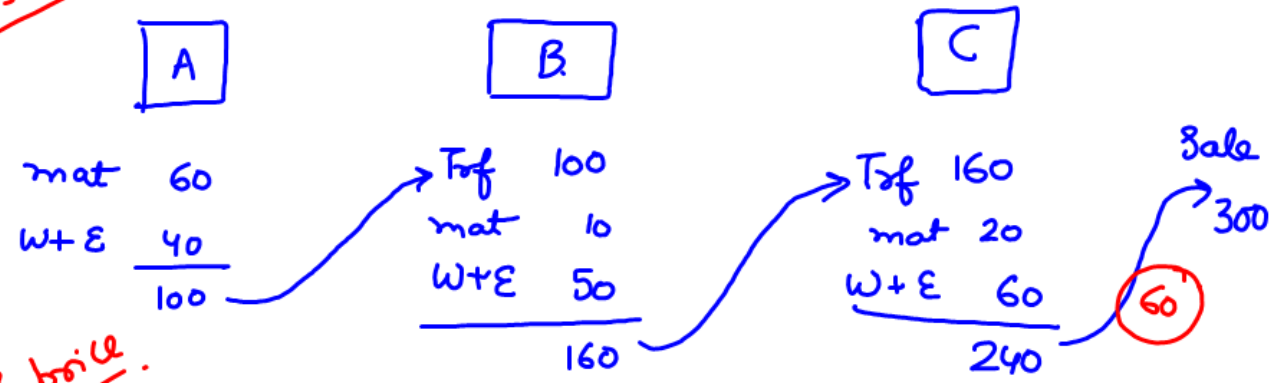


## Dependent Department

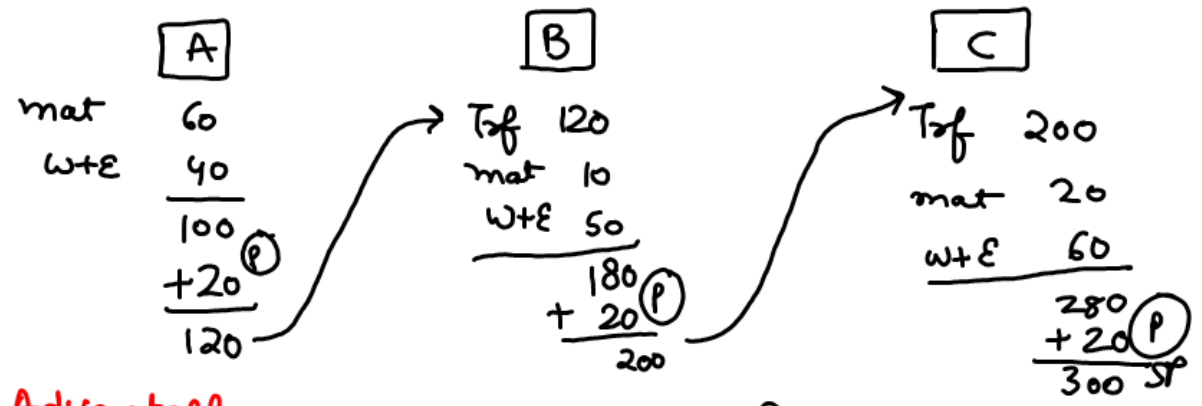


Transfer pricing → It is transfer of one deptt to other department at a profit ~~on~~ on the transfers.

at cost



at Tzf price



Advantage

- 1) Better efficiency
- 2) Production increases
- 3) cost is minimised

Disadv

- 1) Goal Congruence Problem.

Department A			
material	50000	} T <sub>rf</sub> to B 96000 😊 80000 + 20%	} C <sub>stock</sub> 20000
wages	30000		
o/h	20000		
GP	16000		
Department B			
T <sub>rf</sub> from A	96000 😊	} T <sub>rf</sub> to C 121000 😊 110000 + 10%	} C <sub>stock</sub> 30000 😊
wages	24000		
o/h	20000		
GP	11000		
Dept C at			
T <sub>rf</sub> from B	121000 😊	} Sale 20000 😊	} C <sub>stock</sub> 40000 😊
wages	29000		
o/h	30000		
GP	60000		

Department A stock has No profit

Department B stock has

A profit

$$C_{stock} \times \text{Content Ratio} \times \text{Profit Ratio}$$

$$30000 \times \frac{96000}{140000} \times \frac{1}{6} = 3429$$

Department C stock has

B profit.

$$40000 \times \frac{121000}{180000} \times \frac{10}{110} = 2444$$

A profit.

$$40000 \times \frac{121000}{180000} \times \frac{100}{110} \times \frac{96000}{140000} \times \frac{20}{120} = 279$$

General P&L

Expense ✓	GP of
	A 16000
Stock Reserve	B 11000
(a) 8667	C 60000
NP	

## PTR

- ① If op stock is given, then it is NOT considered for Content Ratio.
- ② If Profit is given as % Cost, Convert it as % of Trf price (Sales)
- ③ If opening stock is given, then
  - (a) If op stock is given at cost, then No Treatment
  - (b) If Last year Profit % is given, then Op. Stock is unloaded with that rate.
  - (c) If op stock profit element is given in question then it is simply credited to General P&L etc

(d) If nothing is specified, then op stock is subtracted from cl stock and the net stock is unloading assuming the content ratio & Profit ratio to be same.

