CHAPTER 5

# DEPARTMENTAL ACCOUNTS

## INTRODUCTION

- A separate department is usually created for each line of activity.
- For example, an automobile company may have different departments such as two wheelers scooters, motor cycle, luxury car, family car etc.
- The organization comprises of the various departments and its overall performance depends upon individual performance of each and every department.
- Hence, a total picture showing overall profits may hide the inefficiencies of the weak departments.
- This may really affect the decisions of business regarding which department to continue or shut down or expand etc.
- Hence, to get the best results, every department should be viewed as a 'Profit Centre'.

## ALLOCATION AND APPORTIONMENT OF EXPENSES

- Irrespective of the fact whether the departments are related or unrelated, the department-wise figures of sales, purchases, expenses incurred **exclusively** for a particular department are readily ascertained and allocated to those departments.
- However, **common expenses** incurred for the benefit of many departments are also to be taken into account to ascertain the overall profitability of the various departments.
- These common expenses need to be apportioned to the various departments on some equitable basis.
- The common expenses which cannot be conveniently apportioned to many departments should preferably be shown in the general profit and loss account e.g., debenture interest payable by the company, interest on loan, salary of general manager, managing director's salary etc.

Some of the common bases used for apportioning the common expense/incomes are summarized in the following table:

| S.No. | *Item of income/expense* | *Commonly used basis for apportionment* |
|---|---|---|
| 1. | Depreciation of assets, fire insurance, repair and maintenance expenses of assets etc. | Asset value of each department |
| 2. | Canteen expenses, common room expenses, medical expenses and other welfare expenses | Number of Employees in each department |
| 3. | Rent, rates, taxes, repairs and maintenance of 'building | Area of each department |
| 4. | Discount received, carriage inward etc. | Purchases of each department |
| 5. | Discount allowed, bad debts, carriage | Sales (turnover) of each department |

| | | |
|---|---|---|
| | outward, salesmen salary and commission Packing and delivery expenses etc. | |
| 6. | P.F. and E.S.I, contributions | Salaries of Each department |
| 7. | Lighting | Number of light points in each department or by separate meter (if installed) |
| 8. | Advertising | Turnover of Each department |

***Question – 1.***

***A firm has two departments—cloth and ready-made clothes departments. The readymade clothes are made in the firm itself out of cloth supplied by the cloth department as its usual selling prices. From the following prepare departmental Trading and Profit and Loss Accounts for the year 2010:***

| | *Cloth Department (Rs.)* | *Ready-made Department(Rs.)* |
|---|---|---|
| *Opening Stock* | *2,40,000* | *48,000* |
| *Purchases* | *18,00,000* | *24,000* |
| *Sales* | *20,00,000* | *6,00,000* |
| *Transfer to Ready-made Depart* | *4,00,000* | *----* |
| *Expenses- Manufacturing* | *----* | *68,000* |
| *Expenses- Selling* | *40,000* | *4,000* |
| *Closing Stock* | *3,00,000* | *60,000* |

***Stocks in the ready-made clothes department may be considered as consisting of 80% cloth and the rest as expenses. The cloth department made a gross profit of 25% in 2009. General expenses of the business as a whole came to Rs. 1,80,000.***

(**Answer:** Stock Reserve Opening- 9,600/- & Closing 13,200/-& Net Profit- 4,72,400 & 80,000)

