ratio. ... : 33, hence indirect expenses have been divided in this

INTER-DEPARTMENTAL TRANSACTIONS

Naturally, in case of need goods or services are transferred from one department of establishment to its another department, it is called as inter-departmental transfer. In such a case, the department supplying goods or rendering service should be credited as sale and the department receiving goods or service be debited as purchases. General rule will be applicable *i.e.* Debit the receiving department and Credit the giving department

Illustration 4. *(Inter-departmental transactions)*

From the following information, prepare Departmental Trading and Profit and Loss A/c in columnar form of the three departments and General Profit and Loss A/c :

	Deptt. A	Deptt. B	Deptt. C
	₹	₹	₹
Stock on 1st January, 1999	18,000	6,000	1,000
Stock on 31st December, 1999	19,000	5,000	3,000
Purchases	40,000	15,000	12,000
Sales	1,20,000	60,000	48,000
Carriage	9,000	6,000	4,000

Other Information :

(1) Inter-Departmental Sales– A to B ₹ 9,000; A to C ₹ 5,000; B to A ₹ 11,000; B to C ₹ 2,500 and C to A ₹ 3,500.

(2) Allocate the following further expenditure half to A, three-tenth to B and one-fifth to C :

	₹
Rent and Rates	14,600
Insurance	2,100
Sundry Expenses	5,300

(3) Other expenses were as follows :

(i) Bad debts	9,500
(ii) Interest on debentures	19,000
(iii) Advertisement	11,400
(iv) Income Tax	25,000

Allocate the above, expenses on the basis you deem fit, indicating the basis on these expenses were allocated.

Solution.

Departmental Trading and Profit and Loss Account

for the year ended 31st December, 1999

Dr. Cr.

Particulars	A	B	C	Total	Particulars	A	B	C	Total
	₹	₹	₹	₹		₹	₹	₹	₹
To Opening Stock	18,000	6,000	1,000	25,000	By Sales	1,20,000	60,000	48,000	2,28,000
To Purchases	40,000	15,000	12,000	67,000	By Departmental Sales[1]	14,000	13,500	3,500	31,000
To Departmental Purchases[1]	14,500	9,000	7,500	31,000	By Closing Stock	19,000	5,000	3,000	27,000
To Carriage	9,000	6,000	4,000	19,000					
To Gross Profit c/d	71,500	42,500	30,000	1,44,000					
	1,53,000	78,500	54,500	2,86,000		1,53,000	78,500	54,500	2,86,000
To Rent & Taxes	7,300	4,380	2,920	14,600	By Gross Profit b/d	71,500	42,500	30,000	1,44,000
To Insurance	1,050	630	420	2,100					
To Sundry Expenses	2,650	1,590	1,060	5,300					
To Bad Debts[2]	5,000	2,500	2,000	9,500					
To Advertisement[2]	6,000	3,000	2,400	11,400					
To Net Profit	49,500	30,400	21,200	1,01,100					
	71,500	42,500	30,000	1,44,000		71,500	42,500	30,000	1,44,000

Dr.

General Profit and Loss Account

Cr.

	₹		₹
To Interest on Debentures	19,000	By Net Profit :	
To Income Tax	25,000	Deptt. A	49,500
To Net Profit	57,100	Deptt. B	30,400
		Deptt. C	21,200
	1,01,100		1,01,100

Note :

(1) Calculation inter– departmental purchases/sales :

Purchases/Sales	A ₹	B ₹	C ₹	Sales
To A	—	9,000	5,000	14,000
To B	11,000	—	2,500	13,500
To C	3,500	—	—	3,500
Purchases	14,500	9,000	7,500	31,000

(2) Bad debts and advertisement have been apportioned in sales ratio *i.e.*, 10 : 5 : 4. While calculating this ratio the inter-departmental sales will not be included in sales.

(3) Interest on debentures and income tax are not related to any particular department, hence these expenses should be charged to general profit & loss account.