

## Preparation of Departmental Trading and Profit and Loss Account

Departmental Trading and Profit & Loss Account is prepared in the same manner as prepared in ordinary business but columnar Trading and Profit and Loss Account is prepared for each department and the last column represents the whole business. It shows the purchases, Sales, Expenses, Gross Profit and Net Profit of each Department and the business as a whole. The specimen of Trading and Profit and Loss Account is given below :

Trading and p/l account of department x, y and z  
for the year ended

Particulars	X	Y	Z	Total	Particulars	X	Y	Z	Total
	₹	₹	₹	₹		₹	₹	₹	₹

## Preparation of Balance Sheet

Only one Balance Sheet of whole Business is prepared. It represents all the departments and separate Balance Sheet for each department is not prepared. The Balance Sheet is prepared in the same manner as the ordinary Balance Sheet. The assets and Liabilities of Departments are recorded in the inner column and their totals in the outer column.

## Preparation of Statement, Showing Net Profit and its Percentage on Sales

**Illustration 1.** A trader carries on his business through four departments i.e. W, X, Y and Z.

The following information are provided by the director for the year ended march. 31, 2015 :

	Departments			
	W	X	Y	Z
	₹	₹	₹	₹
Opening Stock	2,000	3,000	4,000	8,000
Purchases	45,000	44,000	54,000	58,000
Sales	60,000	70,000	80,000	90,000
Closing Stock	7,000	3,000	2,000	6,000

The opening and closing stock have been valued at cost. The expenses which are to be charged to each department in proportion to the cost of goods sold in the respective departments are as follows :

(i) Salaries and Commission	₹ 30,000
(ii) Miscellaneous Expenses	7,500
(iii) Rent and Taxes	20,000
(iv) Insurance	4,500

Prepare a statement showing the final result and percentage on sales in each department and also the combined result with percentage on sales.

**Solution :**

Particulars	Ratio of Indirect Exp. W : X : Y : Z	Dept. W	Dept. X	Dept. Y	Dept. Z	Total
		₹	₹	₹	₹	₹
Opening Stock		2,000	3,000	4,000	8,000	17,000
Add : Purchases		45,000	44,000	54,000	58,000	2,01,000
		47,000	47,000	58,000	66,000	218,000
Less : Closing Stock		7,000	3,000	2,000	6,000	18,000
Cost of Goods sold		40,000	44,000	56,000	60,000	2,00,000
Salaries and Commission	10 : 11 : 14 : 15	6,000	6,660	8,400	9,000	30,000
Miscellaneous Expenses	10 : 11 : 14 : 15	1,500	1,650	2,100	2,250	7,500
Rent and Rates	10 : 11 : 14 : 15	4,000	4,400	5,600	6,000	20,000
Insurance	10 : 11 : 14 : 15	900	990	1,260	1,350	4,500
Total Cost		52,400	57,640	73,360	78,600	2,62,000
Less : Sales		60,000	70,000	80,000	90,000	3,00,000
Net Profit		7,600	12,360	6,640	11,400	38,000
Percentage of Net Profit on Sales		12.67%	17.66%	8.30%	12.67%	12.67%

**Working Note :**

Ratio of cost of goods sold i.e., W : X : Y : Z = 40 : 44 : 56 : 60 or 10 : 11 : 14 : 15.

Salary & Com. (Dept. W) = 30,000 × 10/50 = ₹ 6,000 ; Rent & Rates = 20,000 × 10/50 = ₹ 4,000;

Insurance = 4,500 × 10/50 = ₹ 900 & so on.