Profit & Loss Appropriation Account

1 Mark Question

1. The firm XYZ earned a profit of Rs. 2,75,000 during the year ending on 31st March, 2009. 10% of this profit was to be transferred to general reserve. Pass necessary journal entry for the same. (Delhi 2010c)

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Profit and Loss Appropriation A/c	Dr		27,500	
	To General Reserve A/c				27,500
	(Being 10% of profit transferred to general reserve account)				

4 Mark Questions

2. Singh and Gupta decided to start a partnership firm to manufacture low cost jute bags as plastic bags were creating many environmental problems. They contributed capitals of Rs. 1,00,000 and Rs. 50,000 on 1st April, 2012 for this. Singh expressed his willingness to admit Shakti as a partner without capital, who is specially abled but a very creative and intelligent friend of his. Gupta agreed to this. The terms of partnership were as follows

(i) Singh, Gupta and Shakti will share profits in the ratio of 2 : 2 : 1.
(ii) Interest on capital will be provided @ 6% per annum.

Due to shortage of capital, Singh contributed Rs. 25,000 on 30th September, 2012 and Gupta contributed Rs. 10,000 on 1st January, 2013 as additional capital. The profit of the firm for the year ended 31st March, 2013 was Rs. 1,68,900.

(i) Prepare profit and loss appropriation account for the year ending 31st March, 2013.
(ii) Identify any two values which the firm wants to communicate to the society. (All India 2014)

Ans. (*i*)

Profit and Loss Appropriation Account
for the year ended 31st March, 2013

Particulars		Amt (₹)	Particulars	Amt (₹)
To Interest on Capital A/c's			By Net Profit as per Profit and Loss A/c	1,68,900
Singh	6,750			
Gupta	3,150	9,900		
To Profit Transferred to Capital A/c's				
Singh	63,600			
Gupta	63,600			
Shakti	31,800	1,59,000		
		1,68,900		1,68,900

Working Note

Interest on Capital

Singh On $1{,}00{,}000 = 1{,}00{,}000 \times \frac{6}{100} = 6{,}000$; On $25{,}000 = 25{,}000 \times \frac{6}{100} \times \frac{6}{12} = 750$

Total interest on Singh's capital = 6,000 + 750 = 6,750

Gupta On $50{,}000 = 50{,}000 \times \frac{6}{100} = 3{,}000$; On $10{,}000 = 10{,}000 \times \frac{6}{100} \times \frac{3}{12} = 150$

Total interest on Gupta's capital = 3,000 + 150 = 3,150

3. Lalan and Balan were partners in a firm sharing profits in the ratio of 3: 2. Their fixed capitals on 1st April, 2010 were Lalan Rs. 1, 00,000 and Balan Rs. 2,00,000.

They agreed to allow interest on capital @ 12% per annum and charge on drawings @ 15% per annum. The firm earned a profit, before all above adjustments, of Rs. 30,000 for the year ended 31st March, 2011.

The drawings of Lalan and Balan during the year were Rs. 3,000 and Rs. 5,000 respectively. Showing your calculation clearly, prepare profit and loss appropriation account of Lalan and Balan. The interest on capital will be allowed even if the firm incurs loss. (All India 2012)

Ans.

Profit and Loss Appropriation Account

for the year ending 31st March, 2011

Dr | | Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Interest on Capital			By Net Profit as Per profit and Loss A/c		30,000
Lalan's Current A/c	12,000		By Interest on Drawings		
Balan's Current A/c	24,000	36,000	Lalan's Current A/c	225	
			Balan's Current A/c	375	600
			By Net Loss Transferred to		
			Lalan's Current A/c	3,240	
			Balan's Current A/c	2,160	5,400
		36,000			36,000

Working Note

(*i*) Interest on drawings is to be calculated on an average basis for 6 months as the time period is not given i.e.

$$\text{Interest on Lalan's drawings} = 3{,}000 \times \frac{15}{100} \times \frac{6}{12} = ₹\ 225$$

$$\text{Interest on Balan's drawings} = 5{,}000 \times \frac{15}{100} \times \frac{6}{12} = ₹\ 375$$

(*ii*) Interest on capital

$$\text{Lalan} = 1{,}00{,}000 \times \frac{12}{100} = ₹\,12{,}000$$

$$\text{Balan} = 2{,}00{,}000 \times \frac{12}{100} = ₹\ 24{,}000$$

4. A and B entered into partnership on 1st April, 2009 without any partnership deed. They introduced capital of Rs. 5,00,000 and Rs. 3,00,000 respectively. On 31st October, 2009, A advanced Rs. 2,00,000 by way of loan to the firm without any agreement as to interest.

The profit and loss accounts for the year ended 31st March, 2010 showed a profit of Rs. 4,30,000, but the partners could not agree upon the amount of interest on loan to be charged and the basis of division of profits.

