

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	60,000	140,000
Cost of Goods Sold	36,000	84,000

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

	Salaries	Supplies	Amortization
Accounting	6,000	100	400
Purchasing	5,000	300	400
Furniture	20,000	200	200
Appliances	16,000	200	1,000

The Indirect Expenses for the year were as follows:

Rent	2,000
Advertising	1,500
Insurance	500
Janitorial	2,000

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

Rent: Allocated first between the Selling and Service departments with \$200 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	100
Purchasing	100
Furniture	400
Appliances	400

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	100	50%	100
Purchasing	100	50%	100
Total	200	100%	200

Rent Selling	Floor Space	Portion of Total	Rent
Furniture	400	50%	900
Appliances	400	50%	900
Total	800	100%	1,800

Advertising	Sales	Portion of Total	Advertising
Furniture	60,000	30%	450
Appliances	140,000	70%	1,050
Total	200,000	100%	1,500

Insurance	Amortization	Portion of Total	Insurance
Accounting	400	20%	100
Purchasing	400	20%	100
Furniture	200	10%	50
Appliances	1,000	50%	250
Total	2,000	100%	500

Janitorial	Floor Space	Portion of Total	Janitorial
Accounting	100	10%	200
Purchasing	100	10%	200
Furniture	400	40%	800
Appliances	400	40%	800
Total	1,000	100%	2,000

Accounting Dept.	Sales	Portion of Total	Total
Furniture	60,000	30%	2,070
Appliances	140,000	70%	4,830
Total	200,000	100%	6,900

Purchasing Dept.	Cost of Goods Sold	Portion of Total	Total
Furniture	36,000	30%	1,830
Appliances	84,000	70%	4,270
Total	120,000	100%	6,100

ABC Company
Departmental Statement of Earnings Worksheet
December 31, 2000

	Allocation Base	Acct. Dept.	Purch. Dept.	Furn. Dept.	App. Dept.	Total
Sales				60,000	140,000	200,000
Cost of Goods Sold				36,000	84,000	80,000
Gross Profit				24,000	56,000	80,000
Direct Expenses:						
Salaries		6,000	5,000	20,000	16,000	47,000
Supplies		100	300	200	200	800
Amortization		400	400	200	1,000	2,000
Indirect Expenses:						
Rent	Floor Space	100	100	900	900	2,000
Advertising	Sales			450	1,050	1,500
Insurance	Amortization Expense	100	100	50	250	500
Janitorial	Floor Space	200	200	800	800	2,000
Total Direct and Indirect Expenses		6,900	6,100	22,600	20,200	55,800
Acct. Dept.	Sales	-6,900		2,070	4,830	
Purch. Dept.	Cost of Goods Sold		-6,100	1,830	4,270	
Total Expenses after Service Dept Allocation		0	0	26,500	29,300	
Departmental Net Income before Income Taxes				-2,500	26,700	24,200