UDHNA COLLEGE

SYBCOM SEM-III

ADVANCED ACCOUNTING & AUDITING-II

ACCOUNTANCY & TAXATION

UNIT-1 Departmental Accounting (20 %)

CONTENTS:

Departmental Account

Where a big business with diverse trading activities conducts under the same roof the same usually divide into several departments and each department deals with a particular kind of goods or service. For example, a textile merchant may trade in cotton, woolen and jute fabrics.

The overall performance for this type of business depends, however, on departmental efficiency. As a result, it is desirable to maintain accounts in such a manner that the result of each department can be known—together with the result as a whole. The system of accounting followed for this purpose is knows as Departmental Accounts.

Objectives of Departmental Accounting:

The main objectives of departmental accounting are:

- To check out an interdepartmental performance.
- To evaluate the performance of the department with the previous period result.
- The gross profit of each department can be ascertained.
- Unprofitable departments will reveal.
- The result of operations can use to determine the remuneration of managers of each department.

- The progress of each department can monitor for appropriate actions to take.
- To help the owner formulating the right policy for the future.
- To assist the management in deciding to drop or add a department.
- To assist management for cost control.

Advantages of Departmental Accounting

Following are the advantages of a department accounting −

- It is helpful in evaluating the result of each department.
- It helps to know the profitability of each department.
- Investors and outsiders may know the detailed information.
- It is helpful in making comparison of each expenses (same department) of the different accounting years and different expenses (other departments) of the same accounting year.
- For a company that is dealing with multiple products, it is much easier to control and monitor several departments based on the products they sell rather than controlling it as one single business.
- Assists management in determining remuneration of departmental managers if it is based on departmental profit.
- Assists management to decide upon adding new department or dropping department.

Methods of Departmental Account

There are two methods of keeping Departmental Accounts −

- Separate Set of Books for each department
- Accounting in Columnar Books form

1. Separate Set of Books for each Department

Under this method of accounting, each department is treated as a separate unit and separate set of books are maintained for each unit. Financial results of each unit are combined at the end of accounting year to know the overall result of the business.

Due to high cost, this method of accounting is followed only by very big business houses or where to do so is compulsory as per the law. Insurance business is one of the best examples, where to follow this system is compulsory.

2. Accounting in Columnar Books Form

A Departmental Trading and Profit and Loss Account open for each department in a columnar form together with a separate column for 'Total' to ascertain the individual result of the different departments and also as a whole. But the Balance Sheet prepares in a combining form.

Allocation of Departmental Expenses

- **Direct Expenses:**

Some expenses, which are specially incurred for a particular department, may be charged directly to the respective department and are termed as direct expenses, for example, hiring charges of the transport for delivery of goods to customer may be charged to the selling and distribution department.

- **Indirect Expenses:**

Some of the expenses which are incurred for the business as a whole and as such they cannot be charged directly to particular department. Such expenses will have to be allocated among various departments on some reasonable basis. Such expenses are termed as indirect expenses.

Following are the examples of some expenses, which are not directly related to any particular department may be divide as −

- **Cartage Freight Inward Account** –

Above expenses may be divided according to purchase of each department.

- **Depreciation** − Depreciation may be divided according to the value of assets employed in each department.
- **Repairs and Renewal Charges** − Repair and renewal of the assets may be divided according to the value of the assets used by each department.
- **Managerial Salary** − Managerial salary should be divided according to the time spent by the manager in each department.
- **Building Repair, Rents & Taxes, Building Insurance, etc.** − All the expenses related to the building should be divided according to the floor space occupied by each department.
- **Selling and Distribution Expenses** − All the expenses relating to selling and distribution expenses should be divided according to the sales of each department, such as freight outward, travelling expenses of sales personals, salary and commission paid to salesmen, after sales services expenses, discount and bad debts, etc.
- **Insurance of Plant & Machinery** − The value of such Plant & Machinery in each department is the basis of the insurance.
- **Employee/worker Insurance** − Charges of a group insurance should be divided according to the direct wage expenses of each department.
- **Power & Fuel** − Power & fuel will be allocated according to the working hours and power of the machine (i.e. Hours worked x Horse power).

ALLOCATION OF INDIRECT EXPENSES	
Expenses	**Basis of Allocation**
Rent, rates and taxes	Area occupied by department
Lighting and heating	On the basis of number of points, if not metered separately and in absence of no. of points, On the basis of area occupied.
Insurance premium on goods.	Average of stock.
Sellingexpenses: advertisement, bad debts, carriage outward, salesman commission, discount allowed etc.	On the basis of net sales of each department
Purchase expenses: carriage inward, freight, discount received etc.	On the basis of net purchase of each department
Depreciation, repairs, insurance premium on assets	On the basis of capital value of assets.

