X, Y, and Z are partners sharing profits and losses in the ratio of 3:2:1 respectively. The Balance Sheet of their firm as on 31.12.2017 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Cash at Bank	3,500
X	45,000	Debtors	30,000
Y	35,000	Stock	25,000
Z	25,000	Plant	40,000
Reserve	15,000	Building	50,000
Profit & Loss A/c	12,000	Furniture	4,000
Creditors	20,500		
	1,52,500		1,52,500

Z retires on 31.12.2017 subject to the following conditions:

(a) Goodwill of the firm is to be valued at ₹36,000;

(b) Building is to be appreciated by 20%;

(c) Plant and Furniture are to be depreciated by 10% and 15% respectively;

(d) Provision is to be made for doubtful debts at 5%; and

(e) X and Y are to bring in cash, in their profit – sharing ratio to pay off Z's dues on retirement and leave a sum of ₹10,000 as working capital.

(f) X and Y are sharing profit and losses in the ratio of 2:1.

Prepare Revaluation Account, Partners' Capital Account and Balance Sheet as on 1.1.2016.

[*C.U. B.Com. (Hons) 2017- (Adapted)*]

Solution

Books of .... (the firm)

Revaluation A/c

Dr. | | | | Cr.

Particulars		₹	Particulars	₹
To Plant A/c [40,000 × 10%]		4,000	By Building A/c [50,000 × 20%]	10,000
To Furniture A/c [4,000 × 15%]		600		
To Provision for Doubtful Debts A/c [30,000 × 5%]		1,500		
To Partners' Capital A/c: [Profit on revaluation]				
X (3/6)	1,950			
Y (2/6)	1,300			
Z (1/6)	650	3,900		
		10,000		10,000

Partners' Capital A/c

Dr. | | | | Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Tarani's Capital A/c [Adjustment for Goodwill – WN: 1]	6,000	—	—	By Balance b/f	45,000	35,000	25,000
				By Reserves A/c [3:2:1]	7,500	5,000	2,500
				By P/L A/c [3: 2:1]	6,000	4,000	2,000
To Bank A/c [Final payment]	—	—	36,150	By X's Capital A/c [Adjustment for Goodwill – WN: 1]	—	—	—
To Balance c/f	82,883	59,517	—				
				By Revaluation A/c [Profit on Revaluation]	1,950	1,300	650
				By Bank A/c [Amount brought in – WN: 2]	28,433	14,217	—
	88,883	59,517	36,150		88,883	59,517	36,150

Balance Sheet as on 31.12.17

Liabilities	₹	₹	Assets	₹	₹
Capital:			Building [50,000 × 120%]		60,000
X	82,883		Plant [40,000 × 90%]		36,000
Y	59,517	1,42,400	Furniture [4,000 × 85%]		3,400
			Stock		25,000
			Debtors	30,000	
			Less: Prov. for D. Debts @5%	1,500	28,500
Creditors		20,500	Cash at Bank		10,000
		1,62,900			1,62,900

WORKING NOTES

1. Adjustment of partners' capital for goodwill due to retirement of Z:

Particulars	Goodwill (₹)	X (₹)	Y (₹)	Z (₹)
Right to Goodwill before Z's retirement [3:2:1]	36,000	18,000	12,000	6,000
Right to Goodwill after Z's retirement [2:1]	36,000	24,000	12,000	
(+) Gain (–) Sacrifice ∴ Net Effect	–	(+) 6,000	–	(–) 6,0000

2. Amount brought in by continuing partners

Dr. Bank A/c Cr.

Particulars		₹	Particulars	₹
To Balance b/f		3,500	By Z's Capital A/c [Final payment]	36,150
To Partners' Capital A/c [Amount brought in: B/Fig.]			By Balance c/f	10,000
X (2/3)	28,433			
Y (1/3)	14,217	42,650		
		46,150		46,150

Illustration 18: *Inter-departmental transfer at Normal Selling Price – Unrealized profit on Opening & Closing stock – Ascertainment of Net Profit*

A firm has two departments - Raw Materials and Manufacturing. The finished goods are produced by the Manufacturing department with raw materials supplied by Raw Materials department at selling price. From the following information prepare Departmental Trading and Profit and Loss Account for the year ended on 31st March, 2018:

	Raw Materials Dept. (₹)	Manufacturing Dept. (₹)
Opening stock	60,000	10,000
Purchases	4,00,000	3,000
Raw Materials transferred to Manufacturing Dept.	60,000	—
Sales	4,40,000	90,000
Manufacturing Expenses	—	12,000
Selling Expenses	800	400
Closing Stock	40,000	12,000

It is estimated that the cost of closing stock of manufacturing Department consists of 75% for raw materials and 25% for manufacturing expenses. The rate of gross profit earned during the preceding year by the Raw Materials Department was 10%. After allocating the following expenses between the two departments on the basis of sales ratio, find out the net profit of the firm as a whole: (i) Salaries – ₹2,500; (ii) Insurance Premium – ₹800.

[C.U. B.Com. (Hons) 2015 – Adapted; Similar Problem C.U. B.Com. (Hons) 2002; 2008; 2013; CA(IPCC) May – 2015]

Dr. **Departmental Trading and Profit & Loss A/c for the year ended 31.3.18** Cr.

Particulars	Raw Materials	Manu-facturing	Particulars	Raw Materials	Manu-facturing
To Opening Stock	60,000	10,000	By Sales	4,40,000	90,000
To Purchases	4,00,000	3,000	By Transfer [Transferred to MF]	60,000	—
To Transfer [Received from RM]	—	60,000	By Closing Stock	40,000	12,000
To Manufacturing Expenses	—	12,000			
To Gross Profit c/d	80,000	17,000			
	5,40,000	1,02,000		5,40,000	1,02,000
To Selling Expenses	800	400	By Gross Profit b/d	80,000	17,000
To Salaries [44:9]	2075	425			
To Insurance Premium [44:9]	664	136			
To General P/L A/c [Dept. NP transferred]	76,461	16,039			
	80,000	17,000		80,000	17,000

Dr. **General Profit & Loss A/c for the year ended 31.3.18** Cr.

Particulars	₹	Particulars	₹
To Stock Reserve [WN:1]	690	By Departmental Profit & Loss A/c	
To Capital A/c [NP transferred]	91,810	Raw Materials	76,461
		Manufacturing	16,039
	92,500		92,500

WORKING NOTES

1. Unrealized profit in unsold stock:

- **Profit rate on transferred goods = GP rate of Raw Mat. Dept. (i.e. Transferor Dept.) =**

$$\frac{\text{Gross Profit}}{\text{Sales} + \text{Transfer}} \times 100 = \frac{80,000}{4,40,000 + 60,000} \times 100 = 16\%$$

- **Value of the goods of Manuf. Dept. included in the closing stock of Raw Mat. Dept. = ₹12,000 × 75% = ₹9,000**
- Unrealized profit in closing stock = 9,000 × 16% = ₹1,440
- **Value of the goods of Manuf. Dept. included in the opening stock of Raw Mat. Dept. = ₹10,000 × 75% = ₹7,500**
- Unrealized profit in opening stock = ₹7,500 × 10% = ₹750

∴ Net Stock Reserve = ₹1,440 – ₹750 = ₹690