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Charles H. Brook

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Branch Accounting*

By CHARLES H. BROOK

For the purpose of this discussion branch accounting is divided into four principal groups which will comprise the more important business organizations. These groups are as follows:

1. Holding companies having subsidiary companies in various localities.
2. Manufacturing companies having branch manufacturing establishments.
3. Manufacturing companies having branches for distribution of product.
4. Retail chain stores.

There are probably numerous other cases of concerns having branches such as, for example, professional accountants, banks, etc.

It is my intention to discuss the relative merits of centralization of decentralization of the principal accounting functions as applied to organizations such as are referred to above.

By centralization is meant the keeping of the principal books of account and the preparation of balance-sheets, profit-and-loss accounts and cost records at a central, or head office.

Decentralization means the converse, that is to say, keeping principal books of account, preparation of statements, etc., at the different factories or branches of the organization. In deciding which is the best course to adopt, a great deal depends on the type of organization, and the distance of the subsidiary plants from the main office.

I will now deal more specifically with cases falling under:

1. HOLDING COMPANIES HAVING SUBSIDIARY COMPANIES IN VARIOUS LOCALITIES.

This caption embraces those cases where a holding company controls through stock ownership, a number of subsidiary corporations, having manufacturing plants in various localities, and also includes cases where an individual likewise owns the capital stock or has a controlling interest in subsidiary companies, likewise having plants located in various places. In cases of this

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kind it is recommended that the management, general accounting, cost accounting, purchasing treasury, secretarial and statistical functions be centralized in a general office, situated in one of the large financial or industrial centers where probably the different plants can be reached by mail within one or two days.

The functions of general and cost accounting will be placed in charge of a comptroller, who will be located at the head office, and under whose supervision the books and records will be kept. As far as the plants are concerned the accounting organization will consist of a works accountant in charge of each separate plant unit who will reside in the neighborhood of the plant, and who will be responsible to the comptroller for the preparation of payrolls and stores records, and the distribution of all payroll and stores disbursements to proper accounts through a system of classified accounts.

In this connection I will take as a simple example a holding company having a main office in Cleveland and controlling the stock ownership of a number of iron-ore mining companies in the northern peninsula of Michigan, and perhaps some blast furnaces and steel plants in the Mahoning Valley, or in Pennsylvania. A works accountant will be appointed at each mine and plant who will be responsible for the payment of wages and custody of stores, and whose duties will comprise the proper distribution of payroll and stores charges through a system of classified accounts. It will be necessary for him to render reports at the end of each month giving the total payroll distributed over the series of accounting classifications, and likewise another report for the stores disbursements. These reports will be mailed to the comptroller at the head office within a day or so after the turn of each month. These reports when received at the head office will form the basis for the preparation of the monthly mine-cost sheets and likewise the cost sheets for the blast furnaces and steel plants, all of which can be handled by the cost-accounting unit located at the head office. These reports will also form the basis for entries on the general books, which will be kept at the head office for each separate company.

Purchases of materials and supplies for the various mines and plants will be conducted by the general purchasing agent for all the companies who will be located at the head office. The materials purchased will, however, be delivered to the respective plants

and each works accountant will render daily reports to the comptroller's office of materials received.

Two copies of invoices will be requested when purchasing supplies, one of which will go to the plant and the other to the comptroller's office. The works accountant at the plant will use his copy of invoices for the purpose of his stores records and the comptroller will use the original copies of the invoices for general accounting records, and for payment of the bills when they become due.

Invoices will be checked at the head office for receipt of material from the reports received from the works accountant, and will also be checked against purchase orders for prices and other details. The works accountant will send in each day a list of invoices which he has taken into his stores records, which will be checked in the comptroller's office so that the stores record at each plant may be kept in proper control with the general books. At frequent intervals the works accountants will submit the aggregate totals of their stores balances and the head office will see that they agree with the stores controlling account.

This plan contemplates that stores records be kept in both quantities and dollars and that the average price is used in disbursing stores. All disbursements from stores will be made on requisitions which will be priced and extended daily. At the end of each day a recapitulation will be made of the stores disbursements, according to the account numbers to be charged and the daily figures will be entered upon a sheet, having a column for each day in the month. If the previous day's stores disbursements by account numbers be added to the next day, cumulative figures will be entered in each day's column during the month so that on the last day of the month the stores disbursement sheets will be complete and will not have to be cross-footed. This will save a considerable amount of time at the end of the month and will admit of the report being mailed to the head office immediately after the close of the month's business.

The payroll will be made up according to local custom either on the 15th day and last day of each month, or weekly. The basis for the payroll will be the time tickets issued to employees and the amounts due to each employee may be entered on the payroll each day. As in the case of stores the payroll items can be accumulated daily so that at the end of the pay period the

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amounts due each employee will have been accumulated and thus the work of adding the amounts due obviated. The distribution of the payroll to the various expense accounts should also be made up daily, and cumulative figures entered in each day's column on the distribution sheet during the month so that on the last day of the month the payroll distribution sheet will show the complete distribution in the last column without any further cross-footing. The works accountant will have to see that the payroll distribution checks each day with the payroll itself. The payroll will be paid locally at each plant, and after it is paid the sheets may be forwarded to the head office for audit. If payment is made by check as is usual in the majority of industrial plants, the head office will check the payroll against the canceled checks. The distribution of the payroll will be forwarded to the head office immediately after the close of the month's business and will be used for the purpose of completing cost data and entries on the general books.