Labour welfare expenses, canteen expenses.	On the basis of number of employees.
Interest on Loan, Debenture Interest, Income Tax, Salary to General Manager, Share Transfer expenses, Bank charges, Audit fees etc.	Debited to General Profit and Loss Account.
Interest on Calls-in-arrears, Interest on Investment, fees on share transfer etc.	Credited to General Profit and Loss Account.

Inter-Departmental Transfers:

Goods are often supplied from one Department to another – Inter-Departmental transfer. Such transfer must be credited to Supplying Department and debited to Receiving Department. If the transfers are made at cost price, then it can be treated as mere transfer. No further adjustment is needed.

However, if the transfers of goods are made at selling price, then a profit is earned by the supplying department of the same organisation. When the goods, transferred from one department to another, still remain unsold with the transferee department, at the end of the accounting period, there arises a necessity to eliminate the unrealised profit on such stock on hand. This is because, so much of issuing department's profit (notional) remain unrealised from the viewpoint of the firm as a whole. The reserve will be equal to the profit included in respect of unsold goods at the end of closing.

The Journal Entry is:

General Profit and Loss Account Dr.
To Stock Reserve

In certain cases, the transferee department may have some stock in the beginning of the accounting period, against which stock reserve was already created in the previous year, will also be transferred to General Profit and Loss Account by means of Journal entry:

Stock Reserve Account Dr.
To General Profit and Loss Account

Alternatively, a single journal entry can be passed for the unrealised profit on the basis of the difference between unrealised profit included in opening and closing stock.

Inter-Department Transfer Price

There are three types of transfer prices −

1.Cost based transfer price − Where the transfer price is based on standard, actual, or total cost, or marginal cost is called cost based transfer price.

2.Market based transfer price − Where the goods are transferred at selling price from one department to another is known as market base price. Therefore, unrealized profit on the goods sold is debited from the selling department in the form of a stock reserve for both the opening and the closing stock.

3.Dual pricing system − Under this system, the goods are transferred on the selling price by the transferor department (party making transfer) and booked at the cost price by the transferee department (party receiving transfer).

EXERCISE:

Q1) Modern company ltd. has four department A,B,C,D. The expenses for the month of January 2022 are as under:

Particulars	**Amount**	**Particulars**	**Amount**	
rent & taxes	2000	Repairs	1200	
Depreciation on mach.	900	supervision exp.	3000	
Lighting	200	insurance of stock	1000	
Freight	1000	canteen expenses	300	
salesman comm.	1600	power	1500	
		Insurance of Machinery	500	
Other Particulars are as under:				
Particulars	**A**	**B**	**C**	**D**
Area occupied(Sq.ft.)	150	110	90	50
No. of employees	24	16	12	8
Purchase(In Rs.)	40000	30000	20000	10000

Sales(In Rs.)	60000	50000	30000	20000
Value of mach.(In Rs.)	24000	18000	12000	6000
Value of stock(In Rs.)	15000	9000	6000	
Actual power	600	450	300	150
From the above information prepare a statement showing distribution of expenses.				

Q2) The trading and P/L A/C of Radio equipment Co. for the period ended 31/3/2025 is presented to you in the following form:

Particulars	Amount	Particulars	Amount
purchases: Radio (Department A)	23130	Radio (Sales)	25000
Spare parts (Department B)	6440	Receipt from Servicing & Repair	2500
salaries & wages	4800	Stock of Radio (31/3/25)	8040
sundry expenses	2180	Stock of Spare parts (31/3/25)	4460
Profit	3450		
	40000		**40000**

Prepare Departmental Trading & P/L A/C for two Departments: A & B
1. Radio are sold at showroom called Dept. A & Servicing & repair are carried out at workshop called Department B
2. Salaries & Wages comprises as follow: Showroom 3/4 & Workshop 1/4
3. Sundry expenses are to be allocated on the basis of turnover of each department.

