

Chapter 2 - Accounting For Partnership : Basic Concepts

Short Answer Questions

Question 1:

Define Partnership Deed.

Answer:

Partnership Deed is a written agreement among the partners of a partnership firm. It includes agreement on profit sharing ratio, salaries, commission of partners, interest provided on partner's capital and drawings and interest on loan given or taken by the partners, etc. Generally following details are included in a partnership deed.

1. Objective of business of the firm
2. Name and address of the firm
3. Name and address of all partners
4. Profit and loss sharing ratio
5. Contribution to capital by each partner
6. Rights, types of roles and duties of partners
7. Duration of partnership
8. Rate of interest on capital, drawings and loans
9. Salaries, commission, if payable to partners.
10. Rules regarding admission, retirement, death and dissolution of the firm, etc.

Question 2:

Why it is considered desirable to make the partnership agreement in writing.

Answer:

Partnership agreement may be oral or written. It is not compulsory to form partnership agreement in writing under the Partnership Act, 1932. However, written partnership deed is desirable than oral agreement as it helps in avoiding disputes and misunderstandings among the partners. Also, it helps in settling disputes (as the case may be) among the partners, as written partnership deed can be referred to anytime. If written partnership deed is duly signed and registered under Partnership Act, then it can be used as evidence in the court of law.

Question 3:

List the items which may be debited or credited in the capital accounts of the partners when:

- (i) Capitals are fixed
- (ii) Capitals are fluctuating

Answer:

(i) *When Capitals are fixed*

The following items are credited in the Partner's Capital Account when capital accounts are fixed.

- (a) Opening balance of capital
- (b) Additional capital introduced during an accounting year

The following items are debited in the Partner's Capital Account when capital accounts are fixed.

- (a) Part of capital withdrawn
- (b) Closing balance of capital

(ii) *When Capitals are fluctuating*

The following items are credited in the Partner's Capital Account when capital accounts are fluctuating.

- (a) Opening balance of capital.
- (b) Additional capital introduced during an accounting year

- (c) Salaries to the partners
- (d) Interest on capital
- (e) Share of profit
- (f) Commission and bonus to the partners

The following items are debited in the Partner's Capital Account when capital accounts are fluctuating.

- (a) Drawings made during the accounting period
- (b) Interest on drawings.
- (c) Share of loss.
- (d) Closing balance of capital.

Question 4:

Why is Profit and Loss Adjustment Account prepared? Explain.

Answer:

The Profit and Loss Adjustment Account is prepared because of the following two reasons.

1. **To record omitted items and rectify errors if any-** After the preparation of Profit and Loss Account and Balance Sheet, if any error or omission is noticed, then these errors or omissions are adjusted by opening Profit and Loss Adjustment Account in the subsequent accounting period without altering old Profit and Loss Account.
2. **To distribute profit or loss between the partners-** Sometimes, besides adjusting the items and rectifying errors, this account is also used for distribution of profit (or loss) among the partners. In this situation, this account acts as a substitute for Profit and Loss Appropriation Account. The main rationale to prepare the Profit and Loss Adjustment Account is to ascertain true profit or loss.

Question 5:

Give two circumstances under which the fixed capitals of partners may change.

Answer:

The following are the two circumstances under which the fixed capitals of partner may change.

- (i) If any additional capital is introduced by the partner during the year.
- (ii) If any part of capital is permanently withdrawn by the partner from the firm.

Question 6:

If a fixed amount is withdrawn on the first day of every quarter, for what period the interest on total amount withdrawn will be calculated?

Answer:

If a fixed amount is withdrawn on the first day of every quarter, then the interest is calculated on the amount withdrawn for a period of seven and half ($7\frac{1}{2}$) months.

Example:

If a partner withdraws Rs 5,000 in the beginning of each quarter and the interest is charged @ 10% on the drawings, then interest on drawings is calculated as:

Total drawings made by the partner during the whole year are Rs 20,000, i.e. Rs 5000× 4.

$$= 20,000 \times \frac{10}{100} \times \frac{7\frac{1}{2}}{12} = 1,250$$

Interest on drawings

Question 7:

In the absence of partnership deed, specify the rules relating to the following:

- (i) Sharing of profits and losses.

- (ii) Interest on partner's capital.
- (iii) Interest on Partner's drawings.
- (iv) Interest on Partner's loan
- (v) Salary to a partner.

Answer:

(i) *Sharing of profits and losses:* If the partnership deed is silent on sharing of profit or losses among the partners of a firm, then according to the Partnership Act of 1932, profits and losses are to be shared equally by all the partners of the firm.

(ii) *Interest on partner's capital:* If the partnership deed is silent on interest on partner's capital, then according to the Partnership Act of 1932, **no** interest on capital should be given to the partners of the firm.

(iii) *Interest on partner's drawings:* If the partnership deed is silent on interest on partner's drawings, then according to the Partnership Act of 1932, **no** interest on drawing should be charged from the partners of the firm for the amount of capital withdrawn in form of drawings.

(iv) *Interest on partner's loan:* If the partnership deed is silent on interest on partner's loan, then according to the Partnership Act of 1932, the partners are entitled for 6% p.a. interest on the loan forwarded by them to the firm.

(v) *Salary to a partner:* If the partnership deed is silent on salary to a partner, then according to the Partnership Act of 1932, **no** salary should be given to any partner.

Long Answer Questions

Question 1:

What is partnership? What are its chief characteristics? Explain.

Answer:

According to the Section 4 of the Partnership Act, 1932, partnership is an agreement between two or more persons who have agreed to share profits or losses of a business that will be carried by all or any one of them acting for all.

Person who joined their hands to set up the business are called 'partners' *individually* and 'firm' *collectively* and the name under which they carry out their business is termed as 'firm name'.

Important Characteristics of Partnership

The following are the important characteristics of partnership.

1. **Two or more persons:** Partnership is an agreement between two or more persons coming together for a common goal. There should be at least two persons to form a partnership. Although as per the Partnership Act of 1932, there is **no maximum limit** on the number of partners in a partnership firm, but as per the **Rule (10) of the Companies (Miscellaneous) Rules Act 2014, the maximum number of partners permissible is 50.**

Therefore, in case the number of partners exceeds the aforesaid limit, then the concerned partnership is considered to be illegal. In this regards it must be noted that Section 464 of Companies Act 2013, the maximum number of partners permissible is one hundred. However, it must be noted that the maximum number of partners is not limited in case an association or partnership is formed by professionals such as chartered accountants, lawyers, company secretaries, etc. These professionals are governed by their the special laws as formed by their respective professional institutions. Prior to the enforcement of Companies Act of 2013, the earlier act of 1956, imposed restrictions on the maximum number of partners to 10 in case of banking business and 20 in case of any other kind of business. However, with effect from April 01, 2014, Companies Act of 1956 has been replaced by Companies Act of 2013.

2. **Partnership Deed:** The partnership among the partners should be backed up by a partnership deed. A partnership deed is an agreement among the partners governing them in carrying out the proposed business. The deed may be oral or written.

3. **Business:** A partnership is formed to carry out a legal business. Partnerships in smuggling, black marketing etc. are illegal business activities and hence, the partnership is also illegal.

4. **Sharing of profit:** The profit or loss earned by a partnership firm must be distributed as per the partnership deed or equally among the partners (in absence of partnership deed). It

is a very important feature of partnership. If a group is formed for charitable purpose, not to earn profit then this group will not be regarded as a partnership.

5. **Liability:** Liability of a partnership firm is unlimited and each partner is liable for firm's liabilities whether individually and jointly with other partners to the third party. Moreover, each partner along with his/her co-partners is responsible for all the acts of the partnership firm.

6. **Mutual agency:** Partnership may be carried on by all or any one of them acting on behalf of all. It means all the partners of a firm are equally entitled to participate in the activities of the business or any one of them who is acting on behalf of all. Every partner acts as an agent for others and binds others by his/her act and in turn is bound by others by their act.

Note: *In case of any question regarding the permissible limit on the maximum number of partners in a partnership firm, the students shall take the limit as 50.*

Question 2:

Discuss the main provisions of the Indian Partnership Act, 1932 that are relevant to partnership accounts if there is no partnership deed.

Answer:

The following are the main provisions of the Indian partnership Act, 1932 that are relevant to the partnership accounts in absence of partnership deed.

1. **Profit Sharing Ratio:** If the partnership deed is silent on sharing of profit or losses among the partners of a firm, then according to the Partnership Act of 1932, profits and losses are to be shared equally by all the partners of the firm.

2. **Interest on Capital:** If the partnership deed is silent on interest on partner's capital, then according to the Partnership Act of 1932, **no** interest on capital should be given to the partners of the firm. However, interest on capital is given only out of the profits, if mutually agreed by all the partners.

3. **Interest on Drawings:** If the partnership deed is silent on interest on partner's drawings, then according to the Partnership Act of 1932, **no** interest on drawing should be charged from the partners of the firm for the amount of capital withdrawn in the form of drawings.

4. Interest on Partner's Loan: If the partnership deed is silent on interest on partner's loan, then according to the Partnership Act of 1932, the partners are entitled for 6% p.a. interest on the loan forwarded by them to the firm.

5. Salary to Partner: If the partnership deed is silent on salary to a partner, then according to the Partnership Act of 1932, **no** salary should be given to any partner.

Question 3:

Explain why it is considered better to make a partnership agreement in writing.

Answer:

A partnership deed forms the basis of a partnership firm. A partnership deed consists of all the pre-determined terms and conditions that are agreed to by all the partners while forming the partnership. Generally the following details are included in a partnership deed.

1. Objective of business of the firm
2. Name and address of the firm
3. Name and address of all partners
4. Profit and loss sharing ratio
5. Contribution to capital by each partner
6. Rights, types of roles and duties of partners
7. Duration of partnership
8. Rate of interest on capital, drawings and loans
9. Salaries, commission, if payable to partners.
10. Rules regarding admission, retiring, death and dissolution of the firm, etc. It ensures the

A partnership deed can both be oral or written. Although, it is not compulsory to form partnership agreement in writing under the Partnership Act of 1932, however, written partnership deed is more desirable than the oral agreements. This is because it ensures the smooth functioning of the business of the partnership firm. It helps in avoiding disputes and misunderstandings among the partners. Also, it helps in settling the disputes (as the case may be) among the partners, as written partnership deed can be referred to anytime. If

written partnership deed is duly signed and registered under Partnership Act, then it can be used as evidence in the court of law. Moreover, any changes (if needed) in the partnership deed cannot be made without the consent of all the partners of the firm. Therefore, it is desirable to form partnership deed in writing because of the merits associated with written documents over its oral counterparts.

Question 4:

Illustrate how interest on drawings will be calculated under various situations.

Answer:

When a partner withdraws any amount, either in cash or in any other form, from the firm for his/her personal use, then it is termed as drawings. The interest charged by the firm on the amount of drawings is termed as interest on drawings. The method of calculating interest on drawings depends on the information available for time and frequency of the drawings made by the partner. The following different situations of drawings made illustrate the calculation of interest charged on drawings.

Situation 1: When information regarding Amount, Date and Rate of Interest on drawings are given.

