Department Accounts

Prepared by D. El-Hoss

1   Alana owns and manages a shop with three separate departments selling food, clothing and toys. The following trial balance is available for the year ended 30 April 2012.

	$ 000	$ 000
Inventory at 1 May 2011:		
Food	10	
Clothing	12	
Toys	31	
Purchases and sales		
Food	67	250
Clothing	50	150
Toys	57	100
Sales staff wages	80	
Advertising	8	
Heat and light	30	
Insurance	5	
Fixtures and fittings at cost	120	
Provision for depreciation, fixtures and fittings		12
Property	200	
Trade receivables	95	
Bank	55	
Trade payables		40
Capital		268
	820	820

Additional information:

1   Inventory at 30 April 2012: $
        Food   17 000
        Clothing   12 000
        Toys   43 000

2   The shop has 2 floors with the food department on the ground floor and both the clothing and toys departments taking up equal floor space on the floor above.

3   At 30 April 2012:
     ▪ an invoice for advertising amounting to $2000 remained unpaid;
     ▪ $6000 had been paid in advance for heating and lighting.

4   Expenses are apportioned between departments as follows:

    Apportioned on the basis of sales income:
     ▪ sales staff wages; advertising.

    Apportioned on the basis of floor area:
     ▪ heat and light; insurance; depreciation.

5   Straight line depreciation is charged on fixtures and fittings at 10% per annum.

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REQUIRED

(a) Prepare, in columnar format, a departmental income statement for the year ended 30 April 2012.

	Food Dept $000	$000	Clothing Dept $000	$000	Toys Dept $000	$000

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(b) Explain how the preparation of a departmental income statement might assist Alana in managing the business.

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.... [6]

(c) Alana's accountant values some inventory at cost of purchase and some at net realisable value.

Explain these terms to Alana:

(i) cost of purchase

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.... [3]

(ii) net realisable value.

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.... [3]

[Total: 30]

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