Q3) Shree Mehmood and Omprakash carry on their business as merchant in three departments: A, B, C. During a trading period, the requisite figures were as follow:

Prepare Departmental trading & P/L account

	Departments		
Particulars	**A**	**B**	**C**
Opening stock	5000	9000	3000
Purchases	45400	18000	7000
Purchases Return	400		
Sales	60000	20400	10100
Sales Return		400	100
Closing Stock	12000	14000	5000
The joint expenses were as follow:			
Particulars	**Rs.**		
Rent	2500		

Sundry Exp.	1800		
Salary	7500		
Carriage I/W	3500		
Lighting	1200		
Advertisement	7200		
Insurance premium of stock	930		
The following information is available for allocation:			
	A	B	C
1. Area Occupied (In Sq.Ft.)	150	75	25
2. Light Point	15	6	3
3. Salary	Rs.4000	2000	1500

Sundry expenses are to be allocated equally and insurance premium of stock is to be allocated on the basis of closing stock.

Q4) Determine basis of allocation of following expenses:

Particulars
1. Railway Freight
2. Lighting
3.canteen Expenses
4. Discount allowed
5.Repairs
6. Discount Received
7.Insurance Of Material
8.Carriage Outward
9. Bad Debts
10.Wages

Q5) The following is the Trial balance of Reliance Petroleum as on 31/3/2022. You are required to prepare Departmental Trading, P/L A/C, General P/L A/C & B/S as on that date. VNSGU(Nov-2017)

Particulars	**Debit Balance**	**Credit Balance**
Opening Stock		
PTA Dept.	120000	
POY Dept.	105000	
Purchases:		
PTA Dept.	250000	
POY Dept.	200000	
Sales:		
PTA Dept.		500000
POY Dept.		250000
Wages		

PTA Dept.	69000	
POY Dept.	20000	
Salary	21000	
Lighting	15000	
Bad debts	15000	
Discount	12000	18000
Advertisement	9000	
Debtor-Creditor	30000	50000
Land – Building	80000	
Furniture	40000	
Legal Charges	5000	
Managers Salary	10000	
Capital		203000
Bank Balance	20000	
	1021000	**1021000**
1. Closing Stock:	PTA Dept.	80000
	POY Dept.	60000
2.Salary and lighting are to be allocated between PTA & POY department in the ratio 2:1		
3. Provide depreciation on L&B @10% & Furniture at 15%, Which is to be allocated between the two departments in the ratio of 1:1		

Q6) Following particulars are taken from the books of Swadeshi Stores Limited

Particulars	**Dept.A**	**Dept.B**	**Dept.C**
Purchases	200000	300000	800000
Purchases Returns	20000	10000	30000
Sales	610000	1220000	1830000
Sales Return	10000	20000	30000
Wages	40000	60000	80000
Stock on 1/4/2025	50000	70000	10000
Stock on 31/3/2026	80000	50000	40000
Goods transferred from Department A:			
	To Department B		10000
	To Department C		20000
Goods transferred from Department B:			
	To Department A		5000
	To Department C		10000
Goods transferred from Department C:			

	To Department A	7000
	To Department B	9000

Following expenses are to be allocated equally: Telephone charges Rs.3000, Insurance Premium Rs.6000, Office expenses Rs.9000, Rent Rs.24000(to be divided into proportion of space, i.e. Dept. A 1/4; Dept. B 1/4 & Depat. C 1/2)

Other expenses were as follows: Discount allowed Rs.18000, legal expenses Rs.24000, Bad debts Rs.12000 & Income tax Rs.63000

Prepare the Departmental Trading and Profit & Loss account in Columnar form of the department, allocating the above expenses as you seem best.

Q7) Show the basis of allocation for the following expenses

1 General Manger's Salary
2 Rent & Rates
3 Carriage Inward
4 Discount Given
5 Labour Welfare Expense
6 Depreciation
7 Bad debts
8 Commission to salesman
9 Insurance premium on property
10 Freight

Q8) State the bases of apportioning following expenses in the case of 2 Departmental stores. (VNSGU-APRIL 2025)

1. Carriage Outward
2. Discount Earned
3. Commission to Salesman
4. Lighting

Q9) Kavya and Manya run Harmony Departmental Stores in partnership, having two departments M and N. The following is the Trial Balance of the stores as on 31-3-2023: (VNSGU-APRIL 2025)

Trial Balance

Debit Balance	Rs.	Credit Balance	Rs.
Opening Stock: M	60,000	Sales: M	5,00,000
Opening Stock: N	40,000	Sales: N	3,00,000
Purchases: M	2,50,000	Creditors	1,20,000
Purchases: N	1,50,000	Loan	50,000
Salary: M	25,000	Capital: Kavya	2,00,000
Salary: N	20,000	Capital: Manya	1,50,000
Lighting	4,000	Interest on Loans	6,000
Advertisement	24,000		
12% Investments	70,000		
Building	3,75,000		
Building Insurance Premium	2,000		
Rent and Taxes	16,000		
Audit fees	3,000		
Debtors	80,000		
Bad debts	5,000		
Carriage Inward	10,000		
Carriage Outward	14,000		
Salary General	60,000		
Furniture	40,000		
Bank Balance	40,000		
Bank Interest	1,000		
Drawings: Kavya	22,000		
Drawings: Manya	15,000		
Total	13,26,000	**Total**	13,26,000

