

Basis of Allocation	Items of Expenses
1. <b>Sales or Turnover Basis</b>	Those expenses which are related to sales are divided in the ratio of sales of different departments. Example of these expenses are—Bad Debts, Discount allowed, Carriage Outward, Advertising, Salesman's Commission, Packing Expenses etc.
2. <b>Net Purchase Basis</b>	Those expenses which are related to net purchase are divided in the ratio of net purchases of different departments. For example,—Carriage Inward, Discount received, Freight etc.
3. <b>Floor Space (area) Basis</b>	Those expenses which provide benefit depending upon the floor space used by them. These are divided on the basis of floor space occupied by each department. For example—Depreciation on Buildings, Rent, Rates & Taxes, Insurance of Building, Repairs to Building, Heating & Lighting etc. Depreciation of Assets, Fire Insurance Premium etc.
4. <b>Value of Assets Basis</b>	Expenses related to workers are divided on the basis of wages ratio of each department. For example—Workmen's Compensation, Contribution to Provident Fund, Gratuity, Fund, Pension Fund, Employees' State Insurance etc.
5. <b>Wages Basis</b>	Canteen Expenses, Medical Benefits, Safety Measures, Expenses on Workers' Recreation & Education etc.
6. <b>Number of Employees' Basis</b>	Those expenses which are divided on the basis of units of electricity consumed by each department. For example— Electricity.
7. <b>Fans and Light Points Basis</b>	The Expense on power is divided in the ratio of use of Horse Power by machine with respect to number of work hours between departments.
8. <b>Horse Power Basis</b>	Other expenses are divided on the basis of nature of business.
9. <b>Other Expenses</b>	
<b>Unallocated Expenses :</b> There are some expenses which cannot be divided satisfactorily. These expenses are either divided equally or are transferred to Managing Director's salary etc. Example : interest on debentures, interest on	

### For Your Knowledge :

1. In case, the Department supplies goods at cost price, there will be no stock reserve created.
2. If the rate of gross profit of the supplying department is not given, then reserve on closing stock for transfer is calculated by the following formula :

$$\text{Closing Stock} \times \frac{\text{Gross Profit}}{\text{Sales} + \text{Transfer}}$$

$$3. \text{ Rate \% of Gross Profit on Turnover} = \frac{\text{Gross Profit}}{\text{Turnover or Sales}} \times 100$$

4. In case of inter-department transfer rate % of

$$\text{Gross Profit} = \frac{\text{Gross Profit}}{\text{Sales} + \text{Transfer}} \times 100$$