

# ***DEPARTMENTAL ACCOUNTING***

## **Meaning of Departmental Accounting:**

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.

## **The Concept of Departmental Accounting:**

Departmentalization enables big firms to determine the areas needing special attention to the achievement of overall objectives. The units or departments needing more funds and more attention than others and the one(s) contributing more towards goal attainment could be identified with good departmentalization.

The purpose is basically to find out the performance and capability of the units or departments to make adjustments for the achievement of the firm's objectives.

## **Objectives of Departmental Accounting:**

- ❖ To have a comparison of the results of a particular department with previous year and also with the other department of the same concern.
- ❖ To help the proprietor in formulating policy to expand the business on proper lines so as to optimize the profits of concern.
- ❖ To allow departmental managers commission on the basis of the profits of their departments.
- ❖ To generate information which may be helpful for planning, control, evaluating of performance of each department and for taking various managerial decisions.

# Advantages of Departmental Accounting:

## ➤ **Ascertainment of profit:**

Gross profit and net profit can be ascertained for each department separately on a reliable basis.

## ➤ **Comparative performance:**

The result of different department can be compared in terms of profit, expenses, inventories, percentage of growth, return on investment etc.

## ➤ **Appraisal Personnel:**

Individuals responsible for improved results or decline in performance can be identified. This is useful in implementing incentive systems.

➤ **Remedial measures:**

Areas of poor performance can be identified for implementing remedial measures. If situation warrants, decisions to discontinue some products or closing a department may be taken accurately.

➤ **Expansion and Diversification:**

Decisions to expand and diversify profitable lines of business become easier.

➤ **Policy formulation:**

Management policies towards inventories, extending credit, additional investment etc., are facilitated.

<b>BASIS OF DIFFERENCE</b>	<b>DEPARTMENTAL ACCOUNTING</b>	<b>BRANCH ACCOUNTING</b>
LINKAGE	Departments are attached with the main organization under a single roof.	Branches are separate from the main organization.
RESULTS OF	Departments are the results of fast human life.	Branches are the outcomes of the tough competition and expansion of the business.
GEOGRAPGICAL LOCATION	Departments are not geographically separated.	Branches are geographically separated.

ALLOCATION OF EXPENSES	Allocation of departmental common expenses is a tough job.	There is no need of allocation of branch expenses.
RECONCILIATION	In departmental accounts, no reconciliation is required because there is no central account division.	To find out the net result of organization the reconciliation of different branch is a main job.
PRFOITABILITY	The profitability position of department is seen within the larger picture of a parent organizational profits.	The profitability of each branch is equally important and seen separately.



<p>METHODS OF PREPARATION OF ACCOUNTS</p>	<p>There are only two methods: Separate set of books are maintained Separate set of books are not maintained.</p>	<p>There are various methods of preparation of accounts like Stock and debtors system Debtors system Final accounts system Wholesale price system</p>
<p>ACCOUNTS MAINTAINED</p>	<p>The accounts maintained are; Departmental trading and profit and loss account General profit and loss account</p>	<p>The accounts maintained are: Branch stock account Branch adjustment account Branch debtors account Branch expenses account</p>
<p>CONTROL</p>	<p>The chief executive who is to keep a constant watch over the department supervisor closely and supervises effectively.</p>	<p>Control is impracticable in case of a far off branch since it is not possible for the head office to keep instant watch.</p>

RECONCILIATION OF RESULTS	Departmental accounting presents the trading results of each individual department.	Branch accounts present the trading results of each individual branches.
NATURE	Departmental accounting is practically a segment of accounts.	Branch accounts are a condensation of accounts.
EXPENSIVE	These are comparatively less costly as a small team of accountants can be appointed to maintain the accounts.	Branch accounts are costly to maintain as it involves a big team of accountants to maintain accounts for each branch.

FUNCTIONAL DIVISION	Functional division is possible in case of departmental concerns.	It is not possible in case of branch.
TYPES	There is no classification of departments.	The branches may be dependent or independent.
TRADING	Departmental trading with their head office is conducted under the same roof although each department deals with separate line of activity.	Branch trading is conducted in different parts of the country under the head office dealing with usually the same line of activity.

