Departmental Accounts

Purpose of Departmental Accounts

Departmental accounts are prepared to provide management with information that can be used to make effective decisions and improve efficient. Departmental accounts ensure that losses incurred in one department are not hidden in the overall profit of the firm. Efficient is achieved if, as a result of decisions, the following occur:

- Customers are getting a better service
- Staff feel more personal responsibility for the smaller units
- Profits improve as a result of increased sales or reduced costs

Use of departmental accounts

Management will be able to compare departments and use the information received from the accounts to make more effective decisions based on:

- The profit and loss of each department
- The profit or loss of each department in relation to floor space
- The complementary (balancing) importance of each department

Based on the above information, management will be able to make certain decisions e.g.

- Whether to expand a particular department or reduce the space occupied by others
- Whether to review salaries of staff
- Whether to sublet some floor space

The information received from the accounts alone is unlikely to provide the full picture of an organisation. In many cases unprofitable departments are complementary to others and to close one department might adversely affect others. Management will also be aware that some expenses, such as rent, rates, debenture interest are fixed costs and may be incurred regardless of whether a department remains open or not.

Factors to consider if a department is making a loss

If a department is making a loss then the following factors should be taken into consideration:

- Should the department be closed down?
- The cost of staff being made redundant, e.g. what payments would be necessary
- The effect on staff being redeployed e.g. their morale, their promotional prospects
- Can another product be sold in this department
- Can the department be sub-let?
- If the department is closed down, will the business continue to pay rent on the floor space?
- If the department has been attracting customers to the store, should it be kept open?

Bookkeeping

Departmental day books and departmental ledgers are prepared before preparing final accounts. From the trial balance, a departmental trading's, and profit and loss account is prepared. The balance sheet is then set out in the same way as other non-departmental businesses; it is not divided into departments.

Allocation and apportionment of expenses and gains

When preparing final accounts, management should decide how the relevant expenses and gains are to allocated and apportioned (divided up).

As a general rule we usually allocate expenses and apportion them as follows:

1. Expenses that can be identified specifically with one department are allocated to that department e.g. salaries, carriage in, import duty.
2. Expenses that are paid centrally but are capable of precise allocation e.g. electricity where each department has its own meter, are allocated to each department according to use.
3. Expenses that are paid centrally but are not capable of precise allocation are apportioned in one of the following ways:
    a. In proportion to the sales of each department
    b. In proportion to the floor area of each department
    c. In proportion to the number of employees in each department
    d. Equally- if no other basis can be used

Bases of Apportionment	
Expenses	**Base**
Showroom expenses, Advertising, Carriage out, Directors fees, Auditors fees, Stationery, Bank Charges, General expenses, Discount allowed, Bad debts, Bad debts provision, Depreciation on vehicle	Sales
Insurance, Rent, Rates, Light and Heat, Cleaning, Depreciation of building, Depreciation of equipment	Floor area
Wages of staff, Canteen expenses	Number of employees

Inter-departmental transfers

Goods purchases by one department may be sold in a different department, or expenses incurred by one department may be transferred or re-allocated to another department. For example, if the hardware department bought goods for €1,000 and transferred them to the sports department for sale:

- Deduct €1,000 from purchases in the hardware department
- Add €1,000 to purchases in the sports department

Let's take a look at a question:

Q11.1

The firm of Watson Ltd is divided into two departments: Food and Drapery. The following trial balance was extracted from its books on 31/12/2011

Buildings	€100,000	
Fixtures and fittings	€40,000	
Equipment	€30.000	
Trade debtors	€10,000	
Trade creditors		€20,000
Bank	€5,000	
Salaries (sales staff)	€48,000	
Rent	€2,000	
Distribution expenses	€1,400	
Bad debts	€700	
Tailoring expenses	€600	
Advertising	€1,200	
Heat and light	€2,500	
Food Department		
Stock 1/1/2011	€7,500	
Purchases and sales	€60,000	€70,000
Carriage in	€1,500	
Drapery Department		
Stock 1/1/2011	€15,000	
Purchases and sales	€120,000	€210,000
Carriage in	€3,000	
Capital		€148,000
	€448,400	€448,400

You are given the following additional information:

- Stocks at 31/12/2011: Food €10,000; Drapery €20,000
- The floor space is divided as follows: Food, 20,000 sq. metres; Drapery 80,000 sq. metres
- During the year there was a transfer pf packing materials from the food department to the drapery department valued at cost at €500

Expenses should be allocated between the departments on the basis of floor area or sales, whichever is the more appropriate.

