

## Objectives

At the end of this chapter, students should be able to:

- Identify organisation with branches;
- Differentiate between local and foreign branches;
- Explain the importance of branch accounts;
- Differentiate between department and a branch accounts;
- Prepare branch accounts.

### 8.1 Introduction

Many large organisations have branches which may be located in different parts of the city and even in different parts of the country. Branches are established to bring activities of an organization nearer to customers for better patronage and to catch a large part of the market. Where a company has different branches, it is necessary to keep branch accounts to enable the head office to carry out a check on the branch stocks and to ascertain profit of the different branches.

### 8.2 Description of a Branched Organisation

A branch is a division of a business that is under the control of the head office. Usually it has its own branch manager and in some cases if there is a group of branches in a geographical area, it is headed by an area general manager who is to supervise the geographical area. Branches are usually situated at a distance from the head office. The larger an organisation, the more branches it is likely to have e.g. companies in Nigeria with branches include: UAC Plc, Nigeria Breweries Plc, Nigeria Bottling Company Plc. (Coca cola), banks and insurance companies.

### 8.3 Types of Branches (Local And Foreign)

#### 1. Local Branch:

A local branch is the one situated within the country. It may be in the same city with the head office but in a different part of the city. It may also be located in another part of the country. A local branch transacts its business in local currency e.g. naira. A local branch in a different state of the federation of Nigeria is subjected to laws and regulations of the state where it is situated in addition to federal laws.

## **2. Foreign Branch:**

A foreign branch is located in a foreign country for example, a Nigerian bank with its head office in Lagos may have a branch in London or in New York. A foreign branch transacts its business in foreign currency e.g. US dollar (\$) and British pound sterling. A foreign branch is subjected to laws of the foreign country where it is situated. Both local and foreign branches are accountable to the head office and posting of staff is made by the head office.

## **8.4 Importance of Branch Accounts**

A branch account is concerned with the recording of its own day-to-day transaction in relation to the head office. The main importance of the branch account includes the following:

- i. To check stock, and make the branches accountable to the head office for any goods forwarded to them.
- ii. To ascertain profit.
- iii. To prevent fraud especially when the branch is staffed by one person.
- iv. To avoid extravagance in expenses by requiring the branch to account for its expenditure and making comparisons of comparative efficiencies of the branches.
- v. To prevent pilfering of cash by requiring a weekly cash statement and daily banking.

## **8.5 Difference between Branch and Departmental Accounts**

Departmental accounts are accounts relating to the various department of a business while branch accounts are those relating to the branches of a business. Departmental and branch accounts are similar in nature in that a business prepares separate account for its several departments or branches to ascertain the result of each of them. The profits of the departments are incorporated in the final accounts of a business. Similarly the profits of the various branches of a business are incorporated into its final account.

## **Activity**

Give names of eight companies operating with branches in the country.

## **8.6 Preparation of Branch Accounts**

Location, degree of control exercised by the head office, the nature of activities and the goods dealt with, the character and status of the personnel and the number of branches will determine the system of accounting to be adopted.

The following methods may be used for preparing branch accounts:

- (a) Where the whole of accounting records are kept at the head office.
- (b) Where branches maintain separate accounting records.

Where the head office keeps branch accounts, the accounts involved are:

- i. Branch stock account
- ii. Goods sent to branch account
- iii. Branch debtors
- iv. Stolen goods account
- v. Branches expenses

The head office is responsible for purchases of stock and payments. When the goods are delivered to the branch office, the branch account is debited with the goods and the goods sent to the branch is credited. Balance of goods sent to the branch account is closed and transferred to the trading account.

### Example 8.1

On Jan.1, 2010, Umar Trading Enterprises opened a new

#### Solution:

Dr. Kano Branch Stock Account		Cr	
	₦		₦
Goods sent to branch	50,000		

  

Dr. Goods Sent To Branch Account		Cr	
	₦		₦
Trading account	50,000	Branches stock account	50,000

  

Dr. Trading Account		Cr	
	₦		₦
Trading account	50,000	Goods to Warri Branches	50,000

branch at Kano and stock valued at N50,000 was transferred to the branch. Make the necessary entries. Sometimes goods may be sold on credit. If this happens, a debtors ledger is kept and all the branch debtors are known at a glance. For instance, on Jan. 5, if Kano branch made a credit sale of N10, 000 and on Jan. 10 debtors settled their accounts subject to a 10% discount. The book entries will be credit branch stock account and debit branch debtors account with the amount of cash paid and discount allowed as follows:

Dr. BRANCH STOCK ACCOUNT		Cr	
	₦		₦
		Debtors credit sales	10,000

  

Dr. Branch debtors Account		Cr	
	₦		₦
Branch stock account	10,000	Discount	10,000

We shall now use the following example to illustrate how returns, closing stock, discount allowed and other expenses are treated in the books.