If a partner withdrew Rs 10,000 on May 01 and interest on drawing is charged at 10% p.a. and the firm closes its books on December 31 every year then interest of drawings amounts to Rs 667.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 10,000 \times \frac{10}{100} \times \frac{8}{12} = \text{Rs } 667$$

Situation 2: When information regarding Amount, Rate of Interest on drawings is given

Case I: If the Amount and Rate of Interest on drawings (*per annum*) is given but date is not mentioned

If the details regarding the amount of drawings and rate of interest of drawings (p.a.) is given but the date of drawings is not mentioned then interest is charged on average basis and the period of drawings is taken as 6 months.

Example- If a partner withdrew Rs 10,000 and rate of interest on drawings is 10% p.a. then the interest of drawings amounts to Rs 500

$$\text{Interest on drawings} = 10,000 \times \frac{10}{100} \times \frac{6}{12} = 500$$

Case II: If the Amount and Rate of Interest on drawings is given but the date and *per annum rate of interest is not mentioned*

If the date and the rate of interest are given but per annum is not specified, then annual interest is charged.

Example- If a partner withdrew Rs 20,000 and interest rate is 10% , then the interest on drawings amounts to Rs 2,000.

$$\text{Interest on drawings} = 20,000 \times \frac{10}{100} = \text{Rs } 2,000$$

Situation 3: When a fixed amount is withdrawn at regular interval

Case I: If a fixed amount is withdrawn at the beginning of each month, then the interest is calculated for 6.5 months.

Example- If a partner withdraws Rs 1,000 in the beginning of every month and the rate of interest is 10% p.a., then the interest on drawings amount to Rs 650.

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{6.5}{12} = 650$$

Case II: If a fixed amount is withdrawn at the end of each month, then the interest is calculated for 5.5 months

Example- If a partner withdraws Rs 1,000 at the end of each month and rate of interest is 10% p.a., then the interest on drawings amount to Rs 550.

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{5.5}{12} = \text{Rs } 550$$

Case III: If a fixed amount is withdrawn in the middle of every month then assuming that the drawings are made on 15th of every month then interest on drawings is calculated for 6 months

Example- If a partner withdraws Rs 1,000 on 15th of every month and the rate of interest is 10% p.a., then the interest on drawings amount to Rs 600.

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 600$$

Case IV: If a fixed amount is withdrawn in the beginning of every quarter then the interest is calculated for 7.5 months

Example- If a partner withdraws Rs 3,000 in the beginning of every quarter and the rate of interest is 10% p.a. then the interest on drawings amount to Rs 750

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{7.5}{12} = \text{Rs } 750$$

Case V: If a fixed amount is withdrawn at the end of every quarter, then the interest is calculated for 4.5 months

Example- If a partner withdraws Rs 3,000 at the end of every quarter and the rate of interest is 10% p.a., then the interest on drawings amounts to Rs 450.

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{4.5}{12} = \text{Rs } 450$$

Situation 4:

When different amount is at different intervals

If different amount is withdrawn by a partner at different points of time then the interest is calculated by **Product Method**. The period of drawings is calculated from the date of withdrawal to the last date of the accounting year.

Example- A partner withdraws Rs 5,000 on Feb 01, Rs 3000 on May 01, Rs 5,000 on Sep. 30 and Rs 1000 on Dec. 31 and the rate of interest on drawings is 10% p.a. The firm closes its book on December 31.

Calculation of Interest on Drawings by Product Method

Interest on Drawings			
Date	Amount Rs	Outstandin g Period	Product
Feb. 01	5,000	11	5,000 ' = 55,00 11 0
May. 01	3,000	8	3,000 ' = 24,00 8 0
Sep. 30	5,000	3	5,000 ' = 15,00 3 0
Dec. 31	1,000	0	1,000 ' = 0 0
			94,00 0

$$\text{Interest on drawings} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$\text{Interest on drawings} = 94,000 \times \frac{10}{100} \times \frac{1}{12} = 783.33$$

Question 5:

How will you deal with a change in the profit sharing ratio among existing partners?

Take imaginary figures to illustrate your answer?

Answer:

Usually due to the admission, retirement or death of a partner or sometimes due to the general agreement among the partners, they may decide to change the profit sharing ratio. Various adjustments that should be considered during the change in the profit sharing ratio are , goodwill, reserves and accumulated profits, profit or loss on the revaluation of assets and liabilities and adjustment of capitals, etc. The general reserves and accumulated profits (if any) and profit (or loss) on revaluation on assets and liabilities should be credited (debited) in the Partner's Capital Account in their old profit sharing ratio.

But if the existing partners decide to change the profit sharing ratio then some partners gain (gaining partners) at the cost of other partners (sacrificing partners). Thus, the former should compensate the latter. Therefore, the gaining Partners' Capital Accounts are debited to the extent of their gain and sacrificing Partners' Capital Accounts are credited to extent of their sacrifice. The following Journal entry is passed.

Gaining Partner's Capital A/c	Dr.
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To Sacrificing Partner's Capital A/c

(Adjustment entry passed)

Example:

A, B, C are partners in a firm sharing profit and loss in 3:2:1 ratio. They decide to share profit and loss equally in future. On that date, the books of the firm shows Rs 1,20,000 as general reserve, profit due to revaluation of building Rs 30,000. The following adjustment entry is passed through the capital accounts without affecting the books of accounts.

Particulars	A	B	C
Share of profit as per 3:2:1	60,000	40,000	20,000
Profit on revaluation of building	15,000	10,000	5,000

	75,000	50,000	25,000
Share of profit as per 1:1:1	50,000	50,000	5,000
Difference (Gain or Loss)	25,000	-	25,000
	(Loss)		(Gain)

Hence, in this example, C gains at the cost of A, so the partner A needs to be compensated by C with the amount of Rs 25,000. The following adjustment entry is passed.

Adjustment entry:

C's Capital A/c	Dr.	25,000	
To A's Capital A/c			25,000

(Adjustment entry passed)

Numerical Questions

Question 1:

Triphati and Chauhan are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were Rs 60,000 and Rs 40,000 as on January 01, 2015. During the year they earned a profit of Rs 30,000. According to the partnership deed both the partners are entitled to Rs 1,000 per month as Salary and 5% interest on their capital. They are also to be charged an interest of 5% on their drawings, irrespective of the period, which is Rs 12,000 for Tripathi, Rs 8,000 for Chauhan. Prepare Partner's Accounts when, capitals are fixed.

Answer:

a) If interest on Capital and Partners' salaries and interest on drawings is **charged against profit**, the solution will be as:

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	30,000
Triphati's Current Account	18,000		
Chauhan's Current Account	12,000		
	30,000		30,000

Partners' Capital Account

Dr.

Cr.

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Balance c/d			Balance b/d	60,000	40,000
	60,000	40,000			
	60,000	40,000		60,000	40,000

Partners' Current Account

Dr.

Cr.

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Drawings	12,000	8,000	Interest on Capital	3,000	2,000
Interest on Drawings	600	400	Partners' Salaries	12,000	12,000
Balance c/d	20,400	17,600	Profit & Loss Appropriation	18,000	12,000
	33,000	26,000		33,000	26,000

Profit Transferred to				
Tripathi's Current	1,200			
Chauhan's Current	800	2,000		
		31,000		31,000

Partners' Capital Account

Dr.

Cr.

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Balance c/d	60,000	40,000	Balance b/d	60,000	40,000
	60,000	40,000		60,000	40,000

Partners' Current Account

Dr.

Cr.

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Drawings	12,000	8,000	Partners' Salaries	12,000	12,000
Interest on Drawings	600	400	Interest on Capital	3,000	2,000
Balance c/d	3,600	6,400	Profit and Loss Appropriation	1,200	800
	16,200	14,800		16,200	14,800

As the question is silent about the treatment of Interest on Capitals, Salary, Interest on Drawings, so we have prepared the solution by following two methods, namely:

1. Charge against Profits
2. Out of Profits

This was done deliberately so as to make students aware-off the two above mentioned methods and also to match the answer with that of given in the NCERT. The appropriate answer to the question following Out of Profit Method should be as:

Tripathi's Current A/c balance Rs 3,600 and

Chauhan's Current A/c balance Rs 6,400.

In case no information regarding the treatment of above items is mentioned in the question, then we usually follow the Out of Profits Method.

Question 2:

Anubha and Kajal are partners of a firm sharing profits and losses in the ratio of 2:1. Their capital, were Rs 90,000 and Rs 60,000. The profit during the year were Rs 45,000. According to partnership deed, both partners are allowed salary, Rs 700 per month to Anubha and Rs 500 per month to Kajal. Interest allowed on capital @ 5% p.a. The drawings at the end of the period were Rs 8,500 for Anubha and Rs 6,500 for Kajal. Interest is to be charged @ 5% p.a. on drawings. Prepare partners capital accounts, assuming that the capital account are fluctuating.

Answer:

a)

Note: If Partners' Salaries, Interest on capital and Interest on Drawing are treated as these have already adjusted in Profit and Loss Account. The Solution will be as

Profit and Loss Appropriation Account**Dr.****Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Profit Transferred to Current A/c		Profit and Loss	45,000
Anubha's Capital	30,000		
Kajal's Capital	15,000		
	45,000		

	45,000	45,000

Partners' Capital Account

Dr.

Cr.

Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
Drawings	8,500	6,500	Balance b/d	90,000	60,000
Interest on Drawings	425	325	Partners' Salaries	8,400	6,000
			Interest on Capital	4,500	3,000
Balance c/d	1,23,975	77,175	Profit and Loss Appropriation	30,000	15,000
	1,32,900	84,000		1,32,900	84,000

b) *Alternative*

Note: If Partners' salaries, interest on capital and interest on drawings adjusted in Profit and Loss Appropriation Account. The solution will be as.

Profit and Loss Appropriation Account

Dr.**Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Partners' Salaries:		Profit and Loss Account	45,000
Anubha 8,400		Interest on Drawings	
Kajal 6,000	14,400	Anubha 425	
_____		Kajal 325	750
Interest on Capital:		_____	
Anubha 4,500			
Kajal 3,000	7,500		

Profit transferred to			
Anubha's Capital 15,900			
Kajal's Capital 7,950	23,850		

	45,750		45,750

Partners' Capital Account

Dr.

Cr.

Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
Drawings	8,500	6,500	Balance b/d	90,000	60,000
Interest on Drawings	425	325	Partners' Salaries	8,400	6,000
			Interest on Capital	4,500	3,000
Balance c/d	1,09,875	70,125	Profit and Loss Appropriation	15,900	7,950
	1,18,800	76,950		1,18,800	76,950

Question 3:

Harshad and Dhiman are in partnership since April 01, 2016. No Partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advanced an amount of Rs 1,00,000 to the firm, on October 01, 2016. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2017. The

profits for the year ended March 31, 2017 amounted to Rs 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

- (i) He should be given interest @ 10% per annum on capital and loan;
- (ii) Profit should be distributed in proportion of capital;

Dhiman Claims:

- (i) Profits should be distributed equally;
- (ii) He should be allowed Rs 2,000 p.m. as remuneration for the period he managed the business, in the absence of Harshad;
- (iii) Interest on Capital and loan should be allowed @ 6% p.a.

You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit and Loss Appropriation Account.