## Methods and techniques of Departmental Accounting:

(i) When accounts are finalized, departmental trading and Profit & loss account is prepared in columnar form to find gross profit and net profit of each department .

(ii) Maintenance of Records:

Firms with huge turnover and large number of transactions can maintain separate subsidiary books for each department. Medium and small sized firms can maintain purchases book, sales book and returns books with appropriate columns for each department.

Date	Particulars	Name of the Customer	Outward invoice No.	L.F	Total Amount Rs.	Departments

### **(iii) Departmentalization of Expenses:**

In order to find out profit and loss of each department apart from sales, purchases, return and stocks, various expenses must be charged to the departments appropriately.

#### **(a) Direct expenses:**

Expenses which can be directly identified with or incurred for particular department are called direct expenses. For eg. Wages, carriage inwards, insurance of stock etc.

#### **(b) Indirect expenses:**

Expenses which cannot be identified with a particular department, but incurred for their common benefit are called indirect expenses.

Indirect expenses are further sub-divided into:

- (1) Expenses which cannot be apportioned.
- (2) Expenses which can be apportioned.

# Basis for Overhead Apportionment

Overheads common to all these departments	Apportioned on some suitable basis
Rent, rates & taxes	Floor space occupied by each department , office, factory
Repair to Plant or Department, Depreciation on office building	Plant or Department's Value or any asset's Floor space occupied by each department
For Legal fees	No of cases handled as the basis
For Salaries of common staff	Ratio of salaries of departments as the basis
For Typist pool	No of documents typed as the basis
For General Lighting and electricity	No. of light points or Area or Units of Sub-meter in each Department
For Telephones	No. of extensions in a department
For Material handling	No. of material requisitions or Value of material issued
Power	H.P. Of Plant
Supervision, Employer's liability	No. of Employees
Fire Insurance	Value of Stock in any Department
Indirect Labour Cost	Total duty hours in any department
Canteen Service Cost and other welfare expenses	No. of Employees in Any Department
Transport Cost	No. of boxes or containers or weight of containers, hours of spending vehicle in any department

#### **(iv) 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 organization. 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 unrealized profit on such stock on hand. This is because, so much of issuing department's profit remain unrealized 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.

## Inter departmental transfer at cost price:

From the following information, prepare departmental trading and profit & loss a/c in a columnar form of the three departments of Sharma Dry Cleaners Ltd:

particulars	Dry cleaning Rs.	Darning Rs.	Dyeing Rs.
Stock 1 <sup>st</sup> Jan 1996	4,00,000	3,40,000	9,40,000
Stock 31 <sup>st</sup> Dec 1996	3,30,000	4,38,000	8,17,000
Purchases	19,59,000	6,97,000	13,73,000
Sales	40,00,000	20,00,000	40,00,000
Wages	7,28,000	3,00,000	2,46,000

Goods were transferred from one department to another at cost price as follows:

- Darning to dry cleaning Rs.2,400 and to dyeing Rs.40,200.
- Dyeing to dry cleaning Rs.25,800 and to darning Rs. 18,000.
- Dry cleaning to darning Rs.3,000 and to dyeing Rs.24,000.

Apportion equally:

Stationary	Rs.5,418
Postage	Rs.4,050
General Expenses	Rs.2,37,618
Insurance	Rs.10,080
Depreciation	Rs.32,598

Rent & taxes Rs.1,80,000 is to be split in proportion to space occupied, i.e dry cleaning 4, darning 2, dyeing 2, and other space 2.