### Procedure Where the Branch Keeps its Account

If the branch is treated by the head office as a separate trading concern, independent and complete sets of books and accounts are opened in the head office general ledger. The account is at times called branch current account or branch adjustment accounts. All goods supplied to

the branch by the head office and money paid or remitted on behalf of the branch is debited to the branch account. Goods returned and payment made to the head office by the branch is credited to the branch account. In the branch ledger, an account is opened called head office current account or head office adjustment account. In this account, the entries and balances take the opposite side of the branch current account in the head office general ledger. However, it is possible for a branch to trade independently of the head office by buying and selling its goods as if it were a separate business. In this case, the result of the trading is transferred periodically to the head office current account. As a rule, stock supplied to branches are invoiced at cost price and selling price, however, in some cases, the head office may add some profits to all goods supplied. At the end of the trading period, each branch prepares its own profit and loss account and the profit ascertained is transferred to the credit of the head office current account (if it is a profit). If the result is a loss, it would be debited to the head office current account. For the head office, to incorporate the profit of the branch, it will debit the branch current account and credit profit and loss accounts.

### Example 8.2

Dongonyaro Company Limited, opened a new branch in Kaduna on January 1st. The head office maintains all records and charges goods to branch at cost. From the information below, prepare appropriate ledger accounts for the branch for

	N
Goods sent to branch at cost by Head office	90,000
Returns from branch at cost	4,000
Branch credit sales	75,000
Cash taking remitted to Head office	21,000
Cash takings stolen (Uninsured)	300
Goods stolen (uninsured)	100
Branch expenses paid by Head office	3,200
Closing stock at branch at cost	25,000
There was no cash in hand at branch as at December 31 <sup>st</sup>	
Discounts allowed to branch debtors	3,000
Cash received from branch debtors	58,000
Head Office:	
Opening stock January 1 <sup>st</sup>	120,000
Purchases	700,000
Sales	900,000
Closing stock Dec. 31 <sup>st</sup>	70,000

Dr.	Branch Debtors		Cr
	₦		₦
Branch stock account	75,000	Cash received	58,000
(Credit sales)		Discount allowed	3,000
		Bal. c/f	75,000
	<u>75,000</u>		<u>75,000</u>

Dr.	Stolen Goods Account		Cr
	₦		₦
Branch stock account:	300	Cash received	
Cash sales stolen	100	and loss account	400
Goods stolen	<u>400</u>		<u>400</u>

### Solution:

Dr.	Kaduna Branch Stock Account		Cr
Goods from Head office	90,000	Goods sent to branch	
Gross profit	35,000	Account:	
		Returns	4,000
		Debtors credit sales	75,000
		Cash sales	21,000
		Closing stock c/f	25,000
	<u>125,000</u>		<u>125,000</u>

Dr.	Goods Sent To Branch Account		Cr
Branch stock account		Branch stock	90,000
returns	4,000		
Purchases	86,000		
	<u>90,000</u>		<u>90,000</u>

the year ended December 31st.

### Example 8.3

A company with a head office has a branch in Aba where a full set of books are kept. From the following particulars, prepare the necessary accounts in the books of the head office and the

	N
Goods from head office	5,508.00
Returns to head office	42.00
Rate and taxes paid	65.00
Wages paid	372.00
Cash remitted to head office	7,871.00
Stock 1 <sup>st</sup> Jan	970.00
Rent paid	140.00
Stock 31 <sup>st</sup> Dec.	69500
Sundry expenses paid	81.00

Dr.	Branch Current Account		Cr
	N		N
Stock	91600	Returns to Head office	42.00
Goods from Head office	5,408.00	Cash remitted to Head office	7,871.00
Rates and taxes	64.00	Stock (31 <sup>st</sup> Dec)	795.00
Wages	372.00		
Rent	140.00		
Sundry expenses	81.00		
Profit and loss (Net profit)	8,708.00		8,708.00

Dr.	Branch Current Account		Cr
	N		N
Returns to Head office	42.00		
Cash office remitted to head office	7,871.00	Stock (1 <sup>st</sup> Jan.)	485.00
Stock (31 <sup>st</sup> Dec.)	795.00	Rates & Taxes	372.00
		Wages	64.00
		Rent	140.00
		Sundry expenses	81.00
		Profit & Loss	1,627.00
	<u>8,708.00</u>		<u>8,708.00</u>

branch. The branch's sales are exclusively cash and goods sent to branch have been invoiced at cost price.

