

Departmental Accounting

Department:

Department refers to activity centre (profit or cost centre) usually located in the same roof but carrying distinct type of activities.

Departmental Accounting:

Department accounting or departmental accounting is a system of financial accounting which is used in the organizations whose all works are done through their different departments or departmental stores. Departmental accounts are prepared separately for each department and trial balance will also be prepared. Departmental P&L Account is prepared to ascertain the profit or loss of each department separately and at the end of the year it is transferred to General profit and loss account of the whole organisation.

Objectives of departmental accounting:

The main objectives of departmental accounting are:

- a) To have comparison of the results of a particular department with previous year and also with the other departments of the same concern;
- b) To help the proprietor in formulating policy to expand the business on proper lines so as to optimize the profits of the concern;
- c) To allow departmental managers' commission on the basis of the profits of their departments; and
- d) To generate information, which may be helpful for planning, control, and evolution of performance of each department and for taking various managerial decisions?

Advantages of Department Accounts:

The main advantages of Departmental accounting are as follows:

- a) It provides an idea about the affairs of each department.
- b) It helps to evaluate the performance of each department.
- c) It helps to reward the Departmental managers and staff on the basis of performance.
- d) It facilitates control over the working of each department.
- e) It helps to compare the result of one department with those of other departments.
- f) It helps the management to formulate the right business policies for the various departments.
- g) It will help in the preparation of departmental budgets.
- h) It helps to calculate stock turnover ratio of each department.