You are asked to:

a) Prepare a departmental trading and profit and loss account for the year ended 31/12/2011
b) Prepare a balance sheet at that date

Trading, Profit and Loss Account of Watson Ltd for the year ended 31/12/2011						
	Total	Food	Drapery	Total	Food	Drapery
Sales				€ 280,000.00	€ 70,000.00	€ 210,000.00
Less Cost of Sales						
Stock at 1/1/2011	€ 22,500.00	€ 7,500.00	€ 15,000.00			
Purchases	€ 180,000.00	€ 60,000.00	€ 120,000.00			
Carriage In	€ 4,500.00	€ 1,500.00	€ 3,000.00			
	€ 207,000.00	€ 69,000.00	€ 138,000.00			
Transfer		-€ 500.00	€ 500.00			
Less Stock 31/12/2011	€ 30,000.00	€ 10,000.00	€ 20,000.00			
Cost of Goods Sold				€ 177,000.00	€ 58,500.00	€ 118,500.00
Gross Profit				**€ 103,000.00**	**€ 11,500.00**	**€ 91,500.00**
Less Expenses						
Administration						
Heat and light	€ 2,500.00	€ 500.00	€ 2,000.00			
Rent	€ 2,000.00	€ 400.00	€ 1,600.00			
Selling and Distribution						
Salaries	€ 48,000.00	€ 12,000.00	€ 36,000.00			
Distribution	€ 1,400.00	€ 350.00	€ 1,050.00			
Bad Debts	€ 700.00	€ 175.00	€ 525.00			
Tailoring	€ 600.00		€ 600.00			
Advertising	€ 1,200.00	€ 300.00	€ 900.00			
Total expenses				€ 56,400.00	€ 13,725.00	€ 42,675.00
Net Profit				€ 46,600.00	-€ 2,225.00	€ 48,825.00

Balance Sheet as at 31/12/2011				
Fixed Assets	**Cost**	**Depreciation**	**Book Value**	
Buildings	€ 100,000.00			€ 100,000.00
Fixtures and fittings	€ 40,000.00			€ 40,000.00
Equipment	€ 30,000.00			€ 30,000.00
	€ 170,000.00			€ 170,000.00
Current Assets				
Stocks		€ 30,000.00		
Trade debtors		€ 10,000.00		
Bank		€ 50,000.00		
			€ 45,000.00	
Less Creditors: amounts due less than 1 year				
Trade creditors			€ 20,000.00	
Working Capital				**€ 25,000.00**
Total Net Assets				**€ 195,000.00**
Financed By:				
Capital				
Balance at 1/1/2011			€ 148,400.00	
Add Net profit			€ 46,600.00	€ 195,000.00
Capital Employed				**€ 195,000.00**

Homework

Q11.2

The firm Moore Ltd is divided into two departments – Grocery and Hardware. The following balances were extracted from the books on 31/12/2010.

Land and buildings	€566,500	
Office equipment	€20,000	
Motor vehicles	€180,000	
Accumulated depreciation on office equipment		€5,000
Accumulated depreciation on motor vehicles		€60,000
10% debentures issued on 1/7/2010		€50,000
Hardware Department		
Stock 1/7/2010	€23,000	
Purchases and sales	€160,000	€200,000
Carriage in	€2,000	
Grocery Department		
Stock 1/7/2010	€35,000	
Purchases and sales	€280,000	€400,000
Returns in	€3,000	
Profit and loss balance 1/1/2010		€18,000
Salaries and general expenses	€50,000	
Rent	€26,000	
Insurance	€5,500	
Advertising	€15,000	
Share Capital:		
Authorised – 800,000 ordinary shares @ €1 each		
Issued – 600,000 ordinary shares @€1 each		€600,000
Bank		€10,000
VAT		€20,000
PAYE		€5,000
Debtors and Creditors	€22,000	€20,000
	€1,388,000	€1,388,000