***Question – 2.***

***Khali Ltd has two departments A & B. From the following particulars prepare Departmental Trading A/c and Consolidated Trading A/c for the year ending 31st March 2010:***

| | ***Department A*** | ***Department B*** |
|---|---|---|
| *Opening Stock at Cost* | *40,000* | *24,000* |
| *Purchases* | *1,84,000* | *1,36,000* |
| *Carriage Inward* | *4,000* | *4,000* |
| *Wages* | *24,000* | *16,000* |
| *Sales* | *2,80,000* | *2,24,000* |
| *Purchased Goods transferred* | | |
| *By B to A* | *20,000* | *----* |
| *By A to B* | *----* | *16,000* |
| *Finished Goods transferred* | | |
| *By B to A* | *70,000* | *----* |
| *By A to B* | *----* | *80,000* |
| *Return of Finished Goods* | | |
| *By B to A* | *20,000* | *----* |
| *By A to B* | *----* | *14,000* |
| *Closing Stock:* | | |
| *Purchased Goods* | *9,000* | *12,000* |
| *Finished Goods* | *48,000* | *28,000* |

***Purchased goods have been transferred mutually at their respective departmental***

***purchase cost and finished goods at departmental market price and that 20% of the finished stock (Closing) at each department represented finished goods received from other department.***

(**Answer:** Overall Gross Profit- Rs. 1,64,720/-)

***Question – 3.***

***FGH Ltd. has three departments I, J and K. Following information is provided for the year ended 31.03.2011:***

| ***Particulars*** | ***I*** | ***J*** | ***K*** |
|---|---|---|---|
| *Opening Stock* | *5,000* | *8,000* | *19,000* |
| *Opening reserve for unrealized profit* | *-* | *2,000* | *3,000* |
| *Materials consumed* | *16,000* | *20,000* | *-* |
| *Direct Labour* | *9,000* | *10,000* | *-* |
| *Closing Stock* | *5,000* | *20,000* | *5,000* |
| *Sales* | *-* | *-* | *80,000* |
| *Area Occupied (Sq. Mtr.)* | *2,500* | *1,500* | *1,000* |
| *No. of Employees* | *30* | *20* | *10* |

***Stocks of each department are valued at department concerned. Stocks of I are transferred to J at cost plus 20% and stocks of J are transferred to K at a gross profit of 20% on sales. Other common expenses are salaries and staff welfare Rs. 18,000 and Rs. 6,000. Prepare Departmental Trading and Profit & Loss A/c for the year ending 31.03.2011.***

***Question – 4.***

***Om Ltd. has three departments and submits the following information for the year ended 31st March 2010:***

| | ***A*** | ***B*** | ***C*** | ***Total*** |
|---|---|---|---|---|
| *Purchases (Units)* | *6,000* | *12,000* | *14,400* | |
| *Purchases (Amount)* | | | | *6,00,000* |
| *Sales (Units)* | *6,120* | *11,520* | *14,976* | |
| *Selling Price Per Unit* | *40* | *45* | *50* | |
| *Closing Stock (Units)* | *600* | *960* | *36* | |

***You are required to prepare the departmental Trading A/c of OM Ltd., assuming that the rate of profit on sales is uniform in each case.***

(**Answer:** Profit Margin 60% and Purchases- 96,000, 2,16,000 & 2,88,000)

***Question – 5.***

***M/s Malamaal Ltd. has three departments A, B &C. From the particulars given below compute:***

***(a) The value of Stock as on 31st Dec 2009 and***

***(b) The departmental trading results.***

***(i)***

| | ***A(Rs.)*** | ***B(Rs.)*** | ***C(Rs.)*** |
|---|---|---|---|
| *Stock as on 1st Jan. 2009* | *24,000* | *36,000* | *12,000* |
| *Purchases* | *1,46,000* | *1,24,000* | *48,000* |

| | | | |
|---|---|---|---|
| *Actual Sales* | *1,72,500* | *1,59,400* | *74,600* |
| *G.P. on Normal Selling Price* | *20%* | *25%* | *33 1/3%* |

***(ii) During the year certain items were sold at discount and these discounts were reflected in the values of sales shown above. The items sold at discount were:***

| | **A(Rs.)** | **B(Rs.)** | **C(Rs.)** |
|---|---|---|---|
| *Sales at Normal Price* | *10,000* | *3,000* | *1,000* |
| *Sales at Actual Price* | *7,500* | *2,400* | *600* |

