Chapter: BRANCH ACCOUNTING

[Ch-15 of ICAI Module 3]

(Expected: 10 Marks Question)

I] Meaning of Branch and Classification

Any establishment carrying on either the same or substantially the same activity as that carried on by head office of Company or enterprise

Branch can be classified as under

- Inland Branch (Local)
  - Dependent Branch
  - Independent Branch
- Foreign Branch

II] Need for Branch Accounting

1] To Ascertain Profitability of each branch separately for accounting period

2] To Ascertain the Financial Position of each Branch separately at end of accounting period

3] Assess Progress and Performance of Branch

4] Ascertain the Requirements of cash and stock for each Branch

5] To Ascertain whether Branch is yielding a satisfactory rate of return on capital invested on it.

6] To Ascertain whether Branch should be expanded or closed

7] To ascertain qty and amount of stock held by each branch at end of accounting period

8] To Ascertain commission Payable to manager, if based on Profit

III Dependent Branch

- When the Policies and administration of a Branch are totally controlled by Head office, and accounts of Branch are Maintained by head office then such Branch is called Dependent Branch

- Branch sends periodic report based on which Accounting Records are maintained by head office

Accounting for Dependent Branch

Accounting for Dependent Branch

A] Debtors Method

B] Stock and Debtors Method

C] Final Accounts Method

D] Wholesale Price Method

A] Debtors Method

* Debtor Method is suitable or adopted where Branch is of small size.
* Under this method, head office maintains separate Branch Account for each branch.
* This method can be followed when Head office sends goods to Branch either at "cost" or "Invoice Price".
* Transactions which takes place between Head office and the Branch and between Branch and other branches are recorded in Branch Account by head office and Profit & loss is ascertained from this account.
* Under this method, the entries are passed in the books of head office treating the Branch as debtors of head office.

Journal Entries

In the books of head office

1] For opening balance of Branch Assets

Branch A/c Dr.
 To Branch Assets [Individually]

2] For opening balance of Branch liabilities

Branch liabilities A/c Dr [Individually]
 To Branch A/c

3] For Goods sent to Branch by Head office or By other Branch

Branch A/c Dr
 To Goods sent to Branch

4] For Goods returned by Branch to head office

Goods sent to Branch A/c Dr.
 To Branch A/c

5] For goods returned directly by Debtors to head office

Goods sent to Branch A/c Dr.
 To Branch A/c

6] For Goods supplied by Branch to Another Branch under Instruction of Head office

Goods sent to Branch A/c Dr.
 To Branch A/c

7] For Goods returned by cash customer directly to H.O and Payment by H.O

7] For Goods returned by cash customer directly to H.O. and Payment by H.O.

Goods sent to Branch A/c Dr.
To Branch A/c

Branch A/c Dr.
To Cash/Bank

Alternatively

Goods sent to Branch A/c Dr.
To Cash A/c

8] For Cash Remittances received by Head office from Branch for cash sales, collection from debtors

Cash / Bank Dr.
To Branch

9] For Remittances received by H.O. directly from Branch customers

Cash A/c Dr.
To Branch A/c

10] For head office Paying Branch expenses or sending cash to Branch for meeting expenses

Branch A/c Dr.
To Cash A/c

11] For transfer of balance in Goods sent to Branch A/c

Goods sent to Branch A/c Dr.
To Purchases A/c [In case of trading concern]
To Trading A/c [In case of Manufacturing concern]

12] To Record closing Balance of Branch assets

Branch assets A/c Dr. (Individually)
To Branch

13) To Record closing Balance of Branch liabilities

Branch
To Branch liabilities (Individually)

14) To Record Profit or Loss

If credit side > debit ⇓ Profit

If debit side > credit ⇓ Loss

Branch A/c Dr.
To General Profit & Loss A/c

General Profit & Loss A/c
To Branch A/c

Points to be kept in Mind

1] Transaction which takes Place between Branch and third Party such as cash and credit sales, return of goods by debtors of Branch to Branch

1] Transaction which takes place between Branch and third party such as cash and credit sales, return of goods by debtors of Branch to Branch are not recorded by Head office. Similarly bad debts, discount allowed, expenses incurred by Branch are not recorded since there is no involvement of Head office or other Branch.

2] Entry is not passed for collection of cash from debtors but it will increase the Amount of Remittance to head office.

3] No entry is passed for recording depreciation on PPE. But closing Balance of PPE is shown after deducting depreciation.

