets. All these accounts are maintained by the head office.

Below is a summary of entries made.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Transaction | DR | CR |
| A | Cost of goods sent to branch | Branch stock account | Goods sent to branch account |
| B | Remittances for expenses | Branch cash account | Head office cash account |
| C | Any assets e.g. furniture provided by head office | Branch asset (furniture account) | Head office cash account or creditors account or head office furniture account |
| D | Cost of goods returned by branch | Goods sent to branch account | Branch stock account |
| E | Cash of sales at branch | Branch cash account | Branch stock account |
| F | Credit sales at the branch | Branch debtors account | Branch stock account |
| G | Return of goods by debtors to the branch | Branch stock account | Branch debtors account |
| H | Cash paid by debtors | Branch cash account | Branch debtors account |
| I | Discounts and allowances to debtors, bad debts | Branch expenses account | Branch debtors account |
| J | Remittances to head office | Head office cash account | Branch cash account |
| K | Expenses met by head office | Branch expenses account | Head office cash account |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |

**Closing stock**; credit the branch stock account with the value of the closing stock at cost. It will be carried down as opening balance (debit) in the ensuing period. The balance of the branch stock account, (after adjusting the value of the closing stock) if on the credit side will represent the gross profit on sales, and vice versa.

Other steps;

* Transfer the balance of the branch stock account to the branch profit and loss account.
* Transfer the balance of the branch expenses account to the debit of the branch profit and loss account.
* The balance in the branch profit and loss account will be transferred to the head office profit and loss account.

The credit balance of the goods sent to branch account is afterwards transferred to the head office purchase account or trading account (in the case of manufacturing concerns), it being the value of goods transferred to the branch.

Example

Laikipia LTD invoiced goods to its Naivasha branch at cost. The head office paid all the branch expenses from its bank account except for petty cash expenses which were met by the branch. All the cash collected by the branch was banked on the same day to the credit of the head office. The following is a summary of the transactions entered into at the branch during the year ending December 31, 2012.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Ksh. |  | Ksh. |
| Stock, January 1 | 7,000 | Bad debts | 600 |
| Debtors, January 1 | 12,600 | Goods returned by customers | 500 |
| Petty cash, January 1 | 200 | Salaries and wages | 6,200 |
| Goods sent from head office | 26,000 | Rent and rates | 1,200 |
| Goods returned to head office | 1,000 | Sundry expenses | 800 |
| Cash sales | 17,500 | Cash received from sundry debtors | 28,500 |
| Credit sales | 28,400 | Stock, December 31 | 6,500 |
| Allowances to customers | 200 | Debtors, December 31 | 9,800 |
| Discounts to customers | 1,400 | Petty cash, December 31 | 100 |
|  |  |  |  |
|  |  |  |  |

Required:

* Branch account (debtors method).
* Memorandum branch trading and profit and loss account to prove the results as disclosed by the branch account.
* Branch stock account, branch profit and loss account, branch debtors’ account, and branch expenses account by adapting the stock and debtors method.
  + 1. When goods are invoiced at sales price

If the branch account is debited with the sales price of goods, and subsequent to the debit being made there is a change in the sales price, the amount of debit either has to be increased or reduced in consideration of the quantity of unsold stock that was there at the branch at the time the change took place. Such an adjustment will be necessary as often as the change in price occurs.

Moreover, the amount of anticipatory profit, included in the value of unsold stock with the branch at the close of the year will have to be eliminated before the accounts of the branch are incorporated with that of the head office. This will be done by creating a reserve.

It may also be necessary to adjust the value of the closing stock on account of physical losses of stock due to either pilferage or wastage which may have occurred during the year. The last mentioned adjustments are made by debiting the cost of goods to the goods lost account and the amount of loading (included in the lost goods), to the branch adjustment account. The three different methods that are usually adopted for maintaining accounts on this basis are as listed below;

* The stock and debtors method.
* The debtors’ method.
* The double column method.

In this case, we will only look at the stock and debtors method.

Under the stock and debtors method, it would be necessary to maintain the following accounts.

* Branch stock account.
* Goods sent to branches account.
* Branch adjustment account.

The following entries are made;

|  |  |  |
| --- | --- | --- |
| Transaction | Accounts debited | Accounts credited |
| The sale price of the goods sent from the H/O to the branch | Branch stock account (at selling price) | 1. Goods sent to branches with the cost of goods sent. 2. Branch adjustment with the loading difference between the selling price and the cost price. |
| Return of goods by the branch to the H/O | 1. Goods sent to branch account with the cost of goods returned. 2. Branch adjustment account with the loading. | Branch stock account |
| Cash sales at the branch | Cash/ Bank account | Branch stock account (selling price) |
| Credit sales at the branch | Branch debtors account | Branch stock account (selling price) |
| Goods returned to branch by customers | Branch stock account | Branch debtors account (Selling price) |
| Goods lost in transit or stolen | 1. Goods lost in transit account or goods stolen account (with the cost of goods). 2. Branch adjustment account (with the loading). | Branch stock account |

The balance in the branch stock account at the close of the year normally should be equal to the unsold stock at the branch valued at sales price.

But quite often, the value of the stock actually held at the branch is either more or less than the balance of the branch stock account. In that event, it will be necessary that the balance in the branch stock account is increased or reduced by debit or credit to goods lost account (at the cost price of the goods) and branch adjustment account (with the loading). The stock account, at the selling price, thus reveals loss of stock (or surplus) and serves as a check on the branch in this respect.