7 DEPARTMENTAL ACCOUNT

At the end of this chapter, students should be able to:

- Explain the need for departmental account;
- Prepare departmental accounts.

7.1 Introduction

A business that has two or more lines of merchandise in a building is a departmental type of business. A firm consisting of different departments keeps departmental accounts to segregate the activities of the business central and ascertain trading results achieved by each department at the end of the year or trading period. These departments are usually classified according to their lines of sales, for example, house ware, children's wear, food, books, furniture, etc.

7.2 The Need for Departmental Accounts

Departmental Accounts is purposely prepared to:

i. Separate the results of each department to determine the most profitable department.

ii. Pinpoint unprofitable department for corrective measures.

iii. See the progress of each department throughout the year and determine the peak and slow periods.

iv. Give incentives to department managers and staff on the basis of results attained during a trading period.

v. Stimulates friendly rivalry between the various departments.

vi. Formulate policies for each department based on their trading results.

7.3 Preparation of Departmental Accounts

In arriving at the net profit for each department, it is important that the expenditure for the department is known. It is sometimes difficult to determine the exact amount of expenditure to be apportioned for each department. In such cases, the following procedures may be followed:

i. Expenses incurred for one department will be charged to that particular department.

ii. A pre-agreed basis or ratios are used on any expenses incurred for the benefit of all departments in any of these bases. For example:

a. Floor area or space occupied e.g. lighting, rates, rent etc.

b. Turnover or sales - e.g. salesman's salary, carriage outwards and commission etc.

c. Basis of articles sold. Relative average value of stock held by department.

Format

Departmental, trading profit and loss account for the year ended

	Dept ₦ K	Dept ₦ K	Total ₦ K		Dept ₦ K	Dept ₦ K	Total ₦ K
Opening stock	xx	xx	xx	Sales	xx	xx	xx
Purchases	xx	xx	xx	Less returns inwards	xx	xx	xx
Add carriage inwards	xx	xx	xx				
Less inter dept Transfer	xx	xx	xx				
	xx	xx	xx				
Less closing stock	(xx)	(xx)	(xx)				
	xx	xx	xx				
Gross profit	xx	xx	xx				
Expenses	xx	xx	xx	gross profit b/d	xx	xx	xx
Power	xx	xx	xx	discount received	xx	xx	xx
Insurance	xx	xx	xx	other income	xx	xx	xx
Rents & rates	xx	xx	xx				
Bad debts	xx	xx	xx				
Depreciation	xx	xx	xx				
Motor expenses	xx	xx	xx				
Lighting & heating	xx	xx	xx				
Advertising	xx	xx	xx				
Commission etc	xx	xx	xx				
Net profit	xx	xx	xx				

Fig. 7.1 Specimen for the preparation of departmental account.

Inter-Departmental Transfer

This is the charge by one department to another for the goods or services delivered to the department. In accounting entries, the value of purchases must be deducted from the actual department and added to the receiving department.

Example 7.1

Sunny International Limited has two departments: fashion and footwear departments. The following are balances standing in the books of the company as at December 31st 2009. Prepare a trading and profit and loss account of two departments for the year ended 31st December, 2009 apportioning rent, rates and insurance - 70% to fashion and 30% to footwear.

	₦
Capital	350,000
Fixtures & fittings less depreciation	40,000
Stock (fashion) at 1st Jan	80,000
Stock (footwear) at 1st Jan	60,000
Sundry debtors	48,000
Sundry creditors	6,000
Rent, rates insurance	9,600
Purchases Fashion	60,000
Footwear	80,000
Wages-fashion	6,000
Depreciation of plant - Fashion	2,600
Footwear	-
Office salaries - Fashion	4,000
Footwear	2,000
Office general expenses - Fashion	1,200
Footwear	1,800
Sales - Fashion	200,000
Footwear	330,000

Closing stock value as certified by the different managers as at 31st December, 2009 in fashion department N80,000, footwear department N65, 000.

Solution:

Sunny International Ltd

Departmental Trading, Profit and Loss Account for the year ended 31st December 2009

	Fashion (₦)'000	Footwear (₦)'000	Total (₦)'000		Fashion (₦)'000	Footwear (₦)'000	Total (₦)'000
Opening stock	60'000	80'000	140'000	sales	200'000	350'000	550'000
purchases	60'000	80'000	140'000				
Wages	4,000	6,000	10,000				
Dept of plant	2 600	2 600					
Total goods available	146,600	146,600	292,600				
Less closing stock	80 000	65 000	145 000				
	66,600	81,000	147,600				
Gross profit	133,400	269,000	402,400				
	200,000	350,000	550,000		200,000	350,000	550,000
Rent, & insurance	6,720	2880	9600	Gross Profit b/d	133,400	269'000	402'400
Office salaries	40,000	2,000	6,000				
Office expenses	1,200	1,800	3,000				
Net profit	121,480	262,320	383,800				
	133 400	269 000	402 400		133,400	269 000	402 400

Example 7.2

From the following balance of Mazi Limited, you are required to prepare a departmental trading, profit and loss account for the year ended 31st December 2009.