Small local purchases and other expenses can be provided for out of an imprest fund, which will be in charge of the works accountant at each plant. A report will be made either monthly or at more frequent intervals to the head office of petty cash expenditures, accompanied by vouchers, and this report will be used as a basis for entry on the general books in respect to such expenditures.

The accounting work at the head office, if the concern is large, will probably be divided into departments such as general accounting, cost accounting, sales ledger accounting; accounts payable division.

The general accounting department upon receipt of the stores and payroll distribution and petty cash reports will proceed to make the necessary journal entries upon the general books, dealing, however, with all items in totals rather than in detail. All reports which emanate from the plants will be turned over to the cost department and from such reports cost data may be readily assembled. The cost department will work in harmony with the general accounting department to the end that all cost data will be checked out against totals of controlling accounts on the general books.

The sales accounting department will handle all customers' accounts and will also handle billing and will make monthly

reports to general accounting department of sales, including returns and credit memoranda. If the products sold are numerous the sales accounting department will supply an analysis of sales.

The comptroller of the holding company should be made comptroller of each separate company. All similar functions, for example the functions of handling cash, cost accounting, general ledger accounting, can be handled by the same persons for each company, thus centralizing the functions of a group of companies into departments specializing on various duties. Under this form of organization it becomes possible to prepare each month, balance-sheets and profit-and-loss statements, and also cost and statistical records within a period of about ten days after the end of each month, and consolidated statements can easily be prepared by putting all the different statements together in the usual way.

If we were to consider decentralizing the accounting in an organization of this kind, we would find that we would simply multiply the functions by the number of companies controlled. Consequently it would be considerably more expensive. Centralization in this case is considered to be the most economical and efficient form of management.

2. MANUFACTURING COMPANIES HAVING BRANCH MANUFACTURING ESTABLISHMENTS.

Cases of this kind, where a manufacturing concern finds it necessary to open up other manufacturing plants in different parts of the country, are quite numerous and become necessary for many reasons, some of which are the proximity to supplies of raw material, labor, water supply, etc. In many cases it will be found that each individual plant will be distributing its own product, and consequently will have its own unit of sales force, purchasing force, and naturally the accounting functions will follow and will be logically kept at each separate plant.

In cases of this kind when the individual units of plants are quite large and are separated by long distances such as, for example, a plant in the eastern states and a plant in California, it undoubtedly will be far more advantageous to decentralize the accounting and have the books of each concern kept at the separate plants. There will, however, be a form of centralized control, not only from a management standpoint, but from an accounting standpoint. There probably will be a comptroller who will

exercise supervision, not only over the accounts of the main corporation, but also over the accounts of the subsidiary corporations. Balance-sheets, profit-and-loss statements and other accounting data having been prepared at the separate plant units, will be cleared into the comptroller at the main office who will prepare the consolidated statements.

3. MANUFACTURING COMPANIES HAVING BRANCHES FOR DISTRIBUTION OF PRODUCT.

This classification embraces concerns which have a centralized plant for the production of their product and maintain branch establishments for the distribution of their product.

In cases of this kind the general accounting, such as the preparation of balance-sheets, profit-and-loss statements, all cost accounting and statistical data will be located at the head office of the company, but the accounting with customers, or what may be termed for convenience, sales accounting, may be decentralized into the branches with the object in view of bringing the customers' accounts closer to the location of the customers. This is naturally quite essential from the standpoint of billing and rendering statements to customers, and the final collection of accounts. Apart from this phase of the accounting, however, the remaining functions of accounting can be handled and controlled by means of a system of reports from each branch office to the main office, such reports consisting of monthly totals of sales, expressed both in money values and units. These reports can be mailed to the main office immediately at the completion of each month's business, and when received by the main office they can be consolidated into one report, from which the sales and cost of sales can be readily obtained. Small incidental expenditures can be made through the medium of imprest funds at each branch, reports of which will be made to the head office at monthly intervals, or more frequently if necessary.

4. RETAIL CHAIN STORES.

In the cases of retail cigar, grocery, boot and shoe and jewelry stores, the general accounts should be kept at the head office, but there is usually a centralized warehouse out of which stock is issued to branches. Such stocks are charged out to branches at selling prices and therefore the manager of each branch is required to account for the stocks consigned to him by either returning

the amount of cash or having a balance of merchandise on hand which will be computed at selling prices. Naturally the sum of the cash received plus the merchandise on hand should equal the value of goods with which each branch manager has been charged. Reports will be made to the head office at monthly intervals of sales and inventories, and the proper entries on the books can be made at the head office and the necessary balance-sheets and profit-and-loss statements prepared.