Answer:

DISTRIBUTION OF PROFITS

Harshad Claims:

Decisions

- (i) If there is no agreement on interest on partner's capital, according to Indian partnership act 1932, no interest will be allowed to partners.
- (ii) If there is no agreement on the matter of profit sharing, according to partnership act 1932, profit shall be distributed equally.

Dhiman Claims:

Decisions

- (i) Dhiman claim is justified, according partnership act 1932 if there is no agreement on the matter of profit distribution, profit shall be distributed equally.
- (ii) No salary will be allowed to any partner because there is no agreement on matter of remuneration.
- (iii) Dhiman's claim is not justified on the matter of interest on capital but justified on the matter of interest on loan. If there is no agreement on interest on partner's loan, Interest shall be provided at 6% p.a.

Profit and Loss Adjustment Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Interest on Partner's Loan		Profit and Loss	1,80,000
Harshad $1,00,000 \times (6/100) \times (6/12)$	3,000		
Profit and Loss Appropriation	1,77,000		
	1,80,000		1,80,000

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss Adjustment	1,77,000
Harshad's Capital	88,500		
Sharma's Capital	88,500		

	1,77,000		1,77,000

Question 4:

Aakriti and Bindu entered into partnership for making garment on April 01, 2016 without any Partnership agreement. They introduced Capitals of Rs 5,00,000 and Rs 3,00,000 respectively on October 01, 2016. Aakriti Advanced. Rs 20,000 by way of loan to the firm without any agreement as to interest. Profit and Loss account for the year ended March 2017 showed profit of Rs 43,000. Partners could not agree upon the question of interest and the basis of division of profit. You are required to divide the profits between them giving reason for your solution.

Answer:

Profit and Loss Adjustment Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Interest on Partner's Loan		Profit and Loss	43,000
Aakriti $20,000 \times (6/100) \times (6/12)$	600		
Profit transferred to			

Aakriti's Capital	21,200		
Bindu's Capital	21,200	42,400	
		43,000	43,000

Reason

- a) Interest on partners loan shall be allowed at 6% p.a. because there is no partnership agreement.
- b) Interest on capital shall not be allowed because there is no agreement on interest on capital.
- c) Profit shall be distributed equally because profit sharing ratio has not been given.

Question 5:

Rakhi and Shikha are partners in a firm, with capitals of Rs 2,00,000 and Rs 3,00,000 respectively. The profit of the firm, for the year ended 2016-17 is Rs 23,200. As per the Partnership agreement, they share the profit in their capital ratio, after allowing a salary of Rs 5,000 per month to Shikha and interest on Partner's capital at the rate of 10% p.a. During the year Rakhi withdrew Rs 7,000 and Shikha Rs 10,000 for their personal use. You are required to prepare Profit and Loss Appropriation Account and Partner's Capital Accounts.

Answer:

If interest on capital and Partners' salaries will be provided even if firm involves in loss.

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Partner's Salaries		Profit and Loss	23,200
Shikha	60,000	Loss transferred to	
		Rakhi Capital	34,720
Interest on Capital		Shikha's Capital	52,080
Rakhi	20,000		
Shikha	30,000		
	50,000		
	1,10,000		86,800
			1,10,000

Partners' Capital Account

Dr.

Cr.

Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
Drawings	7,000	10,000	Balance b/d	2,00,000	3,00,000
Profit & Loss Appropriation	34,720	52,080	Partner's Salaries		60,000

Balance c/d	1,78,280	3,27,920	Interest on Capital	20,000	30,000
	2,20,000	3,90,000		2,20,000	3,90,000

If interest on capital and salaries will be provided out of profit

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Partner's Salaries		Profit and Loss	23,200
Shikha { $23,200 \times (6/11)$ }	12,655		
Interest on Capital			
Rakhi { $23,200 \times (2/11)$ }	4,218		
Shikha { $23,200 \times (3/11)$ }	6,327		
	23,200		23,200

If profit is less than the sum of distributable items, distribution shall be in proportion of items for distribution.

Partners Salaries	Ratio		
Shikhar (Rs 60,000)	6	$23,200 \times (6/11)$	12,655
Interest on Capital			
Rakhi (Rs 20,000)	2	$23,200 \times (2/11)$	4,218
Shikhar (Rs 30,000)	3	$23,200 \times (3/11)$	6,327
	11		23,200

Partners' Capital Account

Dr.

Cr.

Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
Drawings	7,000	10,000	Balance b/d	2,00,000	3,00,000
			Partner's Salaries		12,655
Balance c/d	1,97,218	3,08,972	Interest on Capital	4,218	6,327

	2,04,218	3,18,972		2,04,218	3,18,972

Question 6:

Lokesh and Azad are partners sharing profits in the ratio 3:2, with capitals of Rs 50,000 and Rs 30,000, respectively. Interest on capital is agreed to be paid @ 6% p.a. Azad is allowed a salary of Rs 2,500 p.a. During 2016, the profits prior to the calculation of interest on capital but after charging Azad's salary amounted to Rs 12,500. A provision of 5% of profits is to be made in respect of manager's commission. Prepare accounts showing the allocation of profits and partner's capital accounts.

Answer:

Profit and Loss Adjustment Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Interest on Capital		By Profit and Loss (12,500 + 2,500)	15,000
Lokesh	3,000		
Azad	1,800		
Partner's Salaries			

Azad		2,500		
Provision for Manager's Commission $15,000 \times (5/100)$		750		
Profit transferred to				
Lokesh Capital	4,170			
Azad Capital	2,780	6,950		
		15,000		15,000

Partners' Capital Account

Dr.

Cr.

Particulars	Lokesh	Azad	Particulars	Lokesh	Azad
			Balance b/d	50,000	30,000
			Interest on Capital	3,000	1,800
Balance c/d	57,170	37,080	Partner's Salaries		2,500

			Profit and Appropriation	4,170	2,780
	57,170	37,080		57,170	37,080

Question 7:

The partnership agreement between Maneesh and Girish provides that:

- (i) Profits will be shared equally;
- (ii) Maneesh will be allowed a salary of Rs 400 p.m;
- (iii) Girish who manages the sales department will be allowed a commission equal to 10% of the net profits, after allowing Maneesh's salary;
- (iv) 7% interest will be allowed on partner's fixed capital;
- (v) 5% interest will be charged on partner's annual drawings;
- (vi) The fixed capitals of Maneesh and Girish are Rs 1,00,000 and Rs 80,000, respectively. Their annual drawings were Rs 16,000 and 14,000, respectively. The net profit for the year ending March 31, 2015 amounted to Rs 40,000;

Prepare firm's Profit and Loss Appropriation Account.

Answer:

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Partner's Salary		Profit and Loss	40,000
Maneesh	4,800	Interest on Drawings	
		Maneesh	800
Partner's commission		Girish	700
Girish $\{(40,000 - 4,800) \times (10/100)\}$	3,520		1,500
Interest on Capital			
Mannesh	7,000		
Girish	5,600		
	12,600		
Profit transferred to			
Maneesh's Current	10,290		
Girish's Current	10,290		
	20,580		
	41,500		41,500

Question 8:

Ram, Raj and George are partners sharing profits in the ratio 5 : 3 : 2. According to the partnership agreement George is to get a minimum amount of Rs 10,000 as his share of profits every year. The net profit for the year 2013 amounted to Rs 40,000. Prepare the Profit and Loss Appropriation Account.

Answer:**Profit and Loss Appropriation Account****Dr.****Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	40,000
Ram's Capital (20,000 – 1,250)	18,750		
Raj's Capital (12,000 – 750)	11,250		
George's Capital (8,000 + 1,250 + 750)	10,000		
	40,000		40,000

Question 9:

Amann, Babita and Suresh are partners in a firm. Their profit sharing ratio is 2:2:1. Suresh is guaranteed a minimum amount of Rs 10,000 as share of profit, every year. Any deficiency on that account shall be met by Babita. The profits for two years ending March 31, 2016 and March 31, 2017 were Rs 40,000 and Rs 60,000, respectively. Prepare the Profit and Loss Appropriation Account for the two years.

Answer:**Profit and Loss Appropriation Account for the year ended****31****st****31st March 2016****Dr.****Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	40,000
Amann's Capital 16,000	16,000		
Babita's Capital (16,000 – 2,000)	14,000		
Suresh's Capital (8,000 + 2,000)	10,000		
	40,000		40,000

Profit and Loss Appropriation Account for the year ended**31****st****31st March 2017****Dr.****Cr.**

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	60,000
Amann's Capital	24,000		
Babita's Capital	24,000		
Suresh's Capital	12,000		
	60,000		60,000

Question 10:

Simmi and Sonu are partners in a firm, sharing profits and losses in the ratio of 3:1. The profit and loss account of the firm for the year ending March 31, 2017 shows a net profit of Rs 1,50,000. Prepare the Profit and Loss Appropriation Account by taking into consideration the following information:

- (i) Partners capital on April 1, 2016;
Simmi, Rs 30,000; Sonu, Rs 60,000;
- (ii) Current accounts balances on April 1, 2016;
Simmi, Rs 30,000 (cr.); Sonu, Rs 15,000 (cr.);
- (iii) Partners drawings during the year amounted to
Simmi, Rs 20,000; Sonu, Rs 15,000;
- (iv) Interest on capital was allowed @ 5% p.a.;
- (v) Interest on drawing was to be charged @ 6% p.a. at an average of six months;
- (vi) Partners' salaries : Simmi Rs 12,000 and Sonu Rs 9,000. Also show the partners' current accounts.

Answer:

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Interest on Capital		Profit and Loss Account	1,50,000
Simmi	1,500	Interest on Drawings	
Sonu	3,000	Simmi	600
	4,500	Sonu	450
			1,050
Partners' Salaries			
Simmi	12,000		
Sonu	9,000		
	21,000		
Profit transferred to			
Simmi's Current	94,162		
Sonu's Current	31,388		
	1,25,550		
	1,51,050		1,51,050

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Partners' Capital Account

Dr.

Cr.

Particulars	Simmi	Sonu	Particulars	Simmi	Sonu
Balance c/d	30,000	60,000	Balance b/d	30,000	60,000
	30,000	60,000		30,000	60,000

Partners' Current Account

Dr.

Cr.

Particulars	Simmi	Sonu	Particulars	Simmi	Sonu
Drawings	20,000	15,000	Balance b/d	30,000	15,000
Interest on Drawings	600	450	Interest on Capital	1,500	3,000
			Partners' Salaries	12,000	9,000

Balance c/d	1,17,662	43,388	Profit and Loss Appropriation	94,162	31,388
	1,37,662	58,388		1,37,662	58,388

Question 11:

Ramesh and Suresh were partners in a firm sharing profits in the ratio of their capitals contributed on commencement of business which were Rs 80,000 and Rs 60,000 respectively. The firm started business on April 1, 2016. According to the partnership agreement, interest on capital and drawings are 12% and 10% p.a., respectively. Ramesh and Suresh are to get a monthly salary of Rs 2,000 and Rs 3,000, respectively.

