आईएफटीएम विश्वविद्यालय, मुरादाबाद, उत्तर प्रदेश

IFTM University, Moradabad, Uttar Pradesh

NAAC ACCREDITED

E-Content

IFTM University, Moradabad

Akash Kumar Arya

DEPARTMENTAL ACCOUNTS|| AKASH KUMAR ARYA

April 28, 2020

INTRODUCTION

If a business consist of several independent activities, or is divided into several departments, for carrying on separate functions, its management is usually interested in finding out the working results of each department to ascertain their relative efficiencies. This can be made possible only if departmental accounts are prepared. Departmental accounts are of great help and assistance to the management as they provide necessary information for controlling the business more intelligently and effectively. It is also helpful in readily identifying all types of wastage, e.g., wastage of material or of money; also, attention is drawn to inadequacies in the working of departments or units into which the business may be divided.

You have learnt that a business unit may be operating through a network of branches like those of Bata which has branches all over the country or Snowhite which has branches all over the city of Delhi. You also know that, in such a situation, each branch is treated as a separate profit center and the profit or loss is worked out for each branch separately. Similarly, in many cases, the activities of the business unit may be divided into a number of divisions or departments that are usually located under the same roof and each dealing In different types of goods. For example, a Super Market or a Departmental Store may have separate sales counters/ sections for ready-made garments, cosmetics, electrical appliances, medicines, gift items, etc. For purposes of meaningful supervision of the affairs of each section or department and the assessment of their individual performance it is advisable to maintain accounts in such a manner bat we can prepare a trading and profit & loss account for each section or department separately and work out its profit or loss. In this unit, you will learn how are the departmental accounts maintained and how the common expenses are allocated to each section or department in order to arrive at its profit or loss separately.

MEANING OF DEPARTMENTAL ACCOUNTS

Departmental accounts refer to the maintenance of accounts of a business in a manner that makes it possible to ascertain the operational results of each activity, section or department by preparing separate trading and profit & loss account for each one of them. In fact, departmental accounts are nothing more than as many trading and profit & loss accounts as there are the departments.

WHAT IS DEPARTMENT

Department is a division or unit established by the parent organization to achieve a common and specified operational functions. Each department is individually responsible to its profit or loss.

Dept1.jpgDept2.jpg

WHAT IS DEPARTMENTAL ACCOUNTING

Departmental accounts are set of accounts prepared to measure each department or division's operational performance and trading results. These are prepared at any given time to measure the earning capacity and find the operational leakage.

IMPORTANT OBJECTIVES OF DEPARTMENTAL ACCOUNTING

1. To assess each department on the basis of operational performance.
2. To keep separate set of accounts of each department to monitor the trend of performance.
3. To take special care of weak department to improve the performance.
4. To decide the further investment or disinvestment of the fund among the different departments based on the outcome of the performance assessment.
5. To check out interdepartmental performance
6. To evaluate the performance of the department with previous period result.
7. To help the owner for formulating right policy for future.
8. To assist the management for making decision to drop or add a department
9. To provide detail information of the entire organization
10. To assist management for cost control

ADVANTAGES OF DEPARTMENTAL ACCOUNTING

1. It helps to make sure whether the department makes profit or suffers a loss.
2. It makes the management to compare the departments each other to take corrective actions.

3. It helps to take a decision of further investment or disinvestment based on the results of each department.
4. It helps to reward the manager of each department with incentives and remuneration.
5. The trading results of each department may help to evaluation the performance of each department. The sales of that department which gives maximum profit may be pushed up by special efforts.
6. The profitability of each department may help the management for taking decision whether to drop a department or add a new one.
7. The growth potentials of a department can be evaluation by having comparison with the other departments.
8. The users of accounting information can be provided more detailed information like the shareholders, investors, creditors, etc.
9. The overall profits of the organization can be increased by having friendly rivalries between different departments.
10. The departmental managers and staff can be suitably rewarded on the basis of the departmental result.
11. It helps the management to determine the justification of proper use of capital invested in each department.
12. It helps to have comparison of various expenses of each department with the previous period or with other departments of the same concern.
13. It helps to know the efficiency of each department by calculating stock turnover ratio of each department to reveal the fast or slow movement of various items of stock.
14. The information provided by departmental accounts may be helpful to the management for future intelligent planning and control.

STATE THE TWO METHODS OF DEPARTMENTAL ACCOUNTS

1. Singular method
2. Columnar method

- **WHAT IS INDEPENDENT METHOD / SINGULAR METHOD / UNITARY METHOD OF DEPARTMENTAL ACCOUNTS**

Under this method of accounting treatment, each department is treated like a separate establishments and a separate set of accounts are maintained to each department to find out trade efficiency.

- **WHAT IS COLUMNAR METHOD OF DEPARTMENTAL ACCOUNTS**

It is said to be a consolidation method. Under this method of accounting treatment, common books of accounts are maintained for all the departments or division of the establishment.

