

UNIT-1 Departmental Accounting (20 %)

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Departmental Account

Where a big business with diverse trading activities conduct 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 known 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.

<ul style="list-style-type: none"> • Insurance premium on goods. 	<ul style="list-style-type: none"> • Average of stock.
<ul style="list-style-type: none"> • Selling expenses: advertisement, bad debts, carriage outward, salesman commission, discount allowed etc. 	<ul style="list-style-type: none"> • On the basis of net sales of each department
<ul style="list-style-type: none"> • Purchase expenses: carriage inward, freight, discount received etc. 	<ul style="list-style-type: none"> • On the basis of net purchase of each department
<ul style="list-style-type: none"> • Depreciation, repairs, insurance premium on assets 	<ul style="list-style-type: none"> • On the basis of capital value of assets.
<ul style="list-style-type: none"> • Labour welfare expenses, canteen expenses. 	<ul style="list-style-type: none"> • On the basis of number of employees.
<ul style="list-style-type: none"> • Interest on Loan, Debenture Interest, Income Tax, Salary to General Manager, Share Transfer expenses, Bank charges, Audit fees etc. 	<ul style="list-style-type: none"> • Debited to General Profit and Loss Account.
<ul style="list-style-type: none"> • Interest on Calls-in-arrears, Interest on Investment, fees on share transfer etc. 	<ul style="list-style-type: none"> • 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 –

- **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.
- **Market based transfer price** – Where the goods are transferred at selling price from one department to another is known as market based 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.
- **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) 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

Q2) 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

Q3) 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.				

Q4) 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	2500

		& Repair	
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.

Q5) 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

Particulars	Departments		
	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 expensess are to be allocated equally and insurance premium of stock is to be allocated on the basis of closing stock.

Q6) 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

Q7) 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 1/4/2021	50000	70000	10000
Stock on 31/3/2022	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 & Dept. 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.

Q8) NOV.2018 VNSGU

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:

Provide depreciation on fur. @ 10% and allocate between departments in 3:2. Provide dep. On Land & 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
Rtaio of sundry expenses	1	1
Salary	5	4

Q8) 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 L&b @ 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
Rtaio of sundry expenses	1	1
Salary	5	4

Q9) From the following information prepare departmental trading account of Udhna traders as on 31/3/2025:

Particulars	Department A	B
Opening stock	35000	48000
Purchases	200000	160000
Sales	300000	225000
Closing stock	85000	60000
Wages	12000	20000

Carriage inward: 50000

Q10) The following are the particulars relating to P Departmental store for the year 2025.

Sr. No.	Particulars	Hosiery	Garments
1	Area occupied	400sq.ft.	200 sq.ft.
2	Average stock	14400	10800
3	purchases	35000	30000
4	sales	66000	44000

Considering above details allocate following expenses among two department trading and P/L account or general P/L A/C.

A. Carriage inward	1950
B. Carriage outward	1560
C. General managers salary	12000
D. Rent and taxes	9000
E. Fire insurance premium of stock	420

Q11) Ami runs departmental stores having two departments: P & Q. The following are the particulars relating to their stores ending on 31-3-2025

Particulars	P	Q	Total
Opening stock	5000	7000	12000
Purchases	42000	52000	94000
Sales	80000	93000	173000

Goods supplied to department Q	5000	--	5000
Goods supplied to department P	----	8000	8000
Purchase returns	2000	2000	4000
Sales returns	2000	2000	4000
Closing stock	6000	8000	14000
Wages			9000
Carriage inward			4500
Discount received			1800
Carriage outward			1300
Salary	10000	13000	23000
General salary			13000
Rent, taxes & insurance			5000
Discount allowed			1300
Sundry expenses			2600

From the above information, prepare departmental trading and profit/loss account.

1. Both the department have occupied same space
2. Machinery of Rs. 60000 is used in business, on which depreciation is to be at 10% p.a. and is to be apportioned between two departments in the ratio of 2:1
3. Other expenses are to be allocated on reasonable basis.