(**Answer:** Closing Stock- 30,000, 40,000 & 10,000 & GP (Trading result) 32,500, 39,400 & 24,600)

***Question – 6.***

***Department R sells goods to Department S at a profit of 25% on cost and to Department T at 10% profit-on cost. Department S sells goods to R and T at a profit of 15% and 20% on sales respectively. Department T charges 20% and 25% profit as cost to Departments R and S respectively.***

***Departmental managers are entitled to 10% commission on net profit subject to unrealised profit on department sales being eliminated. Departmental profits after charging managers' commission, but before adjustment of unrealised profit are as under:***

| ***Departments*** | ***Rs.*** |
|---|---|
| ***Department X*** | ***54,000*** |
| ***Department Y*** | ***40,500*** |
| ***Department Z*** | ***27,000*** |

***Stock lying at different departments at the end of the year are as under:***

| | ***Dep. R*** | ***Dept. S*** | ***Dept. T*** |
|---|---|---|---|
| *Transfer from Department X* | — | *22,500* | *16,500* |
| *Transfer from Department Y* | *21,000* | — | *18,000* |
| *Transfer from Department Z* | *9,000* | *7,500* | — |

***Find out the correct departmental profits after charging manager's commission.***

(**Answer:** Correct departmental Profits- 48,600/-, 34425/- & 24,300)

***Question – 7.***

***'Dabang' Ltd. is a retail store operating two departments. The Company maintains a memorandum stock a/c and memorandum mark up a/c for each of the departments. Supplies issued to the departments are debited to the memorandum stock a/c of department at cost plus mark up, and department sales are credited to this a/c. The mark up on supplies issued to the departments is credited to memorandum mark up a/c for the department. When it is necessary to reduce the selling price below the normal selling price, i.e. cost plus mark up, the reduction (mark down) is entered in the memorandum stock account and in the mark up a/c. Department Y has a Mark up of 33 1/3% on cost and department Z has 50% on cost.***

***The following information has been extracted from the records of Southern Store Ltd. for the year ended 31st December, 2010:***

| | ***Department Y*** | ***Department Z*** |
|---|---|---|
| ***Stock 1st Jan 2010 at cost*** | ***24,000*** | ***36,000*** |
| ***Purchases*** | ***1,62,000*** | ***1,90,000*** |
| ***Sales*** | ***2,10,000*** | ***2,85,000*** |

***(1) The stock of Dep. Y at 1st Jan 2010 includes goods on which selling price has been marked down by Rs. 510. These goods were sold in Jan 2010 at the reduced price.***

***(2) Certain goods purchased in 2010 for 2,700 for Dep Y, were transferred during the year to dep Z and sold for 4,050. Purchase and sale are recorded in the purchase of Dep Y and sales of Dep Z respectively, but no entries in respect of the transfer have been made.***

***(3) Goods purchased in 2010 was marked down as follows:***

| | ***Department Y*** | ***Department Z*** |
|---|---|---|
| ***Cost*** | ***8,000*** | ***21,000*** |
| ***Mark down*** | ***800*** | ***4,100*** |

***At the end of the year there were some items in the stock of dep. Z which had been marked down to Rs. 2,300. With this exception, all goods marked down in 2010 were sold during the year at the reduced prices.***

***(4) During stock-taking at 31st Dec 2010, goods which has cost 240/- were found to be missing in department Y. It was determined that the loss should be regarded as irrecoverable.***

***(5) The Closing Stocks in both departments are to be valued at cost for the purpose of the annual accounts. You are requested to prepare for each department for the year ended 31st Dec, 2010:***

***(a) a Trading Account,***

***(b) a Memorandum Stock Account, and***

***(c) a Memorandum Mark-up Account.***

(**Answer:** Cost of Closing Stock- 24,578/- & 23,196/- respectively, Gross profit- 51,518/- & 92,496/- respectively.)

**Student Notes:-**