The profits for year ended March 31, 2017 before making above appropriations was Rs 1,00,300. The drawings of Ramesh and Suresh were Rs 40,000 and Rs 50,000, respectively. Interest on drawings amounted to Rs 2,000 for Ramesh and Rs 2,500 for Suresh. Prepare Profit and Loss Appropriation Account and partners' capital accounts, assuming that their capitals are fluctuating.

Answer:

Profit and Loss Appropriation Account

Dr.

Cr.

	Amount		Amount
Particulars	Rs	Particulars	Rs

Interest on Capital			Profit and Loss		1,00,300
Ramesh	9,600		Interest on Drawings		
Suresh	7,200	16,800	Ramesh	2,000	
			Suresh	2,500	4,500
Partners' Salaries					
Ramesh	24,000				
Suresh	36,000	60,000			
Profit Transferred to					
Ramesh's Capital {28,000 × (4/7)}		16,000			
Suresh's Capital {28,000 × (3/7)}		12,000			
		1,04,800			1,04,800

Partners' Capital Account

Dr.**Cr.**

Particulars	Ramesh	Suresh	Particulars	Ramesh	Suresh
Drawings	40,000	50,000	Cash	80,000	60,000
Interest on Drawings	2,000	2,500	Interest on Capital	9,600	7,200
Balance c/d	87,600	62,700	Partners' Salaries	24,000	36,000
			Profit & Loss Appropriation	16,000	12,000
	1,29,600	1,15,200		1,29,600	1,15,200

Capital Ratio = Ramesh : Suresh

80,000 : 60,000

4 : 3

Question 12:

Sukesh and Vanita were partners in a firm. Their partnership agreement provides that:

- (i) Profits would be shared by Sukesh and Vanita in the ratio of 3:2;
- (ii) 5% interest is to be allowed on capital;

(iii) Vanita should be paid a monthly salary of Rs 600.

The following balances are extracted from the books of the firm, on March 31, 2017.

	Sukesh	Verma*
	Rs	Rs
Capital Accounts	40,000	40,000
Current Accounts	(Cr.) 7,200	(Cr.) 2,800
Drawings	10,850	8,150

Net profit for the year, before charging interest on capital and after charging partner's salary was Rs 9,500. Prepare the Profit and Loss Appropriation Account and the Partner's Current Accounts.

Answer:

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Interest on Capital		Profit and Loss	9,500
Sukesh 2,000			
Vanita 2,000	4,000		

Profit transferred to			
Sukesh's Current $\{5,500 \times (3/5)\}$	3,300		
Vanita's Current $\{28,000 \times (2/5)\}$	2,200		
	9,500		9,500

Partner's Capital Account

Dr.

Cr.

Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
Balance c/d	40,000	40,000	Balance b/d	40,000	40,000
	40,000	40,000		40,000	40,000

Partner's Current Account

Dr.**Cr.**

Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
Drawings	10,850	8,150	Balance b/d	7,200	2,800
			Partner's Salaries		7,200
			Profit and Loss Appropriation	3,300	2,200
Balance c/d	1,650	6,050	Interest on capital	2,000	2,000
	12,500	14,200		12,500	14,200

Question 13:

Rahul, Rohit and Karan started partnership business on April 1, 2016 with capitals of Rs 20,00,000, Rs 18,00,000 and Rs 16,00,000, respectively. The profit for the year ended March 2017 amounted to Rs 1,35,000 and the partner's drawings had been Rahul Rs 50,000, Rohit Rs 50,000 and Karan Rs 40,000. The profits are distributed among partner's in the ratio of 3:2:1. Calculate the interest on capital @ 5% p.a.

Answer:

Interest on Capital

$$\text{Rahul} = 20,00,000 \times \frac{5}{100} = \text{Rs } 1,00,000$$

$$\text{Rohit} = 18,00,000 \times \frac{5}{100} = \text{Rs } 90,000$$

$$\text{Karan} = 16,00,000 \times \frac{5}{100} = \text{Rs } 80,000$$

Question 14:

Sunflower and Pink Rose started partnership business on April 01, 2016 with capitals of Rs 2,50,000 and Rs 1,50,000, respectively. On October 01, 2016, they decided that their capitals should be Rs 2,00,000 each. The necessary adjustments in the capitals are made by introducing or withdrawing cash. Interest on capital is to be allowed @ 10% p.a. Calculate interest on capital as on March 31, 2017.

Answer:

Product Method

Sunflower

01 April 2016 to 30 September 2016	$2,50,000 \times 6 =$	15,00,000
01 October 2016 to 31 March 2017	$2,00,000 \times 6 =$	12,00,000
	Sum of Product	27,00,000

Pink Rose

01 April 2016 to 30 September 2016	$1,50,000 \times 6 =$	9,00,000
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01 October 2016 to 31 March 2017	$2,00,000 \times 6 =$	12,00,000
	Sum of Product	21,00,000

$$\begin{array}{ccccccc} \text{Interest on Capital} & \text{Sum of Product} & & \text{Rate} & \times & & 1 \\ = & \times & & \underline{\hspace{1cm}} & & \underline{\hspace{1cm}} & \\ & & & 100 & & 12 & \end{array}$$

$$\begin{array}{ccccccc} \text{Interest on Sunflower's Capital} & 27,00,000 & & 10 & \times & 1 & \text{Rs} \\ = & \times & & \underline{\hspace{1cm}} & & \underline{\hspace{1cm}} & 22,500 \\ & & & 100 & & 12 & \end{array}$$

$$\begin{array}{ccccccc} \text{Interest on Pink Rose's Capital} = & & 21,00,000 \times & & 10 & \times & 1 \text{ Rs } 17,500 \\ & & & & \underline{\hspace{1cm}} & & \underline{\hspace{1cm}} \\ & & & & 100 & & 12 \end{array}$$

Alternative Method:

Simple Interest Method

Sunflower

April 01, 2016 to September 30, 2016	$\begin{array}{ccccccc} 2,50,000 \times & 10 & \times & 6 & = \\ & \underline{\hspace{1cm}} & & \underline{\hspace{1cm}} & & & \\ & 100 & & 12 & & & \end{array}$	Rs 12,500
October 01, 2016 to March 31, 2017	$\begin{array}{ccccccc} 2,00,000 \times & 10 & \times & 6 & = \\ & \underline{\hspace{1cm}} & & \underline{\hspace{1cm}} & & & \end{array}$	Rs 10,000

	$\frac{100}{100} \times \frac{12}{12}$	
	Interest on Sunflower's Capital	Rs 22,500

Pink Rose

April 01, 2016 to September 30, 2016	$1,50,000 \times \frac{10}{100} \times \frac{6}{12} =$	Rs 7,500
October 01, 2016 to March 31, 2017	$2,00,000 \times \frac{10}{100} \times \frac{6}{12} =$	Rs 10,000
	Interest on Pink Rose's Capital	Rs 17,500

Question 15:

On March 31, 2017 after the close of accounts, the capitals of Mountain, Hill and Rock stood in the books of the firm at Rs 4,00,000, Rs 3,00,000 and Rs 2,00,000, respectively. Subsequently, it was discovered that the interest on capital @ 10% p.a. had been omitted. The profit for the year amounted to Rs 1,50,000 and the partner's drawings had been Mountain: Rs 20,000, Hill Rs 15,000 and Rock Rs 10,000. Calculate interest on capital.

Answer:

Generally interest on Capital is calculated on opening balance of capital. If additional capital is not given.

	Mountain	Hill	Rock
Closing Capital	4,00,000	3,00,000	2,00,000
<i>Add:</i> Drawings	20,000	15,000	10,000
<i>Less:</i> Profit (1:1:1)	(50,000)	(50,000)	(50,000)
Opening Capital	3,70,000	2,65,000	1,60,000

Interest on Capital

Mountain

$$3,70,000 \times \frac{10}{100} = \text{Rs } 37,000$$

Hill

$$2,65,000 \times \frac{10}{100} = \text{Rs } 26,500$$

Rock

$$1,60,000 \times \frac{10}{100} = \text{Rs } 16,000$$

Question 16:

Following is the extract of the Balance Sheet of, Neelkant and Mahdev as on March 31, 2017:

Balance Sheet as at March 31, 2017

	Amount		Amount
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Liabilities	Rs	Assets	Rs
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current Account	1,00,000		
Mahadev's Current Account	1,00,000		
Profit and Loss Apprpriation (March 2017)	8,00,000		
	30,00,000		30,00,000

During the year Mahadev's drawings were Rs 30,000. Profits during 2017 is Rs 10,00,000. Calculate interest on capital @ 5% p.a for the year ending March 31, 2017.

Answer:

Interest on Capital

$$\begin{array}{l} \text{Neelkant's} \\ 10,00,000 \times \frac{5}{100} = \text{Rs} \\ 50,000 \end{array}$$

$$\begin{array}{l} \text{Mahadev's} \\ 10,00,000 \times \frac{5}{100} = \text{Rs} \\ 50,000 \end{array}$$

Note: In this question, as the balances of both Partner's Capital Account and of Partner's Current Account are mentioned, so it has been assumed that the capital of the partners is fixed.

As we know, when the capital of the partners is fixed, drawings and interest on capital does not affect the capital balances of the partners. Rather, it would affect their current account balances. Therefore, in this case, capital at the beginning (i.e. opening capital) and capital at the end (i.e. closing capital) of the year would remain same. Thus, the interest on capital is calculated on fixed capital balances (given in the Balance Sheet of the question).

Question 17:

Rishi is a partner in a firm. He withdrew the following amounts during the year ended March 31, 2018.

May 01, 2017	Rs 12,000
July 31, 2017	Rs 6,000
September 30, 2017	Rs 9,000
November 30, 2017	Rs 12,000
January 01, 2018	Rs 8,000
March 31, 2018	Rs 7,000

Interest on drawings is charged @ 9% p.a. Calculate interest on drawings.

Answer:

Product Method

	Drawings × Period	Product
01 May, 2017 to 31 March 2018	12,000 × 11 =	1,32,000
31 July, 2017 to 31 March 2018	6,000 × 8 =	48,000
30 September, 2017 to 31 March 2018	9,000 × 6 =	54,000
30 Nov. 2017 to 31 March 2018	12,000 × 4 =	48,000
01 Jan. 2018 to 31 March 2018	8,000 × 3 =	24,000
31 March 2018 to 31 March 2018	7,000 × 0 =	0
	Sum of Product	3,06,000

Here the formula will be

$$\text{Interest on Drawings} = \text{Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 3,06,000 \times \frac{9}{100} \times \frac{1}{12}$$

$$= \text{Rs } 2,295$$

Question 18:

The capital accounts of Moli and Golu showed balances of Rs 40,000 and Rs 20,000 as on April 01, 2016. They shared profits in the ratio of 3:2. They allowed interest on capital @ 10% p.a. and interest on drawings, @ 12 p.a. Golu advanced a loan of Rs 10,000 to the firm on August 01, 2016. During the year, Moli withdrew Rs 1,000 per month at the beginning of every month whereas Golu withdrew Rs 1,000 per month at the end of every month. Profit for the year, before the above mentioned adjustments was Rs 20,950.

Calculate interest on drawings show distribution of profits and prepare partner's capital accounts.