You are given the following information:

- Stocks at 31/12/2010
    - Hardware €25,000
    - Grocery €40,000
- Salaries due at 31/12/2010, €1,000
- Provision should be made for debenture interest due
- Expenses should be allocated between the departments on the basis of floor area or sales – whichever is more appropriate
- Depreciation is to be provided as follows:
    - Buildings 2% of cost
    - Office equipment 10% of cost
    - Motor vehicles 20% of cost
- The floor space of the firm is to be divided:
    - Hardware 40%
    - Grocery 60%

You are asked to prepare:

a) A departmental trading, profit and loss account for the year ended 31/12/2010
b) A balance sheet as at 31/12/2010

Trading, Profit and Loss Account of Moore Ltd for the year ended 31/12/2010						
	Total	Hardware	Grocery	Total	Hardware	Grocery
Sales				€ 600,000.00	€ 200,000.00	€ 400,000.00
Returns In				-€ 3,000.00		-€ 3,000.00
				€ 597,000.00	€ 200,000.00	€ 397,000.00
Less Cost of Sales						
Opening stock	€ 58,000.00	€ 23,000.00	€ 35,000.00			
Purchases	€ 440,000.00	€ 160,000.00	€ 280,000.00			
Carriage In	€ 2,000.00	€ 2,000.00				
	€ 500,000.00	€ 185,000.00	€ 315,000.00			
Closing Sotck	-€ 65,000.00	€ 25,000.00	€ 40,000.00	€ 435,000.00	€ 160,000.00	€ 275,000.00
Gross Profit				€ 162,000.00	€ 40,000.00	€ 122,000.00
Less Expenses						
Administration						
Salaries	€ 51,000.00	€ 17,000.00	€ 34,000.00			
Rent	€ 26,000.00	€ 104,000.00	€ 15,600.00			
Insurance	€ 55,000.00	€ 2,200.00	€ 3,300.00			
Depreciation:						
Building	€ 11,330.00	€ 4,532.00	€ 6,798.00			
Equipment	€ 2,000.00	€ 800.00	€ 1,200.00			
Selling and Distribution						
Advertising	€ 15,000.00	€ 5,000.00	€ 10,000.00			
Depreciation:						
Vehicles	€ 36,000.00	€ 12,000.00	€ 24,000.00	€ 146,830.00	€ 51,932.00	€ 94,898.00
Operating profit / loss				€ 15,170.00	-€ 11,932.00	€ 27,102.00
Less Interest				-€ 2,500.00	-€ 1,000.00	-€ 1,500.00
Net Profit				€ 12,670.00	-€ 12,932.00	€ 25,602.00
Profit and loss balance 1/1/2010				€ 18,000.00		
Profit and loss balance 31/12/2010				€ 30,670.00		

Balance Sheet of Moore Ltd as at 31/12/2010				
Fixed Assets	**Cost**	**Depreciation**	**Book Value**	
Land and buildings	€ 566,500.00	€ 11,330.00	€ 555,170.00	
Office equipment	€ 20,000.00	€ 7,000.00	€ 13,000.00	
Motor vehicles	€ 180,000.00	€ 96,000.00	€ 84,000.00	
	€ 766,500.00	€ 114,330.00	€ 652,170.00	€ 652,170.00
Current Assets				
Closing stock		€ 65,000.00		
Debtors		€ 22,000.00		
			€ 87,000.00	
Less Creditors: amounts due less than 1 year				
Creditors		€ 20,000.00		
VAT		€ 20,000.00		
PAYE		€ 5,000.00		
Bank		€ 10,000.00		
Loan Interest due		€ 2,500.00		
Salaries due		€ 1,000.00	€ 58,500.00	
Working Capital				**€ 28,500.00**
Total Net Assets				**€ 680,670.00**
Financed By:				
Creditors: amounts due longer than 1 year				
10% debentures				€ 50,000.00
Share Capital		**Authorised**	**Issued**	
Ordinary share capital		€ 800,000.00	€ 600,000.00	
Profit/loss at 31/12			€ 30,670.00	
Shareholders funds				€ 630,670.00
Capital Employed				**€ 680,670.00**