

TOPIC - 12

(CHAPTER 12 OF ICAI)

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:

<i>S.No.</i>	<i>Item of income/expense</i>	<i>Commonly used basis for apportionment</i>
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 <i>building</i>	Area of each department
4.	Discount received, carriage inward etc.	Purchases of each department
5.	Discount <i>allowed</i> , bad debts, carriage outward, salesmen salary and commission Packing and delivery expenses etc.	Sales (turnover) of each department
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

Goods are transferred from Department P to Department Q at a price 50% above cost. If closing stock of Department Q is ₹ 27,000, compute the amount of stock reserve.

Question 2

Z Ltd. has three departments and submits the following information for the year ending on 31st March, 20X1:

	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 departmental trading account of Z Ltd., assuming that the rate of profit on sales is uniform in each case.

Question 3

Brahma Limited has three departments and submits the following information for the year ending on 31st March, 20X1:

Particulars	A	B	C	Total (₹)
Purchases (units)	5,000	10,000	15,000	
Purchases (Amount)				8,40,000
Sales (units)	5,200	9,800	15,300	
Selling price (₹ per unit)	40	45	50	
Closing Stock (Units)	400	600	700	

You are required to prepare departmental trading account of Brahma Limited assuming that the rate of profit on sales is uniform in each case.

Question 4

M/s Omega is a departmental store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 20X1 are given below:

	X	Y	Z
Opening Stock	36,000	24,000	20,000
Purchases	1,32,000	88,000	44,000
Debtors at end	15,000	10,000	10,000
Sales	1,80,000	1,35,000	90,000
Closing stock	45,000	17,500	21,000
Value of furniture in each department	20,000	20,000	10,000
Floor space occupied by each department (in sq. ft.)	3,000	2,500	2,000
Number of employees in each Department	25	20	15
Electricity consumed by each department (in units)	300	200	100

The balances of other revenue items in the books for the year are given below:

	Amount (₹)
Carriage inwards	3,000
Carriage outwards	2,700
Salaries	48,000
Advertisement	2,700
Discount allowed	2,250
Discount received	1,800
Rent, Rates and Taxes	7,500
Depreciation on furniture	1,000
Electricity expenses	3,000
Labour welfare expenses	2,400

You are required to prepare Departmental Trading and Profit and Loss Account for the year ended 31st March, 20X1 after providing provision for Bad Debts at 5%.

Question 5

M/s X has two departments, A and B.

	A	B
Opening Stock [consisting of purchased goods -at cost)]	20,000	12,000
Purchases	92,000	68,000
Sales	1,40,000	1,12,000
Wages	12,000	8,000
Carriage	2,000	2,000
Closing Stock:		
(i) Purchased goods	4,500	6,000
(ii) Finished goods	24,000	14,000
Purchased goods transferred:		
by B to A	10,000	
by A to B		8,000
Finished goods transferred:		
by A to B	35,000	
by B to A		40,000
Return of finished goods:		
by A to B	10,000	
by B to A		7,000

You are informed that 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 the other department.

Question 6

Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively. Departmental Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealised profits are as below:

Department P	90,000
Department S	60,000
Department Q	45,000

Stock lying at different Departments at the end of the year are as below:

Figures in `			
	DEPARTMENTS		
	P	S	Q
Transfer from P	-	18,000	14,000
Transfer from S	48,000	-	38,000
Transfer from Q	12,000	8,000	-

Find out correct Departmental Profits after charging Managers' Commission.

Question 7

M/s. Suman Enterprises has two Departments, Finished Leather and Shoes. Shoes are made by the Firm itself out of leather supplied by Leather Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 20X3:

	Finished Leather Department (`)	Shoes Department (`)
Opening Stock (As on 01.04.20X2)	30,20,000	4,30,000
Purchases	1,50,00,000	2,60,000
Sales	1,80,00,000	45,20,000
Transfer to Shoes Department	30,00,000	-
Manufacturing Expenses	-	5,00,000
Selling Expenses	1,50,000	60,000
Rent and Warehousing	5,00,000	3,00,000
Stock on 31.03.20X3	12,20,000	5,00,000

The following further information are available for necessary consideration:

- (i) The stock in Shoes Department may be considered as consisting of 75% of Leather and 25% of other expenses.
- (ii) The Finished Leather Department earned a Gross Profit @ 15% in 20X1-X2.
- (iii) General expenses of the business as a whole amount to ` 8,50,000.