Answer:

$$\text{Interest on Moli's Drawing} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{13}{2 \times 12}$$

$$= 12,000 \times \frac{12}{100} \times \frac{13}{2 \times 12}$$

$$= \text{Rs } 780$$

$$\text{Interest on Golu's Drawings} = \text{Total Drawing} \times \frac{\text{Rate}}{100} \times \frac{11}{2 \times 12}$$

$$= 12,000 \times \frac{12}{100} \times \frac{11}{2 \times 12}$$

$$= \text{Rs } 660$$

Profit and Loss Adjustment Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Interest on Capital		Profit and Loss Account	20,950
Moli 4,000		Interest on Drawings	
Golu 2,000	6,000	Moli 780	

			Golu	660	1,440
Interest on Partner's Loan					
Golu's $\{10,000 \times (6/100) \times (8/12)\}$		400			
Profit transferred to					
Moli's Capital $\{15,990 \times (3/5)\}$	9,594				
Golu's Capital $\{15,990 \times (2/5)\}$	6,396	15,990			
		22,390			22,390

Partners' Capital Account

Dr.

Cr.

Particulars	Moli	Golu	Particulars	Moli	Golu
Drawings	12,000	12,000	Balance b/d	40,000	20,000

Interest on Drawing	780	660	Interest on Capital	4,000	2,000
Balance c/d	40,814	15,736	Profit and Loss Adjustment	9,544	6,396
	53,594	28,396		53,594	28,396

Question 19:

Rakesh and Roshan are partners, sharing profits in the ratio of 3:2 with capitals of Rs 40,000 and Rs 30,000, respectively. They withdrew from the firm the following amounts, for their personal use:

Rakesh	Month	Rs
	May 31, 2016	600
	June 30, 2016	500
	August 31, 2016	1,000
	November 1, 2016	400
	December 31, 2016	1,500
	January 31, 2017	300

	March 01, 2017	700
Rohan	At the beginning of each month	400

Interest is to be charged @ 6% p.a. Calculate interest on drawings, assuming that book of accounts are closed on March 31, 2017, every year.

Answer:

Rakesh's Interest on Drawings

	Drawings × Period	Product
31 May 2016 to 31 March 2017	$600 \times 10 =$	6,000
30 June 2016 to 31 March 2017	$500 \times 9 =$	4,500
31 August 2016 to 31 March 2017	$1,000 \times 7 =$	7,000
1 November 2016 to 31 March 2017	$400 \times 5 =$	2,000
31 December 2016 to 31 March 2017	$1,500 \times 3 =$	4,500
31 January 2017 to 31 March 2017	$300 \times 2 =$	6,00
01 March 2017 to 31 March 2017	$700 \times 1 =$	700
	Sum of Product	25,300

$$\text{Interest} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 25,300 \times \frac{6}{100} \times \frac{1}{12}$$

$$= \text{Rs } 126.5$$

Interest on Rohan's Capital

$$= \text{Total Drawing} \times \frac{\text{Rate}}{100} \times \frac{13}{2 \times 12}$$

$$= 4,800 \times \frac{6}{100} \times \frac{13}{2 \times 12}$$

$$= \text{Rs } 156$$

Question 20:

Himanshu withdrew Rs 2,500 at the end Month of each month. The Partnership deed provides for charging the interest on drawings @ 12% p.a. Calculate interest on Himanshu's drawings for the year ending 31st December, 2017.

Answer:

Total Drawing of Himanshu = Rs 2,500 × 12 = Rs 30,000

$$\text{Interest on Drawing} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{11}{2 \times 12}$$

$$= \text{Rs } 30,000 \times \frac{12}{100} \times \frac{11}{2 \times 12}$$

$$= \text{Rs } 1,650$$

Question 21:

Bharam is a partner in a firm. He withdraws Rs 3,000 at the starting of each month for 12 months. The books of the firm closes on March 31 every year. Calculate interest on drawings if the rate of interest is 10% p.a.

Answer:

Total Drawing of Bharam = Rs 3,000 × 12 = Rs 36,000

$$\text{Interest on Drawing} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{13}{2 \times 12}$$

$$= \text{Rs } 36,000 \times \frac{10}{100} \times \frac{13}{2 \times 12}$$

= Rs 1,950

Question 22:

Raj and Neeraj are partners in a firm. Their capitals as on April 01, 2017 were Rs 2,50,000 and Rs 1,50,000, respectively. They share profits equally. On July 01, 2017, they decided that their capitals should be Rs 1,00,000 each. The necessary adjustment in the capitals were made by introducing or withdrawing cash by the partners'. Interest on capital is allowed @ 8% p.a. Compute interest on capital for both the partners for the year ending on March 31, 2018.

Answer:

Interest on Capital

Raj

	Capital × Period	Product
1 April 2017 to 30 June 2017	2,50,000 × 3 =	7,50,000

1 July 2017 to 31 March 2018	$1,00,000 \times 9 =$	9,00,000
	Sum of Product	16,50,000

$$\text{Interest} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 16,50,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs } 11,000$$

Neeraj

	Capital × Period	Product
1 April 2017 to 30 June 2017	$1,50,000 \times 3 =$	4,50,000
1 July 2017 to 31 March 2018	$1,00,000 \times 9 =$	9,00,000
	Sum of Product	13,50,000

$$\text{Interest} = 13,50,000 \times \frac{8}{100} \times \frac{1}{12} = \text{Rs } 9,000$$

Question 23:

Amit and Bhola are partners in a firm. They share profits in the ratio of 3:2. As per their partnership agreement, interest on drawings is to be charged @ 10% p.a. Their drawings

during 2017 were Rs 24,000 and Rs 16,000, respectively. Calculate interest on drawings based on the assumption that the amounts were withdrawn evenly, throughout the year.

Answer:

$$\text{Interest on Drawings} = \text{Drawings} \times \frac{\text{Rate}}{100}$$

$$\text{Amit} = 24,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,200$$

$$\text{Bhola} = 16,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 800$$

Question 24:

Harish is a partner in a firm. He withdrew the following amounts during the year 2017 :

	Rs
February 01	4,000
May 01	10,000
June 30	4,000
October 31	12,000
December 31	4,000

Interest on drawings is to be charged @ 7.5 % p.a.

Calculate the amount of interest to be charged on Harish's drawings for the year ending December 31, 2017.

Answer:

Calculation of interest on Harish's drawings

	Drawings × Period	Product
01 Feb. 17 to 31 Dec. 17	$4,000 \times 11 =$	44,000
01 May 17 to 31 Dec. 17	$10,000 \times 8 =$	80,000
30 June 17 to 31 Dec. 17	$4,000 \times 6 =$	24,000
31 Oct. 17 to 31 Dec. 17	$12,000 \times 2 =$	24,000
31 Dec. 17 to 31 Dec. 17	$4,000 \times 0 =$	0
	Sum of Product	1,72,000

$$\text{Interest on drawings} = 1,72,000 \times \frac{7.5}{100} \times \frac{1}{12} = \text{Rs } 1,075$$

Question 25:

Menon and Thomas are partners in a firm. They share profits equally. Their monthly drawings are Rs 2,000 each. Interest on drawings is to be charged @ 10% p.a. Calculate interest on Menon's drawings for the year 2006, assuming that money is withdrawn: (i) in the beginning of every month, (ii) in the middle of every month, and (iii) at the end of every month.

Answer:

Case (i)

If they withdraw money in the beginning of each month

$$\text{Interest of drawings} = \text{Total drawings} \times \text{Rate} \times \frac{13}{2 \times 12}$$

$$\text{Menon's} = 24,000 \times \frac{10}{100} \times \frac{13}{2 \times 12} = \text{Rs } 1,300$$

$$\text{Thomas's} = 24,000 \times \frac{10}{100} \times \frac{13}{2 \times 12} = \text{Rs } 1,300$$

Case (ii)

If they withdraw in the middle of every month

$$\text{Interest on Drawings} = \text{Total drawings} \times \frac{10}{100} \times \frac{6}{12}$$

$$\text{Menon's} = 24,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,200$$

$$\text{Thomas's} = 24,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,200$$

Case (iii)

If they withdraw at the end of every month.

$$\text{Interest on drawings} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{11}{2 \times 12}$$

$$\text{Menon's} = 24,000 \times \frac{10}{100} \times \frac{11}{2 \times 12} = \text{Rs } 1,100$$

$$\text{Thomas's} = 24,000 \times \frac{10}{100} \times \frac{11}{2 \times 12} = \text{Rs } 1,100$$

Question 26:

On March 31, 2017, after the close of books of accounts, the capital accounts of Ram, Shyam and Mohan showed balance of Rs 24,000 Rs 18,000 and Rs 12,000, respectively. It was later discovered that interest on capital @ 5% had been omitted. The profit for the year ended March 31, 2017, amounted to Rs 36,000 and the partner's drawings had been Ram, Rs 3,600; Shyam, Rs 4,500 and Mohan, Rs 2,700. The profit sharing ratio of Ram, Shyam and Mohan was 3:2:1. Calculate interest on capital.

Answer:

	Ram	Shyam	Mohan
Capital on March 31	24,000	18,000	12,000
<i>Add:</i> Drawings	3,600	4,500	2,700
<i>Less:</i> Profit (3:2:1)	(18,000)	(12,000)	(6,000)
Capital April 01, 2012	9,600	10,500	8,700

Here, Interest on Capital = Opening Capital $\times \frac{\text{Rate}}{100}$

$$\text{Ram's} = 9,600 \times \frac{5}{100} = \text{Rs } 480$$

$$\text{Shyam's} = 10,500 \times \frac{5}{100} = \text{Rs } 525$$

$$\text{Mohan's} = 8,700 \times \frac{5}{100} = \text{Rs } 435$$

Question 27:

Amit, Sumit and Samiksha are in partnership sharing profits in the ratio of 3:2:1. Samiksha's share in profit has been guaranteed by Amit and Sumit to be a minimum sum of Rs 8,000. Profits for the year ended March 31, 2017 was Rs 36,000. Divide profit among the partners.

Answer:

Guarantee of Profit to the partners

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	36,000
Amit's Capital	18,000		
<i>Less: Gurantee to Samiksha</i>	(1,200)		
{2,000 × (3/5)}			
Sumit's Capital	12,000		
<i>Less: Gurantee to Samiksha</i>	(800)		
{2,000 × (2/5)}			
Samiksha Capital	6,000		
<i>Add: Amit's Guarantee</i>	1,200		
<i>Add: Sumit's Guarantee</i>	800		

	36,000	36,000

Question 28:

Pinki, Deepati and Kaku are partner's sharing profits in the ratio of 5:4:1. Kaku is given a guarantee that his share of profits in any given year would not be less than Rs 5,000. Deficiency, if any, would be borne by Pinki and Deepti equally. Profits for the year amounted to Rs 40,000. Record necessary journal entries in the books of the firm showing the distribution of profit.

Answer:

Profit and Loss Appropriation Account

Dr.