Solution: Sharma Dry Cleaners ltd Departmental Trading and P & L A/C for the year ended 31.12.1996

Particulars	Dry cleaning Rs.	Darning Rs.	Dyeing Rs.	Particulars	Dry cleaning Rs.	Darning Rs.	Dyeing Rs.
To Opening stock	4,00,000	3,40,000	9,40,000	By Sales	40,00,000	20,00,000	40,00,000
To Purchases	19,59,000	6,97,000	13,73,000	By Inter-dept.transfer	27,000	42,600	43,800
To Inter-dept. transfers	28,200	21,000	64,200	By Closing Stock	3,30,000	4,38,000	8,17,000
To Wages	7,28,000	3,00,000	2,46,000				
To Gross Profit c/d	12,41,800	11,22,600	22,37,600				
	43,57,000	24,80,600	48,60,800		43,57,000	24,80,600	48,60,800
To Stationery	1,806	1,806	1,806	By GrossProfit b/d	12,41,800	11,22,600	22,37,600
To Postage	1,350	1,350	1,350				
To General Exp	79,206	79,206	79,206				
To Insurance	3,360	3,360	3,360				
To Depreciation	10,866	10,866	10,866				
To Rent & taxes	72,000	36,000	36,000				
To Net profit	10,73,212	9,90,012	21,05,012				
	12,41,800	11,22,600	22,37,600		12,41,800	11,22,600	22,37,600

### Inter-departmental transfers at selling price:

A firm had two departments, cloth and readymade clothes. The clothes were made by the firm itself out of cloth supplied by the cloth department at its usual selling price.

From the following figures prepare departmental Trading and Profit and Loss Accounts for the year ended 31st March, 2012:

	<i>Cloth Department</i> ₹	<i>Readymade Clothes</i> ₹
Opening Stock on 1st April, 2011	3,00,000	50,000
Purchases	20,00,000	15,000
Sales	22,00,000	4,50,000
Transfer to Readymade Clothes Department	3,00,000	—
Expenses—manufacturing		60,000
selling	20,000	6,000
Stock on 31st March, 2012	2,00,000	60,000

The stock in the readymade clothes department may be considered as consisting of 75% cloth and 25% other expenses. The Cloth Department earned gross profit at the rate of 15% in 2010-11. General Expenses of the business as a whole came to Rs 1,10,000.

**Solution :**

**Dr. Departmental Trading and Profit and Loss Accounts for the year ending March 31, 2012 Cr.**

<i>Particulars</i>	<i>Cloth</i>	<i>Readymade</i>	<i>Total</i>	<i>Particulars</i>	<i>Cloth</i>	<i>Readymade</i>	<i>Total</i>
	₹	₹	₹		₹	₹	₹
To Opening Stock	3,00,000	50,000	3,50,000	By Sales	22,00,000	4,50,000	26,50,000
To Purchases	20,00,000	15,000	20,15,000	To Transfer to Readymade Clothes	3,00,000		3,00,000
To Transfer from Cloth Department		3,00,000	3,00,000	By Closing Stock	2,00,000	60,000	2,60,000
To Manufacturing Expenses		60,000	60,000				
To Gross Profit <i>c/d</i>	4,00,000	85,000	4,85,000				
	27,00,000	5,10,000	32,10,000		27,00,000	5,10,000	32,10,000
To Selling Expenses	20,000	6,000	26,000	By Gross Profit <i>b/d</i>	4,00,000	85,000	4,85,000
To Profit <i>c/d</i>	3,80,000	79,000	4,59,000		4,00,000	85,000	4,85,000
	4,00,000	85,000	4,85,000				
To General Expenses			1,10,000	By Profit <i>b/d</i>			4,59,000
To Stock Reserve (See Note)			1,575				
To Net Profit			3,47,425				
			4,59,000				4,59,000

Working notes:

Stock reserve has been calculated as follows:

Rate of Gross Profit on sales of cloth department =  $4,00,000 / 25,00,000 \times 100 = 16\%$

Elements of cloth in closing stock of readymade garments =  $60,000 \times 75\% = 45,000$ .

Reserve required for unrealized profit in closing stock =  $45,000 \times 16\% = 7,200$ .

Reserve already existing in opening stock =  $50,000 \times 75\% \times 15\% = 5,625$ .

Additional reserve required =  $7,200 - 5,625 = 1,575$ .

THANK YOU

BY

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