4] Sometimes, information might be missing in regard to debtors or cash of Branch etc. In such scenario Memorandum Branch Debtors A/c, Memorandum Branch Stock A/c, Memorandum Branch Cash A/c etc will be prepared to ascertain the missing information.

5] Goods can be invoiced by Head office at "Cost" or "cost plus load i.e. Invoice Price". When goods are sent at invoice price accounting treatment is slightly different. Some additional journal entries will be passed. [covered later]

In the books of head office

Chandigarh Branch Account [cost Basis]

To balance b/d (opening Branch assets)	By balance b/d
Cash	creditors
Furniture/PPE	outstanding expenses
Stock	By Goods sent to Branch
Debtors	• Return by Branch to H.O
Prepaid Expenses	• sent by Branch to other Branch
Petty cash	• Return by debtors directly to H.O.
To Goods sent to Branch	By Cash/Bank [Remittances]
• Goods sent by H.O.	• cash sales
• Goods sent by other Branch	• cash from Debtors
To cash/Bank [For expenses]	• cash sent directly by Branch customers to H.O
Salaries	By balance c/d (closing assets)
Rent & Rates	Cash
Petty expenses	Stock
To balance c/d (closing liabilities)	debtors
creditors	Petty cash
outstanding expense	Prepaid expenses

(closing liabilities)
creditors
outstanding expenses

debtors
petty cash
prepaid expenses
Furniture/ PPE
(-) depreciation

To net Profit trfd to General Profit & loss A/c

By net loss trfd to General Profit & loss A/c

Accounting treatment when goods are sent at More than cost i.e. at Invoice Price

Goods are usually invoiced to Branch at normal selling price to keep the margin of Profit secret from the person working at Branch. Branch A/c is prepared in similar manner as in case when goods are sent at cost except journal entries relating to opening stock at Branch, Goods sent to Branch, Goods returned to H.O. & closing stock at Branch are made at invoice Price and to remove the load following entries are passed

1. For Removing load on opening stock

   Stock Reserve A/c Dr.
   To Branch A/c

2. For Removing load from Amount of goods sent to Branch

   Goods sent to Branch A/c Dr.
   To Branch A/c

3. For Removing load from Amount of goods returned to H.O.

   Branch A/c Dr.
   To Goods sent to Branch A/c

4. For Removing load from closing stock

   Branch A/c Dr.
   To Stock Reserve A/c

Branch Account [at Invoice Price]

Chandigarh Branch Account

To balance b/d (opening Branch assets)	By balance b/d creditors outstanding expenses
Cash	By Stock Reserve (load on opening stock)
Furniture/ PPE	By Goods sent to Branch [at Invoice Price]
Stock [at Invoice Price]	• Return by Branch to H.O.
Debtors	• sent by Branch to other Branch
Prepaid Expenses	• Return by debtors directly to H.O.
Petty Cash	
To Goods sent to Branch [at Invoice Price]	By Goods sent to Branch [load on goods sent]

Petty Cash

To Goods sent to Branch [at Invoice Price]
- Goods sent by H.O.
- Goods sent by other Branch

To Goods sent to Branch (load on goods returned to H.O.)

To Cash / Bank [For expenses]
Salaries
Rent & Rates
Petty expense

To Stock Reserve (load on closing stock)

To balance c/d (closing liabilities)
creditors
outstanding expense

To net Profit t/fd to General Profit & loss A/c

- Return by debtors directly to H.O.

By Goods sent to Branch [load on goods sent to branch]

By Cash / Bank [Remittances]
- Cash sales
- cash from Debtors
- cash sent directly by branch customers to H.O.

By balance c/d (closing assets)
Cash
Stock [at Invoice Price]
debtors
Petty cash
Prepaid expenses
Furniture / PPE (-) depreciation

By net loss t/fd to General Profit & loss A/c

B] Stock and Debtors Method

→ This method is generally used when goods are sent to branch at an invoice price and size of branch is large.

→ under this method, Head office maintains some special account to exercise greater control over the branch stock and other related expenses

under this method following accounts are maintained :-

→ Branch stock Account : To Monitor stock at Branch

→ Branch Debtors Account : to monitor Receivables, credit sales if any

→ Branch Expenses Account : to monitor expenses incurred by Branch

→ Goods sent to branch A/c : to Record goods sent / returned

→ Branch Adjustment A/c [It is like trading A/c] : To Ascertain Gross Profit; to keep track of loading involved

→ Branch cash Account : to Monitor cash inflows & outflow of Branch; to Regulate Branch cash / Remittances

→ Branch Profit & loss A/c : to ascertain net Profit

→ Branch Fixed assets A/c : to Record / control assets

In the books of Head office
Journal entries

1] For Goods sent to Branch by head office OR transferred by other Branch

Branch stock A/c Dr. [Invoice Price]
To Goods sent to Branch A/c

2] For goods returned by Branch to H.O. or transferred to other Branch on advice of H.O.