**C
r.**

Particulars	A m o u n t R s	Particulars	A m o u n t R s
Profit transferred to		Profit & Loss	4 0 , 0

				0
				0
Pinki's Capital	20,000			
Less: Gurantee to Kaku	(500)	1		
{1,000 × (1/2)}		9		
		,		
		5		
		0		
		0		
Deepti's Capital	16,000			
Less: Guarantee to Kaku	(500)	1		
{1,000 × (1/2)}		5		
		,		
		5		
		0		
		0		
Kaku's Capital	4,000			
<i>Add:</i> Deficiency received from				
Pinki	5			
	0			
	0			
Deepti	5	5		
	0	,		
	0	0		

	0		
	0		
	4		4
	0		0
	,		,
	0		0
	0		0
	0		0

Question 29:

Abhay, Siddharth and Kusum are partners in a firm, sharing profits in the ratio of 5:3:2. Kusum is guaranteed a minimum amount of Rs 10,000 as per share in the profits. Any deficiency arising on that account shall be met by Siddharth. Profits for the years ending March 31, 2016 and 2017 are Rs 40,000 and 60,000 respectively. Prepare Profit and Loss Appropriation Account.

Answer:

Profit and Loss Appropriation Account as on March 31, 2016

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs

Profit transferred to		Profit and Loss	40,000
Abhay's Capital		20,000	
Siddharth's Capital	12,000		
<i>Less: Guarantee to Kusum's</i>	<i>(2,000)</i>	10,000	
Kusum's Capital	8,000		
<i>Add: Deficiency received from Siddharth</i>	<i>2,000</i>	10,000	
		40,000	40,000

Profit and Loss Appropriation Account as on March 31, 2017

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	60,000
Abhay's Capital	30,000		
Siddharth's Capital	18,000		
Kusum's Capital	12,000		
	60,000		60,000

Question 30:

Radha, Mary and Fatima are partners sharing profits in the ratio of 5:4:1. Fatima is given a guarantee that her share of profit, in any year will not be less than Rs 5,000. The profits for the year ending March 31, 2017 amounts to Rs 35,000. Shortfall if any, in the profits guaranteed to Fatima is to be borne by Radha and Mary in the ratio of 3:2. Record necessary journal entry to show distribution of profit among partner.

Answer:

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	35,000
Radha's Capital	17,500		
Less: Fatima's Deficiency {1,500 × (3/5)}	(900)		
	16,600		
Mary's Capital	14,000		
Less: Fatima's Deficiency {1,500 × (2/5)}	(600)		
	13,400		
Fatima's Capital	3,500		
Add: Deficiency born by			

Radha	900			
Mary	600	5,000		
		35,000		35,000

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Profit and Loss Appropriation A/c Dr.		35,000	
	To Radha's Capital A/c			16,600
	To Mary's Capital A/c			13,400
	To Fatima's Capital A/c			5,000
	(Profit distributed among Partners)			

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Alternative Method

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Profit and Loss Appropriation A/c Dr.		35,000	
	To Radha's Capital A/c			17,500
	To Mary's Capital A/c			14,000
	To Fatima's Capital A/c			3,500
	(Profit distributed among Partners)			
	Radha's Capital A/c Dr.		900	
	Mary's Capital A/c Dr.		600	
	To Fatima's Capital A/c			1,500
	(Deficiency of Fatima's Share taken from Radha and			

	Mary)			
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Question 31:

X, Y and Z are in Partnership, sharing profits and losses in the ratio of 3 : 2 : 1, respectively. Z's share in the profit is guaranteed by X and Y to be a minimum of Rs 8,000. The net profit for the year ended March 31, 2017 was Rs 30,000. Prepare Profit and Loss Appropriation Account, indicating the amount finally due to each partner.

Answer:

Profit and Loss Appropriation Account as on March 31, 2017

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	30,000
X's Capital 15,000			
Less: Z's Deficiency (1,800) {3,000 × (3/5)}	13,200		
	0		
Y's Capital 10,000			

<i>Less: Z's Deficiency</i>	(1,200)	8,800	
<i>{3,000 × (2/5)}</i>			
<hr/>			
Z's Capital	5,000		
<i>Add: Share of Deficiency born by</i>			
Radha	1,800		
Mary	1,200	8,000	
<hr/>			
		30,000	30,000
		0	
		<hr/>	<hr/>

Question 32:

Arun, Bobby and Chintu are partners in a firm sharing profit in the ratio or 2:2:1. According to the terms of the partnership agreement, Chintu has to get a minimum of Rs 60,000, irrespective of the profits of the firm. Any Deficiency to Chintu on Account of such guarantee shall be borne by Arun. Prepare the profit and loss appropriation account showing distribution of profits among partners in case the profits for year 2015 are: (i) Rs 2,50,000; (ii) 3,60,000.

Answer:

Case (i)**Profit and Loss Appropriation Account as on March 31, 2015****Dr.****Cr.**

Particulars		Amount Rs	Particulars		Amount Rs
Profit transferred to			Profit and Loss		2,50,000
Arun's Capital	1,00,000				
<i>Less:</i> Chintu's share of deficiency	(10,000)	90,000			
Bobby's Capital		1,00,000			
Chintu's Capital	50,000				
<i>Add:</i> Deficiency received from Arun	10,000	60,000			
		2,50,000			2,50,000

Case (ii)

Profit and Loss Appropriation Account as on March 31, 2015

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	3,60,000
Arun's Capital $\{3,60,000 \times (2/5)\}$	1,44,000		
Bobby's Capital $\{3,60,000 \times (2/5)\}$	1,44,000		
Chintu's Capital $\{3,60,000 \times (1/5)\}$	72,000		
	3,60,000		3,60,000

Question 33:

Ashok, Brijesh and Cheena are partners sharing profits and losses in the ratio of 2 : 2 : 1. Ashok and Brijesh have guaranteed that Cheena share in any year shall be less than Rs 20,000. The net profit for the year ended March 31, 2017 amounted to Rs 70,000. Prepare Profit and Loss Appropriation Account.

Answer:

Profit and Loss Appropriation Account as on March 31, 2017

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Profit transferred to		Profit and Loss	70,000
Ashok's Capital	28,000		
Less: Cheena's share of deficiency {6,000 × (1/2)}	(3,000)		
	<hr/>		
Brijesh's Capital	28,000		
Less: Cheena's share of deficiency {6,000 × (1/2)}	(3,000)		
	<hr/>		
Cheena's Capital	14,000		

<i>Add:</i> Deficiency received from			
Ashok	3,000		
Brijesh	3,000	20,000	
		70,000	70,000

Question 34:

Ram, Mohan and Sohan are partners with capitals of Rs 5,00,000, Rs 2,50,000 and 2,00,000 respectively. After providing interest on capital @ 10% p.a. the profits are divisible as follows:

Ram $\frac{1}{2}$, Mohan $\frac{1}{3}$ Sohan $\frac{1}{6}$. But Ram and Mohan have guaranteed that Sohan's share in the profit shall not be less than Rs 25,000, in any year. The net profit for the year ended March 31, 2017 is Rs 2,00,000, before charging interest on capital. You are required to show distribution of profit.

Answer:

Profit and Loss Appropriation A/c as on 31 March 2017

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Interest on Capital		Profit and Loss	2,00,000
Ram	50,000		
Mohan	25,000		
Sohan	20,000		
Profit Transferred to			
Ram's Capital	52,500		
<i>Less:</i> Share of deficiency $\{7,500 \times (3/5)\}$	(4,500)		
Mohan's Capital	35,000		
<i>Less:</i> Share of deficiency $\{7,500 \times (2/5)\}$	(3,000)		
Sohan's Capital	17,500		
<i>Add:</i> Deficiency received from			

Ram	4,500		
Mohan	3,000	25,000	
		2,00,000	2,00,000

Question 35:

Amit, Babita and Sona form a partnership firm, sharing profits in the ratio of 3 : 2 : 1, subject to the following :

- (i) Sona's share in the profits, guaranteed to be not less than Rs 15,000 in any year.
- (ii) Babita gives guarantee to the effect that gross fee earned by her for the firm shall be equal to her average gross fee of the proceeding five years, when she was carrying on profession alone (which is Rs 25,000). The net profit for the year ended March 31, 2017 is Rs 75,000. The gross fee earned by Babita for the firm was Rs 16,000.

You are required to show Profit and Loss Appropriation Account (after giving effect to the alone).

Answer:

Profit and Loss Appropriation Account as on March 31, 2017

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Profit Transferred to		Profit and Loss	75,000
Amit's Capital $\{84,000 \times (3/6)\}$	42,000	Babita's Capital	9,000
<i>Less:</i> Sona's share of deficiency $\{1,000 \times (3/5)\}$	(600)	(Deficiency of Fees 25,000 – 16,000)	
	41,400		
Babita's Capital $\{84,000 \times (2/6)\}$	28,000		
<i>Less:</i> Sona's share of deficiency $\{1,000 \times (2/5)\}$	(400)		
	27,600		
Sona's Capital $\{84,000 \times (1/6)\}$	14,000		
<i>Add:</i> Deficiency received from			
Amit	600		

Babita	400	15,000		
		84,000		84,000

Question 36:

The net profit of X, Y and Z for the year ended March 31, 2016 was Rs 60,000 and the same was distributed among them in their agreed ratio of 3 : 1 : 1. It was subsequently discovered that the under mentioned transactions were not recorded in the books :

- (i) Interest on Capital @ 5% p.a.
- (ii) Interest on drawings amounting to X Rs 700, Y Rs 500 and Z Rs 300.
- (iii) Partner's Salary : X Rs 1000, Y Rs 1500 p.a.

The capital accounts of partners were fixed as : X Rs 1,00,000, Y Rs 80,000 and Z Rs 60,000. Record the adjustment entry.

Answer:

Past Adjustment

	X	Y	Z		Total
Interest on Capital	5,000	4,000	3,000	=	12,000

<i>Less:</i> Interest on Drawings	(700)	(500)	(300)	=	(1,500)
<i>Add:</i> Partner's Salaries	1,000	1,500	NIL	=	2,500
Right distribution of Rs 13,000	5,300	5,000	2,700	=	13,000
<i>Less:</i> Wrong distribution of Rs 13,000 (3:1:1)	(7,800)	(2,600)	(2,600)	=	(13,000)
	(2,500) Dr.	2,400 Cr	100 Cr	=	NIL

Explanation:

Capital have credit balance if it deducted will be debited and if it is added it will be credited. Here X wrongly taken excess Rs 2,500 hence Rs 2,500 will be deducted from X capital Account on the other hand Y and Z taken less amount as they should have been taken, hence capital account of Y and Z will be added.

Date	Particulars		L.F	Debit Amount Rs	Credit Amount Rs
	X's Capital A/c	Dr.		2,500	
	To Y's Capital A/c				2,400
	To Z's Capital A/c				100
	(Profit adjusted among partners)				

Question 37:

The firm of Harry, Porter and Ali, who have been sharing profits in the ratio of 2 : 2 : 1, have existed for same years. Ali wants that he should get equal share in the profits with Harry and Porter and he further wishes that the change in the profit sharing ratio should come into effect retrospectively were for the last three year. Harry and Porter have agreement on this account. The profits for the last three years were:

	Rs
2014-15	22,000
2015-16	24,000
2016-17	29,000

Show adjustment of profits by means of a single adjustment journal entry.