Sales:	(₦)
Dept Q	300,000
Dept R	200,000
Stock @ 1st January 2009	
Dept Q	5,000
Dept R	4,000
Purchase:	
Dept Q	236,000
Dept R	164,000
Commission	7,000
General office salaries	10,000
Rates	3,000
Insurance	2,500
Lighting	6,000
Repairs	2,400
Internal telephone	1,200
Cleaning	200
Sundry expenses	700
Discounts allowed	600
Discounts received	500
Advertising	2,300
Stationery	1,500
Electricity	8,200
Stock @ 31st December 2009:	
Dept Q	6,000
Dept R	3,000

The total floor area occupied by each department was Department Q 2/5 Department R 3/5. The following basis of apportionment should be used for the department's commission, advertising, discounts allowed proportionate to sales; Discount received proportionate to purchases; cleaning, electricity, and internal telephone insurance on basis of total floor rate. All other expenses should be apportioned equally between the departments.

Solution

SUNNY INTERNATIONAL LTD

Departmental Trading, Profit and Loss Account for the year ended 31st December, 2009

	Dept Q (₦)	Dept R (₦)	Total (₦)		Dept Q (N)	Dept R (₦)	Total (₦)
Opening stock	5,000	4,000	9,000	sales	300,000	200,000	500,000
Purchases	236,000	164,000	400,000				
	241,000	168,000	400,000				
Less closing stock	6,000	3,000	9,000				
	235,000	165,000	400,000				
Gross profit	65,000	35,000	100,000				
	300,000	200,000	500,000		300,000	200,000	500,000
Expenses :				Gross profit b/d	65,000	35,000	100,000
Commission	4200	2800	7,000	Discount Received	300	200	500
General Office Salaries	5,000	5,000	10,000				
Rates	1,500	1,500	3,000				
Insurance	1,000	1,500	2,500				
Lighting	3,000	3,000	6,000				
Repairs	1,200	1,200	2,400				
Internal telephone	480	720	1100				
Cleaning	80	120	200				
Sundry expenses	350	350	700				
Advertising	1,380	920	2,300				
Discount allowed	360	240	600				
Stationery	750	750	1,500				
Electricity	32,80	4,920	169,000				
Net profit	24,300	12,180	169,000				
	65,300	35,200	100,500		65,300	352,000	100,500

7.4 Summary

In this chapter, students have learnt that:

- A departmental account is purposely prepared to separate the activities of the business organisation into smaller and more controllable units.

- Transfers are made between departments and these will appear on the trading, profit and loss accounts.
- Expenses are apportioned to each department and that the expenses are general in nature.
- The preparation of departmental trading, profit and loss account is in tubular form.

7.5 Revision Questions

1. Explain four reasons why organisations separate their operations into different departments.
2. State three basis of apportioning expenses to departments in a departmental account.
3. Explain the term .inter-departmental..
4. The transfer of goods between departments is recorded by debiting:
(A) The receiving department and crediting the giving departments
(B) The giving departments and crediting the receiving departments
5. Which of the following is the basis for apportioning rent among departments?
(A) Sales
(B) Floor area
(C) Number of employee
(D) Direct labour cost
6. Which of the following is not a purpose for preparing departmental accounts?
(A) Compare result of different departments
(B) Employ result of different department
(C) Reward departmental manages
(D) Obtain information for formulating policies
7. The departmental account is normally prepared in ____________ form.
(A) vertical
(B) tubular
(C) horizontal
(D) journal
8. Mary Oluwa operates the Lagos departmental store, selling provisions clothing and hardware.
The following details are to the business for the year ended 31st
December, 2010.
Stock at 1st January 2010.

	₦	K
Provisions	10,000	
Clothing	30,000	
Hardware	45,000	

Sales for 2010	
Provisions	2,800,000
Clothing	4,800,000
Hardware	4,400,000
Purchases for 2010	
Provision	480,000
Clothing	790,000
Hardware	950,000
Rent and rates	635,000
Lighting and cooling	1,200,000
Insurance	450,000
Carriage inwards	300,000
Carriage outward	45,000
Administrative expenses	105,000
Wages and salaries	206,000
Fixed assets	4,500,000

Additional information:

(i) Closing stock was 20% more than the closing stock of 2009.

(ii) Carriage outward expenses are to be apportioned ½ to hardware, the remainder equally between provision and clothing

(iii) rent & rates, administrative expenses and wages & salaries are to be apportioned on the basis of sales.

(iv) All other expenses are to be apportioned equally.

(v) Fixed assets are depreciated at 10% per annum.

You are required to prepare departmental trading profit & loss account to show departmental and total profit.

9. A trading company which has two lines of products (coffee & tea) keeps separates account for each product to ascertain their individual net results at the end of each trading period. At the end of March 312009, the following balances were extracted; You are required to show interdepartmental transfer through trading, profit and loss account.

10. TOLOGO Limited has sales turnover of N1,000,000 from

Opening stock 1st march, 2009	₦ K
Coffee	20,000
Tea	10,000
Purchases during the month	
Coffee	66,000
Tea	55,000
Sales during the month	
Coffee	120,000
Tea	80,000
The following expenses were incurred	
Wages coffee	32,000
Tea	18,000
Closing stock were valued at	
Coffee	25,000
Tea	15,000
Goods issued to eat department at cost by coffee department	2,000
Administrative expenses from tea department	500

the following departments in its stores at Ondo.

Departments	₦ 500,000
Departments Y	₦ 350, 000
Departments Z	₦ 150,000

The delivery of sales cost N8,000. You are requested to apportion delivery of sales cost on the basic of turnover.