

ABC Company has two selling departments (Furniture and Appliances) and two service departments (Purchasing and Accounting). The following Sales and Cost of Goods Sold information is available for the current year end December 31, 2000:

| | Furniture | Appliances |
|--------------------|-----------|------------|
| Sales | 240,000 | 560,000 |
| Cost of Goods Sold | 144,000 | 336,000 |

The Direct Expenses by department for the year were as follows:

| | Salaries | Supplies | Amortization |
|------------|----------|----------|--------------|
| Accounting | 25,000 | 800 | 1,600 |
| Purchasing | 20,000 | 1,500 | 1,600 |
| Furniture | 80,000 | 900 | 800 |
| Appliances | 70,000 | 700 | 4,000 |

The Indirect Expenses for the year were as follows:

| | |
|-------------|-------|
| Rent | 8,000 |
| Advertising | 6,000 |
| Insurance | 2,000 |
| Janitorial | 8,000 |

The Indirect Expenses are allocated to each department under the following conditions:

Rent: Allocated first between the Selling and Service departments with \$500 charged to the Service Departments (allocated to each based on floor space) and the rest to the Selling departments (allocated to each based on floor space). The floor space is as follows:

| | |
|------------|---------------------|
| Accounting | 500 square metres |
| Purchasing | 500 square metres |
| Furniture | 1,200 square metres |
| Appliances | 1,800 square metres |

Advertising: Allocated based on sales.
 Insurance: Allocated based on Amortization Expense
 Janitorial: Allocated based on Floor Space

Allocate the Accounting Department total expenses based on Sales and the Purchasing Department total expenses based on Cost of Goods Sold and then prepare a Departmental Statement of Earnings Worksheet for ABC Company rounding all numbers to the nearest dollar.

Working Paper:

| Rent Service | Floor Space | Portion of Total | Rent |
|---------------------|-------------|------------------|------|
| Accounting | | | |
| Purchasing | | | |
| Total | | | |

| Rent Selling | Floor Space | Portion of Total | Rent |
|---------------------|-------------|------------------|------|
| Furniture | | | |
| Appliances | | | |
| Total | | | |

| Advertising | Sales | Portion of Total | Advertising |
|--------------------|-------|------------------|-------------|
| Furniture | | | |
| Appliances | | | |
| Total | | | |

| Insurance | Amortization | Portion of Total | Insurance |
|------------------|--------------|------------------|-----------|
| Accounting | | | |
| Purchasing | | | |
| Furniture | | | |
| Appliances | | | |
| Total | | | |

| Janitorial | Floor Space | Portion of Total | Janitorial |
|-------------------|-------------|------------------|------------|
| Accounting | | | |
| Purchasing | | | |
| Furniture | | | |
| Appliances | | | |
| Total | | | |

| Accounting Dept. | Sales | Portion of Total | Total |
|-------------------------|-------|------------------|-------|
| Furniture | | | |
| Appliances | | | |
| Total | | | |

| Purchasing Dept. | Cost of Goods Sold | Portion of Total | Total |
|-------------------------|--------------------|------------------|-------|
| Furniture | | | |
| Appliances | | | |
| Total | | | |

ABC Company
Departmental Statement of Earnings Worksheet
December 31, 2000

| | Allocation Base | Acct. Dept. | Purch. Dept. | Furn. Dept. | App. Dept. | Total |
|--|-----------------|----------------|-----------------|----------------|---------------|-------|
| Sales | | | | | | |
| Cost of Goods Sold | | | | | | |
| Gross Profit | | | | | | |
| Direct Expenses: | | | | | | |
| Salaries | | | | | | |
| Supplies | | | | | | |
| Amortization | | | | | | |
| Indirect Expenses: | | | | | | |
| Rent | | | | | | |
| Advertising | | | | | | |
| Insurance | | | | | | |
| Janitorial | | | | | | |
| Total Direct and Indirect Expenses | | | | | | |
| Acct. Dept. | | | | | | |
| Purch. Dept. | | | | | | |
| Total Expenses after Service Dept Allocation | | | | | | |
| Departmental Net Income before Income Taxes | | | | | | |