### Department A a/c

Op Stock	3000	Trf to B	18000
Dir material	8000		12000 + 50%
wages	5000		
GP	6000	4 stock	4000

### Department B a/c

Op Stock	4000	Trf to C	33000
Transfer from A	18000		30000 + 10%
material	12000		
wages	10000	Cl. Stock	14000
GP	3000		

### Department C a/c

Op Stock	6000	Sales	37000
Trf from B	33000		
Exp	0	Cl. Stock	8000
GP	3000		

Dept A Stock has 0 Profit

Dept B Stock have A's Profit

$$14000 \times \frac{18000}{40000} \times \frac{1}{3} = 2100$$

Dept C Stock have B's profit

$$8000 \times \frac{33000}{33000} \times \frac{1}{11} = 727$$

Dept C Stock have A's Profit

$$8000 \times \frac{33000}{33000} \times \frac{10}{11} \times \frac{18000}{40000} \times \frac{1}{3} = 1091$$


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$$\underline{\underline{3918}}$$

General		P&L a/c	
Salaries	2000	GIP of department	
Pr & spat	1000	A	6000
Rent	6000	B	3000
Interest	4000	C	3000.
Depreciation	3000.	Stock Res (op)	3000
Stock Res(u)	3918	Net loss	4918.



Quest

Departmental Trading a/c					
	Cloth		RM		
op Stock	300000	50000	Sales	2200000	450000
Purchase	2000000	15000	Tof to RM	300000	-
Tof from Cloth	-	300000			
Mfg Exp	-	60000	cl stock	200000	60000
GP	400000	85000			

Dept P&L a/c

Selling Exp	20000	6000	GP	400000	85000
DP	380000	79000			

General P&L a/c

Gen Exp	110000	Dept Profit	
Stock Res (cl)	7200	Cloth	380000
		RM	79000
NP	347425	Stock Res (op)	5625

A → B

B's Stock have A profit

$$cl. 60000 \times 75\% \times 16\% = 7200$$

$$op 50000 \times 75\% \times 15\% = 5625 \text{ (given)}$$

A's GP rate

GP 400000

Sales = 22 + 3 = 2500000

$$GPR = \frac{400000}{2500000} \times 100 = 16\%$$

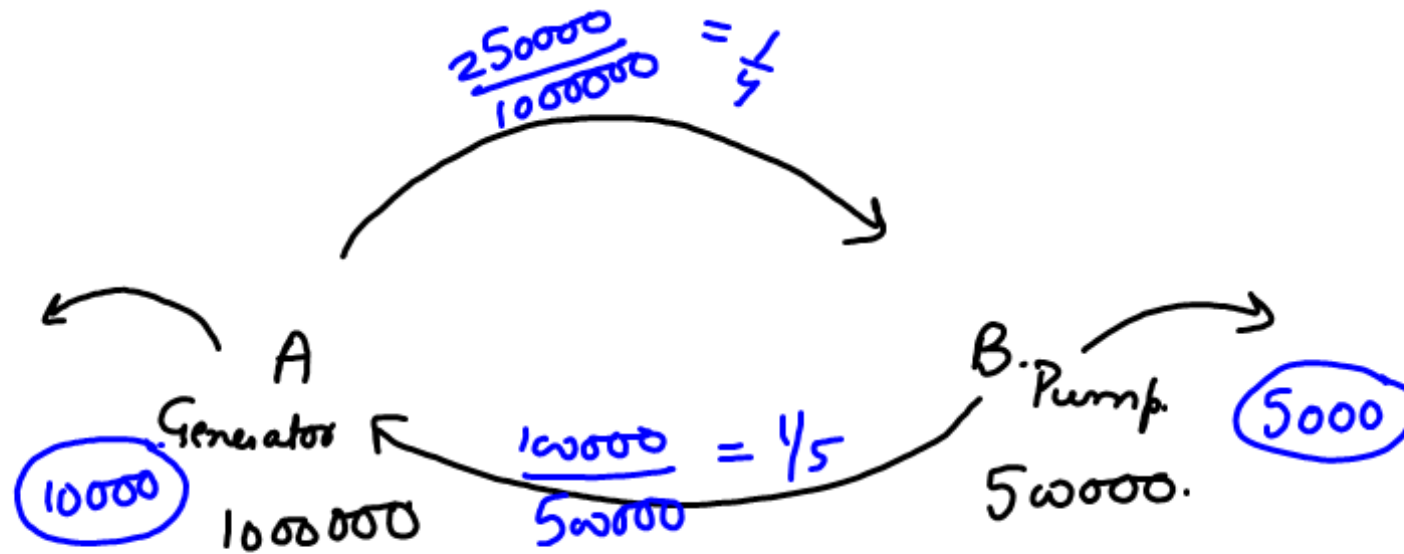
### Dept Trading A/c

	A	B		A	B
Op Stock	20000	12000	Sales	140000	112000
Purchases	92000	68000	Trf of PG	8000	10000
wages	12000	8000.	Trf of FG	35000	40000
Carriage	2000	2000.	Ret of FG	10000	7000
Trf of PG	10000	8000	Op Stock		
Trf of FG	40000	35000	PG	4500	6000
Ret of FG	7000	10000	FG	24000	14000
GP	38500	46000			

	<u>A</u>	<u>B</u>
Sales	140,000	112,000.
+ Tr of FG	35,000	40,000
<u>- ret of FG</u>	<u>(7,000)</u>	<u>(10,000)</u>
Net Sales	168,000	142,000
GP	38500	46,000
GP Rate	22.92%	32.39%.

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Unloading	$24000 \times 20\% \times 32.39\%$	$14000 \times 20\% \times 22.92\%$
	= 1555	= 642



$$A = 10000 + \frac{1}{5} B$$

$$B = 5000 + \frac{1}{4} A$$

$$A = 11579$$

$$B = 7895$$