WHY DO YOU PREPARE DEPARTMENTAL TRADING ACCOUNT

This account is similar to common trading account. It is prepared to find out the Gross Profit or loss of respective departments.

DIFFERENCE BETWEEN DEPARTMENT ACCOUNTING AND BRANCH ACCOUNTING

DEPARTMENT ACCOUNTING	BRANCH ACCOUNTING
Accounting are relating to each of the several department or divisions of a business	In the case of a branch types of organisation the parent establishment
Various parts of the business are located under the same roof	Various parts of the business are located in different places
All accounts are maintained at one place & departmental trading and profit and loss account is prepared accordingly	In case of branch, all branch accounts are kept at Head Office except cash, customers and stock registers are maintained at branch.
Departments are not geographically separated from each other, so problem of allocation of common expenses among different departments arises.	As branches are geographically separated from each other so the problem of allocation of common expenses among different branches does not arises.
The question of adjustments and reconciliation of accounts does not arise in departmental accounts.	In case of independent branch some adjustments and reconciliation of head office and the branch accounts are required to be done at the end of the year.
The problem of conversion of foreign currency into home currency does not arise.	The problem of conversion of foreign branch figures may arise at the time of finalization of accounts of head office

BASIS OF ALLOCATION OF EXPENSES

Dept3.jpg

Following are the indirect expenses and income, determine the basis of apportionment among the Department.

Sr. No.	BASIS OF APPORTIONMENT	DIRECT EXPENDITURE/ INDIRECT EXPENDITURE/ INCOM
1	Ratio of Purchases	Freight charges
2		Carriage inwards
3		Import duty, octroi
4		Discount received
5	Ratio of Sales	Commission
6		Discount allowed
7		Sales tax and after sales services
8		Carriage outwards
9		Travelling
10		Advertisement
11		Bad debts
12	Ratio of Meter reading	Water charges
13	Ratio of Power consumed by each machine	Depreciation of machinery
14	Ratio of Floor space	Power charges
15		Rent and rates
16		Repairs and insurance of buildings
17		Air-conditioning expenses
18	Ratio of Number of points	Electricity bills (lighting)
19	Value of machinery/floor space occupied by machinery	Repairs of machinery
20	Ratio of Value of assets	Depreciation
21	Ratio of Subject matter	Insurance premium
22	Ratio of Wages to workers	Workmen's compensation insurance
23	Ratio of Number of workers	Recreation expenses
24		Labour welfare expenses
25		Canteen expenses

FINANCIAL STATEMENTS OF DEPARTMENT ACCOUNT: (FORMAT)

STEP 1: CALCULATION OF DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING

WORKING NOTE: ALLOCATION OF INCOME AND EXPENSES TO EACH DEPARTMENT ON THE BASIS OF RATIO

Dr.			Cr.
PARTICULARS	**AMOUNT**	**PARTICULARS**	**AMOUNT**
To Opening stock	....	By sales LESS: Returns	....
To Purchase LESS: Returns	....	By closing stock	....
To carriage inwards	....	Transfer To	....
To wages	....		
Transfer from	....		
To gross profit c/d	....		
TOTAL	**XX**	**TOTAL**	**XX**
To Rent, rates, taxes, Insurance	....	By gross profit b/d	....
To sundry expenses	....	By discount received	....
To office expenses	....	By Interest	....
To printing and stationery	....	By net loss c/d	....
To Carriage outwards	....		
To salaries	....		
To general salaries and charges	....		
To discount allowed	....		
To depreciation on fixed assets	....		
To advertisement	....		
To lighting and heating	....		
To bad debts	....		
To Bank interest	....		
To commission	....		
To provisions and outstanding	....		
To other expenses	....		

To telephone	……..		
To travelling expense	……..		
To debenture	……..		
TOTAL	**XX**	**TOTAL**	**XX**

STEP 2: CALCULATION OF BALANCE SHEET FOR THE YEAR ENDING

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital ……..		Fixed Assets:	
ADD: Net Profit ……..		Furniture and fixtures	……..
LESS: Net Loss (……..)		Plant and machinery	……..
LESS: Drawings (……..)	……..	Land and building	……..
Sundry creditors	……..	Closing stock	……..
Loan	……..	Government securities	……..
Outstanding	……..	Cash in hand	……..
Debenture	……..	Motor lorries	……..
Bills payable	……..	Bills receivable	……..
General reserve	……..	Goodwill	……..
Profit and loss a/c	……..	Current assets	……..
TOTAL	**XX**	**TOTAL**	**XX**

Accounts and Costing for Hospitality (DHM 206) SET 1 1. The main objective of Book-keeping is : (A) Complete recording of transactions (B) Ascertainment of Financial effect on the business (C) Analysis and interpretation of data) (D) 'A' 'B' (Both 'A' and 'B') 2. In accounts recording is made of: (A) Only financial transactions (B) Only non-financial transactions …

READ MORE