Goods sent to Branch A/c Dr. [Invoice Price]
To Branch Stock A/c

3] For Goods sold for cash

Branch cash A/c Dr. [Actual sale Proceeds]
To Branch Stock A/c

4] For Goods sold on credit

Branch debtors A/c Dr. [Actual sale Proceeds]
To Branch Stock A/c

5] For cash received from debtors by Branch

Branch cash A/c Dr.
To Branch debtors A/c

6] For Bad debts, Discount allowed to debtors

Branch expenses A/c Dr.
To Branch debtors

Alternatively Branch Profit & loss Account may be debited and Branch debtors A/c credited when Bad debts are written off or when discount is allowed to debtors

Branch Profit & loss A/c Dr.
To Branch debtors A/c

7 For branch expenses paid in cash by Branch

Branch expenses A/c Dr.
To Branch cash A/c

8 For Branch Expenses paid in cash by Head office

Branch Expenses A/c Dr.
To cash A/c

9 For charging depreciation on Branch Property Plant & Equipment

Branch Expenses A/c Dr.
To Branch PPE A/c

Alternatively Branch Profit & loss A/c may be debited and B PPE A/c credited for charging depreciation on Branch PPE

Branch Profit & loss A/c Dr.
To Branch PPE A/c

10 For return of goods by debtors to Branch

Branch Stock A/c Dr.
To Branch debtors

(11) For return of goods by debtors directly to H.O.

Goods sent to Branch A/c Dr.
To Branch debtors

Alternatively following 2 entries may be made when goods are returned by debtors directly to H.O

→ Branch stock
To Branch debtors

→ Goods sent to Branch
To Branch stock

(12) For transfer of Branch Expenses

Branch Adjustment A/c Dr
Branch Profit & loss A/c Dr
To Branch Expenses

(13) For Abnormal loss of stock

Alternative 1

Shortage / loss by fire / loss by theft A/c Dr [Invoice Price]
To Branch stock

Branch Adjustment A/c Dr [load]
Branch Profit & loss A/c Dr [cost]
To Shortage / loss by fire / loss by theft A/c [Invoice Price]

Alternative 2

Branch adjustment A/c Dr. [load]
Branch Profit & loss A/c Dr [cost]
To Branch stock A/c [IP]

(14) For Normal loss of goods

Branch Adjustment A/c Dr [IP]
To Branch stock A/c

(15) For Surplus in stock [This is not Assumed unless specified in question]

This entry is not usually passed

Branch stock Dr [Invoice Price]
To Branch adjustment [load]
To Branch Profit & loss [cost]

(16) For Remittance by H.O. to branch

Branch cash / Branch Bank Dr
To cash / Bank

(17) For remittance from Branch to H.O.

Cash / Bank Dr.
To Branch cash / Branch Bank A/c

(18) For Return of goods by cash customer directly to H.O.

Goods sent to Branch A/c Dr
  To Cash / Bank

(19) For trading surplus in Branch Stock A/c due to sale of goods at higher price than Invoice Price

Branch Stock A/c Dr
  To Branch adjustment A/c

[This is assumed unless stated in question.]

(20) For Return of goods by debtors directly to HO when goods are sold at more than Invoice price

Alternative 1

→ Branch Stock [Actual SP]
  To Branch debtors

→ Goods sent to Branch A/c Dr [Invoice Price]
Branch Adjustment A/c Dr [Surplus]
  To Branch Stock

Alternative 2

Goods sent to Branch A/c Dr. [IP]
Branch adjustment Dr [Surplus]
  To Branch debtors

(21) For Recording difference between invoice Price and selling Price when goods are sold at less than Invoice Price

Branch Adjustment A/c Dr
  To Branch Stock A/c

(22) For load on opening stock (including Goods in transit)

Stock Reserve A/c Dr
  To Branch Adjustment A/c

(23) For load on closing stock (including Goods in transit)

Branch Adjustment A/c Dr
  To Stock Reserve

(24) For loading on net Goods sent [Good sent to Branch by H.O & other Branches (–) Goods Returned by Branch to H.O. or tfd to other branches & goods returned directly by debtors]