Question 8

Gram Udyog, a retail store, has two departments, 'Khadi and Silks' for each of which stock account and memorandum 'mark up' accounts are kept. All the goods supplied to each department are debited to the stock account at cost plus a 'mark up', which together make-up the selling-price of the goods and in the account of the sale proceeds of the goods are credited. The amount of 'mark-up' is credited to the Departmental Mark up Account. If the selling price of any goods is reduced below its normal selling price, the reduction 'marked down' is adjusted

both in the Stock Account and the Departmental 'Mark up' Account. The rate of 'Mark up' for Khadi Department is 33- 1/3% of the cost and for Silks Department it is 50% of the cost.

The following figures have been taken from the books for the year ended December 31, 20X1:

	Khadi Deptt.	Silks Deptt.
Stock as on January 1st at cost	10,500	18,600
Purchases	75,900	93,400
Sales	95,600	1,25,000

(1) The stock of Khadi on January 1, 20X1 included goods the selling price of which had been marked down by ` 1,260. These goods were sold during the year at the reduced prices.

(2) Certain stock of the value of ` 6,900 purchased for the Khadi Department were later in the year transferred to the Silks department and sold for ` 10,350. As a result though cost of the goods is included in the Khadi Department the sale proceeds have been credited to the Silks Department.

(3) During the year 20X1 to promote sales the goods were marked down as follows: Cost Marked down

	Khadi	Silks
Cost Marked down	5,600	360
	10,000	2,000

All the goods marked down, were sold except Silks of the value of ` 5,000 marked down by ` 1,000.

(4) At the time of stock-taking on December 31, 20X1 it was discovered that Khadi cloth of the cost of ` 390 was missing and it was decided that the amount be written off.

You are required to prepare for both the departments for the year 20X1.

(a) The Memorandum Stock Account; and

(b) The Memorandum Mark up Account.

Question 9

Department A sells goods to Department B at a profit of 50% on cost and to Department C at 20% on cost. Department B sells goods to A and C at a profit of 25% and 15% respectively on sales. Department C charges 30% and 40% profit on cost to Department A and B respectively. Stock lying at different departments at the end of the year are as under:

	Department A	Department B	Department C
Transfer from Department A	-	45,000	42,000
Transfer from Department B	40,000	-	72,000
Transfer from Department C	39,000	42,000	-

Calculate the unrealised profit of each department and also total unrealised profit.

Question 10

Department R sells goods to Department S at a profit of 25% on cost and 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 on cost to Department R and S respectively.

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

Department	R	54,000
Department	S	40,500
Department	T	27,000

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

	Deptt. R	Deptt. S	Deptt. T
Transfer from Department R		22,500	16,500
Transfer from Department S	21,000	-	18,000
Transfer from Department T	9,000	7,500	-

Find out the correct departmental Profits after Charging manager's commission.

Question 11

Martis Ltd. has several departments to a Memorandum Departmental (mark-up) to give the normal on. ited age selling price. The mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark- down) will require adjustment in the stock account and in mark-up account. The mark up for Department A for the last three years has been 25%. Figures relevant to Department A for the year ended 31st March, 20X2 were as follows:

Opening stock as on 1st April, 20X1, at cost ` 65,000 Purchase at
cost ` 2,00,000
Sales ` 3,00,000

It is further ascertained that :

- (1) Shortage of stock found in the year ending 31.03.20X2, costing ` 1,000 were written off.

- (2) Opening stock on 01.04.20X1 including goods costing ` 6,000 had been sold during the year and had been marked down in the selling price by ` 600. The remaining stock had been sold during the year.
- (3) Goods purchased during the year were marked down by ` 1,200 from a cost of ` 15,000. Marked-down stock costing ` 5,000 remained unsold on 31.03.20X2.
- (4) The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

You are required to prepare:

- (i) A Departmental Trading Account for Department A for the year ended 31st March, 20X2 in the books of Head Office.
- (ii) A Memorandum Stock Account for the year.
- (iii) A Memorandum Mark-up Account for the year.



Student Notes:-

COVID-19