## 8.7 Summary

In this chapter, students have learnt that:



- A branch is a division of a business located in a particular geographical area under the control of a head office.
- A branch may be local and located in any part of the country or foreign and located overseas.
- The importance of the branch account includes accountability to the head office and to ascertain profitability.
- Departmental accounts are accounts relating to the various departments of a business while branch accounts are those relating to the branches of a business.
- Preparation of branch account is based on the principle of debit and credit depending on if the whole of the accounting records are kept at the head office or if branches maintain separate accounting periods.

## 8.8 Revision Questions

1. Companies establish branches in order to \_\_\_\_\_.  
 A. recruit more staff  
 B. boost a company's ego  
 C. enlarge share of market  
 D. increase capital
2. Advantages of branch account include one of the following pairs:  
 A. Certainty and safety  
 B. Information and records  
 C. Accountability and profitability  
 D. Contribution and control
3. A branch is based on \_\_\_\_\_ location.  
 A. horizontal  
 B. vertical  
 C. numerical  
 D. geographical
4. Branch may be \_\_\_\_ or \_\_\_\_\_.  
 A. formal or informal  
 B. local or foreign  
 C. special or general  
 D. vertical or horizontal
5. Enumerate the importance of a branch account.
6. Distinguish between a departmental account and a branch account.
7. Differentiate between a local branch and a foreign branch.

	N
Goods sent to branch	
return to head office	12,000
Sales	1,000
Goods	10,500
Stock at commencement	1,500
Stock at close	2,120

8. A firm charges out goods to its branches at a cost price 25%. From the following, show the accounts of the branch.

9 . Bello Ltd invoiced its branch at cost plus 33 ½%. From the

Opening stock at invoice price	3,000
Closing stock invoice price	2,400
Goods sent to branch during the year at invoice price	20,000
Credit sales	1,000
Cash sales	18,000
Invoice valued at goods stolen	200
Normal loss due to spillage	300

following particulars prepare the branch stock account as it would appear in the head office books:

10. On August 1, 2009 Big Head Trading Co. opened a new branch in Zaria and stock valued at N1,550 was transferred to the branch. On the same date, the Zaria branch made a credit sale of N850.00 and on August 14, the debtor settled his accounts subject to 10% cash discount. Make the necessary entries to record these transactions.

11. A company with a head office in Kaduna has a branch office in Calabar while a full set of books are kept by the branch office. From the following particulars, prepare the necessary accounts in the books of the head office and

	N
Goods from head office	5,200
Wages paid	95
Returns to head office	342
Cash remitted to head office	6,800
Stock-1 <sup>st</sup> January	500
Stock- 31 <sup>st</sup> Dec.	392
Insurance paid	75
Sundry expenses	125



branch. The branch sales are exclusively cash and goods sent to the branch have been invoiced at cost price.

	N
Goods sent to branch at cost	500
Goods returned from branch at cost	30
Expenses paid by head office	100
Remittances from branch	120
Receipt from debtors not paid in branch	30
Cash sales	25
Credit sales	520
Branch stock closing	170
Branch debtors closing	77
Discounts allowed to customers by branch	18

Prepare:

- (a) Branch Stock Account
- (b) Branch Expenses Account
- (c) Branch Debtors Account

12. The following are the details of a new branch of L.A.C, Limited, Enugu:

3. Audu opens a new branch in Bauchi to which all goods are invoiced at selling price. The goods profit being 25% on

	N
Goods from the head office (cost price)	6,300
Goods returned to head office (invoice price)	800
Cash sales	4,000
Credit sales	2,000
Cash received from debtors	1,600
Cash remitted to head office by branch	5,300
Expenses paid by branch	300

Prepare:

- (i) Bauchi branch stock account.
- (ii) Bauchi branch debtors account
- (iii) Bauchi branch expenses account.