Additional Information:
1) Closing stock: M Rs. 70,000; N Rs. 50,000.
2) Depreciation on Furniture is to be provided at 10%, which is to be distributed in the proportion of 3:2 respectively.
3) Prepaid building insurance premium amounted to Rs. 500.
4) Interest is to be calculated at 10% on capitals and drawings.
5) Kavya and Manya share profits and losses in the proportions of 3: 2 respectively.
6) Space occupied by the two departments is 600 sq. ft and 400 sq. ft respectively.

Q10) Sales of department A is four times to department P. Total sales is Rs. 2,50,000, of which 10% is bad debts. So find out bad debts is allocated to department A and department P. (VNSGU-NOV.-2024)

Q11) Croma Stores details for the year ending on 31-3-2024 are as follows:(VNSGU-NOV.-2024)

Particulars	Mobile Department Rs.	Washing Machine Dept. Rs.	Air conditioner Dept. Rs.
Purchase	4,00,000	6,00,000	16,00,000
Purchase Returns	40,000	20,000	60,000
Sales	12,20,000	24,40,000	36,60,000
Sales Returns	20,000	40,000	60,000
Wages	80,000	1,20,000	1,60,000
Stock on 31-3-2023	1,00,000	1,40,000	20,000
Stock on 31-3-2024	1,60,000	1,00,000	80,000

Joint Expenses :

Telephone expenses	Rs. 2,10,000	Stationery-Printing	Rs. 1,05,000
Office expenses	Rs. 3,15,000	Rent	Rs. 8,40,000
Lighting	Rs. 1,80,000	Salesman's commi.	Rs. 60,000
Insurance premium of goods	Rs. 2,50,000	Carriage inward	Rs. 2,48,000
Discount allowed	Rs. 36.000	Legal expense	Rs. 1,48,000
Bad debts	Rs. 24,000	Income tax	Rs. 1,85,565
Audit fee	Rs. 1,26,000	Bank charges	Rs. 6,01,324

Other information:

(1) The proportion of occupied space in the three departments is 3:4: 5 respectively.

(2) The lighting expense of the washing machine department is half of the lighting expense of the mobile department, while it is a third of the lighting expense of the air conditioner department.

(3) The average stock for the three departments respectively is Rs. 1,30,000, Rs. 70,000 and Rs. 50,000.

(4) Telephone, stationery-printing and office expenses are to be shared equally among all departments.

Prepare departmental trading account, departmental profit-loss account and general profit-loss account of all the three departments.

Q12) From the following trial balance, you are required to prepare Departmental Trading, P/L, General P/L & Balance sheet

Debit Balance	**Amount**	**Credit Balance**	**Amount**
Opening stock:Dept.A	45000	Capital	825000
Opening stock:Dept.B	60000	Sales: A	375000

Purchases:Dept.A	180000	Sales: B	225000
Purchases:Dept.B	120000	Creditors	28000
Sales Return:A	30000	Bills Payable	23400
Sales Return:B	15000	Purchase returns: A	30000
L&B	400000	Purchase returns: B	15000
Furniture	200000	Bank overdraft	14000
Vehicles	75000		
Debtors	45000		
Bills Receivable	48000		
Cash on hand	80000		
Carriage I/W	17000		
Carriage O/W	7400		
Salary	90000		
Lighting	30000		
Advertisement exp.	42000		
Insurance of Material	8000		
Audit fees	10000		
Legal charges	3000		
Sundry expenses	30000		
	1535400		**1535400**

Other information:

1.provide depreciation on fur. @ 10% and allocate between departments in 3:2. Provide dep. On land and building @ 5%

2.Advertisement expenses of Dept. A is 10% more than Dept. B

3. Closing Stock: Dept. A Rs. 50000 & Dept. B Rs.50000.

Insurance Premium is to be allocated in the proportion of closing stock

4.The following information is available for apportionment of expenses:

Particulars	**Dept. A**	**Dept. B**
Area occupied (sq.ft.)	125	75
Light points	15	10
Ratio of sundry expenses	1	1
Salary	5	4