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B.Com Honours | Semester II | Calicut University

Financial Accounting

Course Code: COM2CJ101 • Module 2 Notes

1. Accounting for Branches: Systems and Transit Items

As businesses expand geographically, they establish branch offices to service local regions. For effective control, the Head Office (HO) must maintain accounting records to measure the operational efficiency and profitability of each branch. This module covers the classification of branches (dependent vs. independent), branch accounting methods (Debtor and Stock & Debtor systems), and reconciliation adjustments like cash in transit and goods in transit.

Classification of Branches

Dependent Branches

Do not maintain a full set of books. All purchases are made by the Head Office, which ships goods to the branch. Cash collections at the branch are remitted daily to the HO bank account. HO maintains all accounts.

Independent Branches

Maintain a complete, independent double-entry set of books. They can purchase goods locally and operate their own bank accounts. At the end of the year, they draft a trial balance and send it to the HO for consolidation.

Dependent Branch Systems

Head Office records dependent branch transactions using two main methods:

1. The Debtor System (Synthetic Method)

HO opens a single **Branch Account** for each branch. The branch is treated as a debtor. All assets sent to the branch are debited, and all remittances received from the branch are credited. The balance of the account at year-end represents the net profit or loss of the branch.

2. The Stock & Debtor System (Analytical Method)

Used when the branch is large or sells goods at invoice price. HO maintains separate ledger accounts for detailed control:

- **Branch Stock Account:** Tracks physical movement of goods at selling price (invoice price).
- **Branch Debtors Account:** Tracks transactions with credit customers of the branch.

- **Branch Adjustment Account:** Used to isolate and calculate the profit margin (loading) on goods sent to the branch.
- **Branch Expense Account:** Tracks salaries, rent, and other operational expenses paid.

Independent Branches: Transit Reconciliation

In independent branch books, the HO is treated as a creditor/capital account (called "Head Office Account"). In HO books, the branch is an asset (called "Branch Account"). At year-end, the balances of these two accounts must match. Differences arise due to items in transit:

- **Goods in Transit:** Goods shipped by the HO but not yet received by the branch before closing.
  Adjusting Entry: Debit Goods in Transit A/c, Credit Branch A/c (in HO books).
- **Cash in Transit:** Remittances sent by the branch but not yet received/deposited by the HO bank before closing.
  Adjusting Entry: Debit Cash in Transit A/c, Credit Branch A/c (in HO books).