Answer:**Distribution of Profit**

Old Ratio (2:2:1)	Harry	Porter	Ali		Total
Year					
2014 – 15	(8,800)	(8,800)	(4,400)	=	(22,000)
2015 – 16	(9,600)	(9,600)	(4,800)	=	(24,000)
2016 – 17	(11,600)	(11,600)	(5,800)	=	(29,000)
				=	

Total Profit of 3 years in old ratio	(30,000)	(30,000)	(15,000)	=	(75,000)
Distribution of 3 years profit in new Ratio (1:1:1)	25,000	25,000	25,000	=	75,000
Adjusted Profit	(5,000)	(5,000)	10,000		NIL

Journal (Adjusting entry)

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
	Harry's Capital A/c Dr.		5,000	
	Porter's Capital A/c Dr.		5,000	
	To Ali's Capital A/c			10,000
	(Profit adjusted due to change in profit sharing ratio)			

Question 38:

Mannu and Shristhi are partners in a firm sharing profit in the ratio of 3 : 2. Following is the balance sheet of the firm as on March 31, 2017.

Liabilities		Amount Rs	Assets		Amount Rs
Mannu's Capital	30,000	40,000	Drawings :		6,000
Shristhi's Capital	10,000		Mannu	4,000	
			Shristhi	2,000	
			Other Assets		34,000
		40,000			40,000

Profit for the year ended March 31, 2017 was Rs 5,000 which was divided in the agreed ratio, but interest @ 5% p.a. on capital and @ 6% p.a. on drawings was inadvertently enquired. Adjust interest on drawings on an average basis for 6 months. Give the adjustment entry.

Answer:

Adjustment of Profit

	Mannu's	Shrishti		Total
Interest on Capital	1,500	500	=	2,000
Less: Interest on Drawings	(120)	(60)	=	(180)
Right distribution of Rs 1,820	1,380	440	=	1,820

Less: Wrong distribution of Rs 1,820 (3 : 2)	(1,092)	(728)	=	(1,820)
Adjusted Profit	288	(288)	=	NIL

Adjusting Journal Entry

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
	Shrishti's Capital A/c Dr. To Mannu's Capital A/c (Adjustment of profit made)		288	288

Question 39:

On March 31, 2017 the balance in the capital accounts of Eluin, Monu and Ahmed, after making adjustments for profits, drawing, etc; were Rs 80,000, Rs 60,000 and Rs 40,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 5% p.a. The drawings during the year were Eluin Rs 20,000; Monu, Rs 15,000 and Ahmed, Rs 9,000. Interest on drawings chargeable to partners were Eluin Rs 500, Monu Rs 360 and Ahmed Rs 200. The net profit during the year amounted to Rs 1,20,000. The profit sharing ratio was 3 : 2 : 1. Pass necessary adjustment entries.

Answer:

In this question interest on capital shall be calculated on opening capital

	Eluin	Monu	Ahmed
Capital on 31 Mar. 2017 (Closing Capital)	80,000	60,000	40,000
<i>Add:</i> Drawings	20,000	15,000	9,000
<i>Less:</i> Profit Rs 120,000 (3:2:1)	(60,000)	(40,000)	(20,000)
Capital on April 01, 2016 (Opening Capital)	40,000	35,000	29,000

Adjustment of Profit

	Eluin	Monu	Ahmed		Total
Interest on Capital (on Opening Capital)	2,000	1,750	1,450	=	5,200
Less: Interest on Drawings	(500)	(360)	(200)	=	(1,060)
Right distribution of Rs 4,140	1,500	1,390	1,250	=	4,140
Less: Wrong distribution of Rs 4,140 (in the ratio 3:2:1)	(2,070)	(1,380)	(690)	=	(4,140)
	(570)	10	560	=	NIL

Adjusting Journal Entry

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
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	Eluin's Capital A/c	Dr.	570	
	To Monu's Capital A/c			10
	To Ahmed's Capital A/c			560
	(Adjustment of Profit made)			

Question 40:

Azad and Benny are equal partners. Their capitals are Rs 40,000 and Rs 80,000, respectively. After the accounts for the year have been prepared it is discovered that interest at 5% p.a. as provided in the partnership agreement, has not been credited to the capital accounts before distribution of profits. It is decided to make an adjustment entry at the beginning of the next year. Record the necessary journal entry.

Answer:

Interest on Capital

$$\text{Azad} = 40,000 \times \frac{5}{100} = \text{Rs } 2,000$$

$$\text{Benny} = 80,000 \times \frac{5}{100} = \text{Rs } 4,000$$

Adjustment of Profit

	Azad	Benny		Total
Interest on Capital	2,000	4,000	=	6,000
Less: Wrong distribution of Profit Rs 6,000 (1: 1)	(3,000)	(3,000)	=	(6,000)
Adjusted Profit	(1,000)	(1,000)	=	NIL

Adjusting Journal Entry

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
	<div> Azad's Current A/c Dr. </div> <div> To Benny's Current A/c </div> <div> (Adjustment of profit made) </div>		1,000	1,000

Question 41:

Kavita and Pradeep are partners, sharing profits in the ratio of 3 : 2. They employed Chandan as their manager, to whom they paid a salary of Rs 750 p.m. Chandan deposited Rs 20,000 on

which interest is payable @ 9% p.a. At the end of 2017 (after the division of profit), it was decided that Chandan should be treated as partner w.e.f. Jan. 1, 2014 with 1/6 th share in profits. His deposit being considered as capital carrying interest @ 6% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

Rs		
2014	Profit	59,000
2015	Profit	62,000
2016	Loss	(4,000)
2017	Profit	78,000

Record the necessary journal entries to give effect to the above.

Answer:

Interest on							
			Loan	+	Salary	=	Total
2014	59,000	+	1,800	+	9,000	=	69,800
2015	62,000	+	1,800	+	9,000	=	72,800
2016	(4,000)	+	1,800	+	9,000	=	6,800
2017	78,000	+	1,800	+	9,000	=	88,800
	1,95,000	+	7,200	+	36,000	=	2,38,200

Chandan received as Manager = Interest on Loan + Salary = 7,200 + 36,000 = Rs 43,200

Total Profit of 4 years before interest on Chandan's Loan and Salary = 2,38,200

Interest on Chandan's Capital for 4 years = $\{20,000 \times (6/100) = 1,200\}$
= $1,200 \times 4 = \text{Rs } 4,800$

Profit after interest on all partners Capital

= Total Profit of four years before interest on Chandan's loan and Salary – Interest on Chandan's Capital for four years

= 2,38,200 – 4,800

= Rs 2,33,400

Wrong Distribution – Distribution of 4 years

Profit when Chandan as a Manager

Kavita $\{1,95,000 \times (3/5)\}$ = 1,17,000

Pradeep $\{1,95,000 \times (2/5)\}$ = 78,000

Chandan received as manager = Interest on Loan + Salary

= 7,200 + 36,000 = 43,200

2,38,200

Right Distribution – Division of Profit when Chandan as Partner

Chandan Share of Profit $\{2,33,400 \times (1/6)\}$	38,900
Interest on Capital	4,800
	43,700

Kavita's Share of Profit $\{(2,33,400 - 38,900) \times (3/5)\} = 1,16,700$

Pradeep's share of Profit $\{(2,33,400 - 38,900) \times (2/5)\} = 77,800$

Adjustment of Profit

	Kavita		Pradeep		Chandan	=	Total
Distribution of profit when Chandan as partner	1,16,700		77,800		43,700	=	2,38,200
Less: Distribution of profit when Chandan as manager	(1,17,000)		(78,000)		(43,200)	=	(2,38,200)
Right distribution of Rs 4,140	(300)		(200)		(500)	=	NIL

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Kavita's Capital A/c Dr.		300	
	Pradeep's Capital A/c Dr.		200	
	To Chandan's Capital A/c			500
	(Adjustment of profit made)			

Question 42:

Mohan, Vijay and Anil are partners, the balance on their capital accounts being Rs 30,000, Rs 25,000 and Rs 20,000 respectively. In arriving at these figures, the profits for the year ended March 31, 2017 amounting to Rupees 24,000 had been credited to partners in the proportion in which they shared profits. During the year their drawings for Mohan, Vijay and Anil were Rs 5,000, Rs 4,000 and Rs 3,000, respectively. Subsequently, the following omissions were noticed:

- (a) Interest on Capital, at the rate of 10% p.a., was not charged.
- (b) Interest on Drawings: Mohan Rs 250, Vijay Rs 200, Anil Rs 150 was not recorded in the books.

Record necessary corrections through journal entries.

Answer:

Interest on Capital shall be calculated on opening capital.

	Mohan	Vijay	Anil
Closing Capital	30,000	25,000	20,000
<i>Add:</i> Drawings	5,000	4,000	3,000
<i>Less:</i> Profit (1:1:1)	(8,000)	(8,000)	(8,000)
Opening Capital	27,000	21,000	15,000

Interest on Capital

$$\text{Mohan} = 27,000 \times \frac{10}{100} = \text{Rs } 2,700$$

$$\text{Vijay} = 21,000 \times \frac{10}{100} = \text{Rs } 2,100$$

$$\text{Anil} = 15,000 \times \frac{10}{100} = \text{Rs } 1,500$$

Adjustment of Profit

	Mohan	Vijay	Anil		Total
Interest on Capital (on Opening Capital)	2,700	2,100	1,500		6,300
Interest on Drawings	(250)	(200)	(150)		(600)
	2,450	1,900	1,350		5,700
Wrong distribution	(1,900)	(1,900)	(1,900)	=	(5,700)
	550	NIL	(550)		

Adjusting Journal Entry

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
	Anil's Capital A/c Dr. To Vijay's Capital A/c (Adjustment of profit made)		550	550

Question 43:

Anju, Manju and Mamta are partners whose fixed capitals were Rs 10,000, Rs 8,000 and Rs 6,000, respectively. As per the partnership agreement, there is a provision for allowing interest on capitals @ 5% p.a. but entries for the same have not been made for the last three years. The profit sharing ratio during there years remained as follows:

Year	Anju	Manju	Mamta
2014	4	3	5
2015	3	2	1
2016	1	1	1

Make necessary and adjustment entry at the beginning of the fourth year i.e. Jan. 2017.

Answer:

Interest on Capital

$$\begin{array}{rcl} \text{Anuj} = & 5 & = \text{Rs } 500 \\ 10,000 \times & \frac{\quad}{100} & \end{array}$$

$$\begin{array}{rcl} \text{Manju} = 8,000 \times & 5 & = \text{Rs } 400 \\ & \frac{\quad}{100} & \end{array}$$

$$\begin{array}{rcl} \text{Mamta} = 6,000 \times & 5 & = \text{Rs } 30 \\ & \frac{\quad}{100} & \end{array}$$

Adjustment of profit

Year 2014

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300		1,200
Wrong distribution of Rs 1,200 (4:3:5)	(400)		(300)		(500)	=	(1,200)
	100		100		(200)		NIL

Year 2015

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300		1,200

Wrong distribution of Rs 1,200 (3:2:1)	(600)		(400)		(200)	=	(1,200)
	(100)		NIL		100		NIL

Year 2016

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300		1,200
Wrong distribution of Rs 1,200 (1:1:1)	(400)		(400)		(400)	=	(1,200)
	100		NIL		(100)		NIL

Final Adjustment

	Anuj		Manju		Mamta
2014	100		100		(200)
2015	(100)		NIL		100
2016	100		NIL		(100)
	100		100		(200)

Adjusting Journal Entry

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
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Jan. 2017				
	Mamta's Capital A/c	Dr.	200	
	To Anuj's Capital A/c			100
	To Manju Capital A/c			100
	(Adjustment of profit made)			

Question 44:

Dinker and Ravinder were partners sharing profits and losses in the ratio of 2:1. The following balances were extracted from the books of account, for the year ended December 31, 2017.