Goods sent to Branch Dr
  To Branch Adjustment

Alternatively

For load on good sent

Goods sent to Branch
  To Branch adjustment

For load on goods returned

Branch adjustment
  To Goods sent to Branch

(25) For transferring Gross Profit

Branch adjustment Dr
  To Branch Profit & loss A/c

(26) For transferring net Profit to general P&L

Branch Profit & loss A/c Dr
To General Profit & loss A/c

(27) For closing Goods sent to Branch A/c

Goods sent to Branch A/c Dr
To Purchases A/c (In case of trader)
To Trading A/c (In case of Manufacturer)

Ledgers

In the books of Head office

Branch Stock A/c

To balance b/d In Branch xxx In transit xxx	xxx	By Branch cash A/c (Cash Sales)	xxx
To Goods sent to Branch	xxx	By Branch debtors (credit Sales)	xxx
To Branch debtors (Return by customers to Branch)	xxx	By Goods sent to Branch (return of goods to H.O. or to other Branch)	xxx
To Branch Adjustment (Surplus due to sale of goods at higher Price than Invoice Price)		By Branch Adjustment A/c [Both load & cost on normal loss]	xxx
		By Branch adjustment A/c [load on shortage due to abnormal loss]	
		By Branch Profit & loss A/c [cost of shortage due to abnormal loss]	
		By Branch Adjustment (decrease in Profit due to sale of goods at less than Invoice Price)	
		By balance c/d In Branch In transit	
	xxx		xxx

Branch debtors A/c

To balance b/d	xxx	By Branch Stock (Return of goods to Branch)	xxx
To Branch Stock (Credit Sales)	xxx	By Branch cash (cash Paid to Branch)	xxx
To Bill Receivable (B/R Dishonour)		By Cash (Cash Paid directly to HO)	xxx
		By Bill Receivable	xxx
		By Goods sent to Branch [Goods returned directly by debtor to HO]	xxx

By Goods sent to Branch xxx
[Goods returned directly by debtors to HO]

By Branch Expenses (Bad debts) xxx
By Branch Expenses (discount allowed) xxx

Alternatively
By Branch P&L (Bad debts, Discount allowed) xxx

By balance c/d xxx

xxx | xxx

Branch Expenses A/C

To Branch cash A/c (expenses Paid by Branch)

To cash / Bank (expenses Paid by H.O)

To Branch debtors
[Bad debts
Discount allowed]

To Branch Fixed assets (depreciation)

By Branch Profit & loss A/c

By Branch Adjustment A/c (direct exp)

xxx | xxx

Branch Fixed asset A/c

To balance b/d xxx

By Branch Expenses (depreciation) xxx
OR By Branch P&L A/c
By Balance c/d xxx

xxx | xxx

Branch cash A/c

To balance b/d
To Cash (cash Received from H.O)
To Branch debtors
To Branch stock (cash sales)

By Branch expenses (cash expenses)
By Cash (cash sent to H.O)
By balance c/d

xxx | xxx

Goods sent to Branch A/c

To Branch stock (Return from Branch)

By Branch Stock A/c (goods sent to Branch)

To Branch Stock (Return from Branch)		By Branch Stock A/c (goods sent to Branch)	
To Branch adjustment (load)		By Branch adjustment (load)	
To Purchase/trading A/c			
	xxx		xxx

Branch Adjustment A/c

To Goods sent to Branch (loading on goods returned by Branch to H.O OR goods t/fd to other Branch)		By Stock Reserve (load on opening stock)	xxx
To Goods sent to Branch (loading on goods returned by debtors directly to H.O)		By Goods sent to Branch (loading on goods sent to Branch by H.O. or other Branch)	
To Branch Expenses (direct)		By Branch Stock [surplus i.e additional Gross Profit due to sale of goods at higher price than Invoice Price]	
To Stock Reserve (load on closing stock)			
To Branch Stock (Invoice Price of normal loss of goods)	xxx		
To Branch Stock (load on abnormal loss of stock)	xxx		
To Branch Stock (Sale Price < IP)			
To Gross Profit t/fd to Branch P&L A/c			
	xxx		xxx

Branch Profit & loss A/c

To Branch Expenses		By Branch Adjustment A/c (Gross Profit t/d)	
To Branch Stock A/c (Cost of Abnormal loss stock)		By net loss t/fd to General P&L A/c	
To net Profit t/fd to General P&L A/c			
	xxx		xxx

c] FINAL ACCOUNTS METHOD

* In this method, trading and Profit and loss Account is prepared for each branch considering it as a separate entity.

