

Departmental Accounting

PERFORMANCE OBJECTIVES

1. Compile a departmental income statement extended through Gross Profit.

From Sales Through Gross Profit		
	Revenue from Sales	<i>Based on separate departmental accounts or supplementary analysis sheets</i>
–	Cost of Goods Sold	
=	Gross Profit	
–	Operating Expenses	
=	Income from Operations	
+	Other Income	
–	Other Expenses	
=	Income Before Income Tax	
–	Income Tax Expense	
=	Net Income	

2. Compile a departmental work sheet.
Accountants use work sheets with separate Income Statement columns for each department to facilitate the correct apportionment of revenues and expenses.
3. Compile a departmental income statement extended through Income from Operations.

From Sales Through Income from Operations		
	Revenue from Sales	<i>Based on separate departmental accounts or supplementary analysis sheets</i>
–	Cost of Goods Sold	
=	Gross Profit	
–	Operating Expenses	<i>One ledger account for each expense apportioned to various departments</i>
=	Income from Operations	
+	Other Income	
–	Other Expenses	
=	Income Before Income Tax	
–	Income Tax Expense	
=	Net Income	

4. Apportion operating expenses among various operating departments.
Operating expenses may be apportioned or subdivided on a variety of bases, such as gross sales, advertising space, floor space, amounts in the payroll register, amounts in the equipment ledger, and so on.

5. Compile a departmental income statement extended through departmental margin.

From Sales Through Departmental Margin	
<i>Based on separate departmental accounts or supplementary analysis</i>	Revenue from Sales
	<hr/> – Cost of Goods Sold <hr/>
	= Gross Profit
	– Direct Departmental Expenses
	= Departmental Margin
	– Indirect Expenses <hr/>
	= Income from Operations
	+ Other Income
	– Other Expenses <hr/>
	= Income Before Income Tax
	– Income Tax Expense <hr/>
	= Net Income <hr/> <hr/>

Expenses that are directly related to the department