Account Name	Debit Amount Rs	Credit Amount Rs
Capital		
Dinker		2,35,000
Ravinder		1,63,000
Drawings		

Dinker	6,000	
Ravinder	5,000	
Opening Stock	35,100	
Purchases and Sales	2,85,000	3,75,800
Carriage inward	2,200	
Returns	3,000	2,200
Stationery	1,200	
Wages	12,500	
Bills receivables and Bills payables	45,000	32,000
Discount	900	400
Salaries	12,000	
Rent and Taxes	18,000	
Insurance premium	2,400	
Postage	300	
Sundry expenses	1,100	
Commission		3,200
Debtors and creditors	95,000	40,000

Building	1,20,000	
Plant and machinery	80,000	
Investments	1,00,000	
Furniture and Fixture	26,000	
Bad Debts	2,000	
Bad debts provision		4,600
Loan		35,000
Legal Expenses	200	
Audit fee	1,800	
Cash in Hand	13,500	
Cash at Bank	23,000	
	8,91,200	8,91,200

Prepare final accounts for the year ended December 31,2017, with following adjustment:

- Stock on December 31,2017, was Rs 42,500.
- A Provision is to be made for bad debts at 5% on debtors
- Rent outstanding was Rs 1,600.
- Wages outstanding were Rs 1,200.
- Interest on capital to be allowed on capital @ 4% per annum and interest on drawings to be charged @ 6% per annum.
- Dinker and Ravinder are entitled to a Salary of Rs 2,000 per annum

- (g) Ravinder is entitled to a commission Rs 1,500.
 (h) Depreciation is to be charged on Building @ 4%, Plant and Machinery, 6%, and furniture and fixture, 5%.
 (i) Outstanding interest on loan amounted to Rs 350.

Answer:

Financial Statement as on December 31, 2017

Trading Account

Dr.		Cr.	
Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	35,100	Sales	3,75,800
Purchases	2,85,000	<i>Less: Sales Return</i>	(3,000)
<i>Less: Purchases Return</i>	(2,200)		3,72,800
	2,82,800		
Carriage Inwards	2,200	Closing Stock	42,500
Wages	12,500		
<i>Add: Outstanding</i>	1,200		
	13,700		

Gross Profit	81,500		
	4,15,300		4,15,300

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Stationery	1,200	Gross Profit	81,500
Discount Allowed	900	Discount Received	400
Salaries	12,000	Commission	3,200
Rent & Taxes	18,000		
<i>Add: Outstanding</i>	1,600		
	19,600		
Insurance Premium	2,400		
Postage	300		

Sundry Expenses		1,100		
Depreciation on				
Building		4,800		
Plant and Machinery		4,800		
Fixtures and Fittings		1,300		
Provision for Bad Debts	4750			
<i>Add: Bad Debt</i>	2,000			
	<hr/>	6,750		
<i>Less: (Old) Provision for Bad Debt</i>	(4,600)	2,150		
	<hr/>			
Legal Expenses		200		
Audit Fee		1,800		
Outstanding Interest on Loan		350		
Profit and Loss Appropriation		32,200		

	85,100		85,100

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Interest on Capital		Net Profit	32,200
Dinker 9,400		Interest on Drawings	
Ravinder 6,520	15,920	Dinker 180	
		Ravinder 150	330
Partner's Salaries			
Dinker 2,000			
Ravinder 2,000	4,000		

Commission (Ravinder)		1,500		
Profit transferred to				
Dinker's Capital	7,407			
Ravinder's Capital	3,703	11,110		
		32,530		32,530

Partners' Capital Account

Dr.

Cr.

Particulars	Dinker	Ravinder	Particulars	Dinker	Ravinder
Drawings	6,000	5,000	Balance b/d	2,35,000	1,63,000
Interest on Drawings	180	150	Interest on Capital	9,400	6,520
Balance c/d	2,47,627	1,71,573	Partner's Salaries	2,000	2,000
			Profit & Loss Appropriation	7,407	3,703

			Commission		1,500
	2,53,807	1,75,223		2,53,807	1,75,223

Balance Sheet

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	32,000	Bills Receivables	45,000
Creditors	40,000	Debtors 95,000	
		<i>Less:</i>	
		5%	
		Provis	
		ion for	
		Bad	(4,750
Loan	35,000	Debts)
<i>Add:</i> Outstanding Interest	350		
		Buildin	1,20,00
		g	0
		<i>Less:</i>	
		4%	
		Depre	
Rent Outstanding	1,600	ciation	(4,800)

Wages outstanding		1,200		
Capital:			Plant and Machinery	80,000
			Less: 6% Depreciation	(4,800)
Dinker	2,47,627			75,200
Ravinder	1,71,573	4,19,200		
			Investments	1,00,000
			Furniture and Fixtures	26,000
			Less: 5% Depreciation	(1,300)
				24,700
			Cash in Hand	13,500
			Cash at Bank	23,000
			Closing Stock	42,500
		5,29,350		5,29,350

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Question 45:

Kajol and Sunny were partners sharing profits and losses in the ratio of 3:2. The following Balances were extracted from the books of account for the year ended March 31, 2015.

Account Name	Debit Amount Rs	Credit Amount Rs
Capital		
Kajol		1,15,000
Sunny		91,000
Current accounts [on 1-04-2005*]		
Kajol		4,500
Sunny	3,200	
Drawings		
Kajol	6,000	
Sunny	3,000	

Opening stock	22,700	
Purchases and Sales	1,65,000	2,35,800
Freight inward	1,200	
Returns	2,000	3,200
Printing and Stationery	900	
Wages	5,500	
Bills receivables and Bills payables	25,000	21,000
Discount	400	800
Salaries	6,000	
Rent	7,200	
Insurance premium	2,000	
Traveling expenses	700	
Sundry expenses	1,100	
Commission		1,600
Debtors and Creditors	74,000	78,000
Building	85,000	
Plant and Machinery	70,000	

Motor car	60,000	
Furniture and Fixtures	15,000	
Bad debts	1,500	
Provision for doubtful debts		2,200
Loan		25,000
Legal expenses	300	
Audit fee	900	
Cash in hand	7,500	
Cash at bank	12,000	
	5,78,100	5,78,100

Prepare final accounts for the year ended March 31,2015, with following adjustments:

- Stock on March 31,2015 was Rs37,500.
- Bad debts Rs3,000; Provision for bad debts is to be made at 5% on debtors
- Rent Prepaid were Rs1,200.
- Wages outstanding were Rs 2,200.
- Interest on capital to be allowed on capital at 6% per annum and interest on drawings to be charged @ 5% per annum.
- Kajol is entitled to a Salary of Rs 1,500 per annum.
- Prepaid insurance was Rs 500.
- Depreciation was charged on Building, @ 4%; Plant and Machinery, @ 5%; Motor car, @ 10% and furniture and fixture, @ 5%.
- Goods worth Rs 7,000 were destroyed by fire on January 20,2015. The Insurance company agreed to pay Rs 5,000 in full settlement of the claim.

*As per the question, this year should be 01-04-2014

Answer:

Financial Statement as on March 31, 2015

Trading Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	22,700	Sales	2,35,800
Purchases	1,65,000	<i>Less: Sales Return</i>	(2,000)
<i>Less: Purchases Return</i>	(3,200)		2,33,800
<i>Less: Goods Lost by Fire</i>	(7,000)		
	1,54,800	Closing Stock	37,500
Freight Inward	1,200		
Wages	5,500		
<i>Add: Outstanding</i>	2,200		
	7,700		

Gross Profit	84,900	
	2,71,300	2,71,300

Profit and Loss Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Printing and Stationery	900	Gross Profit	84,900
Discount Allowed	400	Discount Received	800
Salaries	6,000	Commission	1,600
Rent 7,200		Insurance Co. (Claim)	5,000
Less: Prepaid (1,200)	6,000		

Insurance Premium	2,000			
<i>Less: Prepaid</i>	<i>(500)</i>	1,500		
Travelling Expenses		700		
Sundry Expenses		1,100		
Bad Debt	1,500			
<i>Add: Further Bad debt</i>	<i>3,000</i>			
<i>Add: Provision for Bad Debts</i>	<i>3,550</i>			
	8,050			
<i>Less: Provision for Bad Debt (Old)</i>	<i>(2,200)</i>	5,850		
Legal Expenses		300		
Audit Fee		900		
Goods Lost by Fire		7,000		
Depreciation on				

Building	3,400		
Plant and Machinery	3,500		
Motor Car	6,000		
Furniture and Fixture	750		
Net Profit	48,000		
	92,300		92,300

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount Rs	Particulars	Amount Rs
Interest on Capital		Net profit	48,000
Kajol 6,900			
Sunny 5,460	12,360	Interest on Drawings	

			Kajol	300	
Partner's Salaries			Sunny	150	450
Kajol		1,500			
Profit & Loss – Gross Profit					
Kajol's Current	20,754				
Sunny's Current	13,836	34,590			
		48,450			48,450

Partners' Capital Account

Dr.

Cr.

Particulars	Kajol	Sunny	Particulars	Kajol	Sunny
			Balance b/d	1,15,000	91,000
Balance c/d	1,15,000	91,000			

	1,15,000	91,000		1,15,000	90,000

Partners' Current Account

Dr.

Cr.

Particulars	Kajol	Sunny	Particulars	Kajol	Sunny
Balance b/d		3,200	Balance b/d	4,500	
Drawings	6,000	3,000	Interest on Capital	6,900	5,460
Interest on Drawings	300	150	Partner's Salaries	1,500	
Balance c/d	27,354	12,946	Profit and Loss Appropriation	20,754	13,836
	33,654	19,296		33,654	19,296

Balance Sheet as on March 31, 2015

Liabilities	Amount Rs	Assets	Amount Rs
Bills Payable	21,000	Bills Receivable	25,000
Creditors	78,000	Debtors	74,000
Loan	25,000	Less: Further Bad debt	(3,000)
Wages Outstanding	2,200		71,000
Capital:		Less: 5% Provision for Bad Debt	(3,550)
Kajol	1,15,000		
Sunny	91,000	Building	85,000
	2,06,000	Less: 5% Depreciation	(3,400)
Current:			
Kajol	27,354	Plant and Machinery	70,000
Sunn	12,946	Less: 5% Depreciation	(3,500)
		Motor Car	60,000

		<i>Less: 10% Depreciation</i> (6,000)	54,000
		Furniture & Fixture <i>Less: 5% Depreciation</i> (750)	14,250
		Cash in Hand	7,500
		Cash at Bank	12,000
		Closing Stock	37,500
		Prepaid Rent	1,200
		Prepaid Insurance	500
		Insurance Co. (Claim)	5,000
	3,72,500		3,72,500