

## Departmental Records

### *Use of Departmental Accounts*

In certain circumstances it is useful to know about the profitability of specific departments within a firm.

### Example

Department	Gross Profit	Gross Loss
	\$	\$
A	4,000	
B	3,000	
C	5,000	
D		8,000
E	6,000	
	<b>18,000</b>	<b>8,000</b>

If we knew the above, we could see how well, or how badly, each part of the business was doing. If we closed down department D we could make a greater total gross profit of \$18,000. Perhaps we could replace department D with a department which would make a gross profit instead of a loss.

### *Considerations before a department within a firm is closed*

There are certain considerations that have to be taken into account before a final decision on the closure of a firm takes place. Some of these factors might be:

- The reputation of the business might be damaged if managers choose to close down a part of the business.
- Some businesses contain departments that often sell items at a loss in order to attract customers in to the store.
- Are there any better alternatives that could utilize the departmental space more efficiently? If not then the space maybe wasted and the company will have to continue paying the fixed costs such as rent and electricity for that part of the firm's area.

### *Allocation of expenses*

The expenses of the firm are often split between the various departments, and the net profit for each department is then calculated. Each expense is divided between the departments on what is considered to be the most logical basis.

#### Example

Northern Stores have three departments in their store:

	Jewellery	Ladies Hairdressing	Clothing
	\$	\$	\$
Stock of goods or materials 1.1.19X8	2,000	1,500	3,000
Purchases	11,000	3,000	15,000
Stock of goods or materials, 31.12.19X8	3,000	2,500	4,000
Sales	18,000	9,000	27,000
Wages of assistants in each department	2,800	5,000	6,000

The following expenses cannot be traced to any particular department:

	\$
Rent	3,500
Administration expenses	4,800
Air conditioning and lighting	2,000
General expenses	1,200

It is decided by the company accountants to apportion rent together with air conditioning and lighting in accordance with the floor space occupied by each department. These were taken up in the ratios of Jewellery – One-fifth, Ladies Dressing – Half and Clothing - Three - tenths. Administration and general expenses are to be split in the ratio of sales achieved.

Draw up a Trading and Profit and Loss Account for the year ended 31.12.98 using the departmental format.

**Northern Stores**  
Trading and Profit and Loss Account for the year ended 31.12.19X8

	Jewellery		Ladies Hairdressing		Clothing	
	\$	\$	\$	\$	\$	\$
Sales		18000		9000		27000
<u>less cost of sales</u>						
opening stock	2000	2000	1500		3000	
purchases	11000		3000		15000	
closing stock	(3000)	(10000)	(2500)	(2000)	(4000)	(14000)
Gross profit		8000		7000		13000
<u>Expenses</u>						
Rent	700		1750		1050	
Air condition and lighting	400		1000		600	
Administration expenses	1600		800		2400	
General expense	400		200		600	
wages of assistants	2800	(5900)	5000	(8750)	6000	(10650)
Net profit/loss		2100		-1750		2350