Q12) X and Y run a departmental store in partnership. There are two departments: Medicine and Provision. Their trial balance as on 31-3-2025 was as follows. (VNSGU MARCH 2023)

Trial Balance

Particulars	Debit Rs.	Credit Rs.
Opening Stock : Medicine Department	36,000	-
Provision Department	48,000	
Purchases : Medicine Department	1,44,000	
Provision Department	96,000	
Building	90,000	
Carriage Inward	7,200	
Carriage Outward	12,000	
Salary of Medicines Department	14,400	
Salary of Provision Department	16,800	
Salary : General	25,800	
Insurance Premium of Building	1,200	
Rent and Rates	21,600	
Lighting	2,160	
Advertisement	24,000	
Audit Fees	3,000	
Debtors	48,000	
Bad Debts	3,840	
10% Investment (1-4-2021)	36,000	
Furniture	45,000	
Bank Balance	45,600	
Interest on investments	-	3,000
Bank Interest	12,600	
Drawings : X	18,000	
Y	12,000	
	30,000	

Sales : Medicine Department		3,00,000
Provision Department		1,80,000
Creditors		36,000
Loan		36,000
Capital : X	1,18,200	
Y	90,000	
		2,08,200
	7,63,200	7,63,200

You are given the following additional information :

1. Closing Stock: Medicine Rs. 36,000; Provision Rs. 42,000.
 2. Depreciation on furniture is to be provided at 10% and is to be allocated between the two departments in the ratio of 8 : 7.
 3. Profit or loss is to be divided between X and Y in the ratio of 3 : 2.
 4. Insurance prepaid Rs. 300.
 5. Interest on capital and drawings is to be calculated at 10% per annum.
 6. Space occupied by two departments is 300 sq. ft. and 600 sq. ft. resp.
- From the above particulars, you are required to prepare Departmental Trading and Profit and Loss account and General Profit and Loss account for the year ended 31-3-2022 and a balance sheet as on that date.

Q13) Which bases would you suggest for allocation of the following expenses among various department of a departmental store: (MARCH 2024)

- Depreciation
- Discount given.
- Commission to salesman
- Rent and rates

Q14) Show the basis of allocation for the following expenses: (January 2021)

- i. Discount received
- ii. Supervisors expenses
- iii. Carriage inward
- iv. Carriage outward

Q15) From the following trial balance, you are required to prepare Departmental Trading and Profit and Loss account, General Profit and Loss account and Balance Sheet as on 31-3-25(VNSGU 2021)

Particulars		Debit Rs.	Credit Rs.
<u>Opening stock :</u>			
A	1,12,500		
B	<u>1,50,000</u>	2,62,500	
<u>Purchase :</u>			
A	4,50,00		
B	<u>3,00,000</u>	7,50,000	
<u>Purchase return :</u>			
A	75,000		
B	<u>37,500</u>	–	1,12,500
<u>Sale :</u>			
A	9,37,500		
B	<u>5,62,500</u>	–	15,00,000
<u>Sales return :</u>			
A	75,000		
B	<u>37,500</u>	1,12,500	–
Creditors		–	70,000
Bills payable		–	58,500
Land and Building		10,00,000	–

Furniture	5,00,000	—
Vehicles	1,87,500	—
Debtors	1,12,500	—
Bills receivable	1,20,000	—
Cash on hand - Bank overdraft	2,00,000	35,000
Carriage inward	42,500	—
Carriage outward	18,500	—
Salary	2,25,000	
Lighting	75,000	—
Advertisement expense	1,05,000	—
Insurance of material	20,000	
10% Investments (1-1-19)	25,000	—
Legal charges	7,500	—
Capital	—	20,62,500
Sundry expenses	75,000	—

Other information :

1. Provide depreciation on furniture at 10% allocated ratio between departments is 3:2 and depreciation on land and building is 5%.

2. Advertisement expense of A department is 10% more than B department

3. Closing stock

A - Department - Rs. 1,25,000

B - Department - Rs. 1,25,000

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

Particulars	A - Department	B - Department
Area occupied (in sq.ft)	375	225
Light points	45	30
Ratio of sundry expenses	3	3
Salary	15	12
Average stock	1,25,000	2,50,000

5. Insurance pre-paid Rs. 2,000.