* This method is easy to prepare and understand.

* In this Method, transactions which are ignored in other methods [e.g. in Debtors Method – credit sales by Branch is not recorded] are recorded.

* If Items of trading and Profit & loss A/c are given at Invoice Price, the same should to be converted to cost Price.

* Branch trading and Profit & loss A/c is merely a Memorandum Account. The only object of this Account is to disclose Profit made or loss incurred by Branch

D] Wholesale Price Method

* under this method, Head office (i.e. a Manufacturing entity) supplies goods to its Retail Branch at wholesale Price.

  wholesale Price = cost + wholesale Profit

* Profit at Branch = Actual sale Proceeds at shop (Retail) xxx
  (–) wholesale Price of goods (xxx)
  Profit of Branch xxx

* In this method, head office is interested in knowing additional Profit which has been earned by Branch (Retail). For this Purpose, trading and Profit & loss A/c of Branch is Prepared. however while preparing trading and Profit & loss A/c of head office, Stock Reserve in respect of opening stock & closing stock at Branch should be credited and debited respectively to head office P & L A/c.

  Stock Reserve = Difference between wholesale Price and cost to Head office

  cost + wholesale Profit = wholesale Price

  wholesale Price + Retail Profit = Retail Price

In this Method, following 3 Accounts are Prepared

1] Branch trading A/c [OR] Branch Stock A/c or outlet Stock A/c
   [It is Prepared at wholesale Price]

2] Branch Profit & loss A/c

3] Branch Stock Reserve A/c

Branch trading A/c [Branch Stock A/c]

To opening stock [at wholesale Price]	By sale [Actual sale Proceeds at Retail Price]
To Goods sent to Branch [at wholesale Price]	cash
(–) Return to H.O.	credit
	(–) Return
To Gross Profit	By Abnormal loss (at wholesale Price)
	By closing stock (at wholesale Price)

Branch Profit & loss A/c

To Branch expenses	By Gross Profit
To abnormal loss	By claim Insurance

Branch Stock Reserve A/c

To H.O. P & L A/c	By bal b/d (wholesale Profit)

To Branch expenses	By Gross Profit
To abnormal loss (at wholesale Price)	By claim Insurance
To Net Profit trfd to General P&L A/c	

Branch Stock Reserve A/c

To H.O. P&L A/c $\boxed{\ }$	By bal b/d (wholesale Profit included in opening stock) $\boxed{\ }$
To bal c/d (wholesale Profit included in closing stock) $\boxed{\ }$	By H.O. P&L A/c $\boxed{\ }$

Independent Branch

When the size of branch is very large, it is desirable for branch to establish its own double entry book keeping system. Under this system of Branch Accounting, the branch policies are formulated by head office and branch is allowed to operate freely within framework of these Policies.

A branch is said to be Independent from Accounting Point of view when it follows 'double entry system of book keeping. In this case head office supplies goods to branch and branch also purchase from outside.

The branch is not required to remit cash daily to head office but deposits in its own Bank Account. Expenses are met by Branch out of its own sources. Cash is send to head office but periodically in case of surplus or when head office is in needs of funds.

Each branch maintains head office Account and head office maintain branch Account for each branch. All transaction between head office and branch are recorded through these account. Under this method branch A/c is of Personal nature

Journal entries

		In the books of Head office	In the books of Branch
1	Goods sent by Head office to Branch	Branch A/c Dr. To Goods sent to Branch	Goods received from H.O. Dr To Head office
2	Goods Returned by Branch to H.O.	Goods sent to Branch Dr To Branch A/c	Head office A/c Dr. To Goods Received from HO
3	Branch Expenses Incurred & Paid by branch	No entry	Expenses A/c Dr To cash / Bank
4	Branch Expenses Paid by Head office	Branch A/c Dr To cash /Bank	Expenses Dr To Head office
5	Purchase made from Parties other than H.O. by Branch directly	No entry	Purchase A/c Dr To cash/Bank To creditors
6	Sales by Branch	No entry	Cash/Bank Dr Debtors Dr To Sales
7	Collection from debtors received directly by H.O.	Cash /Bank Dr. To Branch	Head office Dr To debtors

to Sales

7	Collection from debtors received directly by H.O.	Cash /Bank Dr. to Branch	Head office Dr to debtors
8	Payment by H.O. for purchase made by Branch	Branch Dr. to cash/Bank	Purchase /creditors to H.O.
9	Purchase of Asset by Branch	–	S. asset A/c Dr to Bank/ liability
10	Asset purchased by branch but asset A/c maintained by Head office	Branch Asset Dr. to Branch	Head office Dr to Bank / liability
11	Depreciation when asset A/c is maintained by head office	Branch A/c Dr to Branch Assets	Depreciation to Head office
12	Remittances of funds by head office to branch	Branch A/c Dr to Bank	Bank to head office
13	Remittances of funds by branch to H.O.	Bank to Branch	Head office Dr to Bank
14	Transfer of goods from one branch to another	Receipient branch A/c Dr to Supplying branch	Supplying Branch Head office Dr to Goods sent to H.O. Receipient Branch Goods received from H.O. to H.O.