Answer:

| Rent Service | Floor Space | Portion of Total | Rent |
|---------------------|--------------|------------------|------------|
| Accounting | 500 | 50% | 250 |
| Purchasing | 500 | 50% | 250 |
| Total | 1,000 | 100% | 500 |

| Rent Selling | Floor Space | Portion of Total | Rent |
|---------------------|--------------|------------------|--------------|
| Furniture | 1,200 | 40% | 3,000 |
| Appliances | 1,800 | 60% | 4,500 |
| Total | 3,000 | 100% | 7,500 |

| Advertising | Sales | Portion of Total | Advertising |
|--------------------|----------------|------------------|--------------|
| Furniture | 240,000 | 30% | 1,800 |
| Appliances | 560,000 | 70% | 4,200 |
| Total | 800,000 | 100% | 6,000 |

| Insurance | Amortization | Portion of Total | Insurance |
|------------------|--------------|------------------|--------------|
| Accounting | 1,600 | 20% | 400 |
| Purchasing | 1,600 | 20% | 400 |
| Furniture | 800 | 10% | 200 |
| Appliances | 4,000 | 50% | 1,000 |
| Total | 8,000 | 100% | 2,000 |

| Janitorial | Floor Space | Portion of Total | Janitorial |
|-------------------|--------------|------------------|--------------|
| Accounting | 500 | 12.5% | 1,000 |
| Purchasing | 500 | 12.5% | 1,000 |
| Furniture | 1,200 | 30.00% | 2,400 |
| Appliances | 1,800 | 45.00% | 3,600 |
| Total | 4,000 | 100.00% | 8,000 |

| Accounting Dept. | Sales | Portion of Total | Total |
|-------------------------|----------------|------------------|---------------|
| Furniture | 240,000 | 30% | 8,715 |
| Appliances | 560,000 | 70% | 20,335 |
| Total | 800,000 | 100% | 29,050 |

| Purchasing Dept. | Cost of Goods Sold | Portion of Total | Total |
|-------------------------|--------------------|------------------|---------------|
| Furniture | 144,000 | 30% | 7,425 |
| Appliances | 336,000 | 70% | 17,325 |
| Total | 480,000 | 100% | 24,750 |

ABC Company
Departmental Statement of Earnings Worksheet
December 31, 2000

| | Allocation Base | Acct. Dept. | Purch. Dept. | Furn. Dept. | App. Dept. | Total |
|--|----------------------|----------------|-----------------|----------------|---------------|---------|
| Sales | | | | 240,000 | 560,000 | 800,000 |
| Cost of Goods Sold | | | | 144,000 | 336,000 | 480,000 |
| Gross Profit | | | | 96,000 | 224,000 | 320,000 |
| Direct Expenses: | | | | | | |
| Salaries | | 25,000 | 20,000 | 80,000 | 70,000 | 195,000 |
| Supplies | | 800 | 1,500 | 900 | 700 | 3,900 |
| Amortization | | 1,600 | 1,600 | 800 | 4,000 | 8,000 |
| Indirect Expenses: | | | | | | |
| Rent | Floor Space | 250 | 250 | 3,000 | 4,500 | 8,000 |
| Advertising | Sales | | | 1,800 | 4,200 | 6,000 |
| Insurance | Amortization Expense | 400 | 400 | 200 | 1,000 | 2,000 |
| Janitorial | Floor Space | 1,000 | 1,000 | 2,400 | 3,600 | 8,000 |
| Total Direct and Indirect Expenses | | 29,050 | 24,750 | 89,100 | 88,000 | 230,900 |
| Acct. Dept. | Sales | -29,050 | | 8,715 | 20,335 | |
| Purch. Dept. | Cost of Goods Sold | | -24,750 | 7,425 | 17,325 | |
| Total Expenses after Service Dept Allocation | | 0 | 0 | 105,240 | 125,660 | |
| Departmental Net Income before Income Taxes | | | | -9,240 | 98,340 | 89,100 |