Steps involved in case of Independent Branch

1. Branch maintains independent and complete set of double entry system
2. Branch maintains a head office A/c and head office maintains branch A/c to record transactions that take place between Head office & Branch
3. At end of accounting period, Branch prepares trial balance and send copies of trial balance, final A/cs to head office for incorporation
4. After receipt of trial balance and final statements head office reconciles head office A/c [appearing in branch books] and Branch A/c [appearing in head office books]. The difference if any in two accounts is reconciled by passing adjusting entries for goods in transit, cash in transit usually in books of Head office
5. Necessary Journal entries are passed to incorporate Branch trial balance in the books of Head office and then an consolidated trading and profit & loss A/c in the books of H.O. and consolidated Balance sheet is prepared.

Generally Four types of transactions are there for which adjustments are required

1] Goods in transit & cash in transit
2] where fixed assets A/c is maintained by H.O., depreciation on Fixed assets
3] Inter Branch transactions
4] head office expenses to be charged to Branch

Accounting for Goods in transit & cash in transit

If balance of Branch A/c in head office books and that of head office A/c in Branch books do not tally, these must be reconciled before preparation of Final A/cs.

Practical Steps

1] Find out Difference between Balance of Branch A/c in books of H.O. and head office A/c in books of Branch. If one shows debit Balance and other show credit Balance.

If both A/cs shows either debit balance or credit Balance find the total of Branch A/c & head office A/c.

2] Find out Goods in transit (if any) by comparing Good sent to Branch in books of Head office and goods received from HO in books of Branch or comparing Goods returned by Branch A/c in books of H.O. and Goods returned to H.O. in books of Branch

3] If amount calculated as per step 1 and amount calculated in step 2 is same then there is no cash in transit.

But where amount calculated in step 2 is less than amount calculated in step 1 difference usually is due to cash in transit.

If amount of GIT & CIT are given and total of Both is not equal to amount as per step 1 then difference is trfd to suspense A/c

After finding amount of GIT & CIT pass necessary adjusting entries either in books of H.O. or Books of Branch

In the books of Head office In Books of Branch

In the books of Head office	In Books of Branch
→ Goods in transit to Branch	Goods in transit to head office
→ Cash in transit to Branch	Cash in transit to head office

Incorporation of Branch balances in books of Head office

Method I [Stand alone Profit & loss & balance sheet for each Branch]
→ Transfer of Profit & loss method

This method is followed when separate Profit & loss a/c & Balance sheet is prepared for Branch and head office.

Profit/loss for the period is transferred to head office.

For transfer of Branch Profit.

In the books of HO	In the books of Branch
Branch to Profit & loss a/c	Profit & loss a/c to Head office

For transfer of Branch loss

In Books of HO	In books of Branch
Profit & loss to Branch	Head office to Profit & loss

In Branch Balance sheet, the amount advanced by head office i.e. head office credit balance will be shown as capital

In head office balance sheet, the amount i.e. Balance of branch (Debit) will be shown as an advance to branch.

Method II Consolidation Method

① In this method, separate Financial statements are not prepared Head office prepares consolidated Financial statements for entity as a whole.

② Balance in all the ledger A/cs are transferred to head office A/c where all the accounts are consolidated and financial statements are prepared for whole entity.

Journal

	In books of H.O.	In books of Branch
For transfer of assets	Assets (Individually) To Branch	Head office To Assets (Individually)
For transfer of liabilities	Branch To liabilities (Individually)	liabilities (Individually) To H.O
For transfer of Expenses	Expenses (Individually) To Branch	Head office Expenses (Individually)
For transfer of Incomes	Branch To Incomes (Individually)	Income (Individually) To Head office

Books of Accounts at branch will be fully closed and will be reopened at beginning of next year by passing following entry

Assets (Individually)
To liabilities (Individually)
To Head office (difference between assets & liabilities)