Pass a journal entry for the distribution of the profit between the partners and prepare the capital accounts of both the partners and loan account of 'A'. (All India 2011)

Ans. **JOURNAL**

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
2010 Mar 31	Profit and Loss Appropriation A/c	Dr		4,25,000	
	To A's Capital A/c				2,12,500
	To B's Capital A/c				2,12,500
	(Being profit distributed among the partners in equal ratio)				

Dr **Partners' Capital Account** Cr

Date	Particulars	A	B	Date	Particulars	A	B
2010 Mar 31	To Balance c/d	7,12,500	5,12,500	2009 Apr 1	By Bank A/c	5,00,000	3,00,000
				2010 Mar 31	By Profit and Loss Appropriation A/c	2,12,500	2,12,500
		7,12,500	5,12,500			7,12,500	5,12,500

Dr **A's Loan Account** Cr

Date	Particulars	LF	Amt (₹)	Date	Particulars	LF	Amt (₹)
2010 Mar 31	To Balance c/d		2,05,000	2009 Oct 31	By Cash A/c		2,00,000
				2010 Mar 31	By Interest on Loan A/c		5,000
			2,05,000				2,05,000

Working Note

(*i*) **Profit and Loss Appropriation Account**

for the year ending 31st March, 2010

Dr Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Profit Transferred to			By Net Profit as per Profit and Loss A/c	
A's Capital A/c	2,12,500		(4,30,000 – 5,000)	4,25,000
B's Capital A/c	2,12,500	4,25,000		
		4,25,000		4,25,000

(*ii*) In the absence of partnership deed, interest on partners loan will be provided @ 6% per annum

i.e. Interest on A's loan $= 2{,}00{,}000 \times \frac{6}{100} \times \frac{5}{12} =$ ₹ 5,000

(*iii*) In the absence of partnership deed, profits among the partners will be divided equally.

5. G, H and R were partners in a firm sharing profits in the ratio of 7: 4: 9. Their fixed capitals were G Rs. 2,00,000, H Rs. 75,000 and R Rs. 3,50,000. Their partnership deed provided for the following

(i) Interest on capital @ 9% per annum.
(ii) Salary of Rs. 6,000 per month to H.
(iii) Interest on drawings @ 6% per annum.

During the year ended 31st December, 2009 the firm earned a profit of Rs. 1,70,000. Interest on G's drawings was Rs. 750, on H's drawings Rs. 450 and on R's drawings Rs. 1,250.

Prepare profit and loss appropriation account for the year ended 31st December, 2009. (Delhi 2010C)

Ans.

Profit and Loss Appropriation Account
for the year ending 31st December, 2009

Dr | Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Interest on Capitals			By Net Profit as per Profit and Loss A/c		1,70,000
G's Current A/c	18,000		By Interest on Drawings		
H's Current A/c	6,750		G's Current A/c	750	
R's Current A/c	31,500	56,250	H's Current A/c	450	
To Salary			R's Current A/c	1,250	2,450
H's Current A/c (6,000 × 12)		72,000			
To Profit Transferred to					
G's Current A/c	15,470				
H's Current A/c	8,840				
R's Current A/c	19,890	44,200			
		1,72,450			1,72,450

Working Mote

(i) As capitals are fixed, therefore interest, salary and share of profits will be transferred to partners' current accounts.
(ii) When interest on drawings is given, then there is no need to calculate it.
(iii) Interest on capital

$$G = 2{,}00{,}000 \times \frac{9}{100} = ₹\,18{,}000$$

$$H = 75{,}000 \times \frac{9}{100} = ₹\,6{,}750$$

$$R = 3{,}50{,}000 \times \frac{9}{100} = ₹\,31{,}500$$

6. L, M and N were partners in firm sharing profits in the ratio of 3 : 4 : 5. Their fixed capitals were L Rs.4,00,000, M Rs. 5,00,000 and N Rs. 6,00,000 respectively. The partnership deed provided for the following

(i) Interest on capital @ 6% per annum.
(ii) Salary of Rs. 30,000 per annum to N.
(iii) Interest on partner's drawings will be charged @ 12% per annum.

During the year ended 31st March, 2008 the firm earned a profit of Rs. 2,70,000. L withdrew Rs. 10,000 on 1st April, 2008, M withdrew Rs. 12,000 on 31st September, 2008 and N withdrew Rs. 15,000 on 31st December, 2008.

Prepare profit and loss appropriation account for the year ended 31st March, 2009

Ans.

Profit and Loss Appropriation Account
for the year ending 31st March, 2009

Dr | Cr

Particulars		Amt (₹)	Particulars		Amt (₹)
To Interest on Capitals			By Net Profit as per Profit and Loss A/c		2,70,000
L's Current A/c	24,000		By Interest on Drawings		
M's Current A/c	30,000		L's Current A/c	1,200	
N's Current A/c	36,000	90,000	M's Current A/c	720	
To Salary			N's Current A/c	450	2,370
N's Current A/c		30,000			
To Profit Transferred to					
L's Current A/c	38,092.50				
M's Current A/c	50,790.00				
N's Current A/c	63,487.50	1,52,370			
		2,72,370			2,72,370

Working Note

(*i*) As capitals are fixed, therefore interest, salary and share of profit will be transferred to partners' current accounts.

(*ii*) Calculation of interest on drawings

$$L = 10,000 \times \frac{12}{100} \times 1 = ₹\,1,200; \qquad M = 12,000 \times \frac{12}{100} \times \frac{6}{12} = ₹\,720$$

$$N = 15,000 \times \frac{12}{100} \times \frac{3}{12} = ₹\,450$$

(*iii*) Calculation of interest on capitals

$$L = 4,00,000 \times \frac{6}{100} = ₹\,24,000; \qquad M = 5,00,000 \times \frac{6}{100} = ₹\,30,000$$

$$N = 6,00,000 \times \frac{6}{100} = ₹\,36,000$$

7. A, B and C were partners in a firm having capitals of Rs. 60,000, Rs. 60,000 and? 80,000 respectively. Their current account balances were A Rs.10,000, B Rs. 5,000 and C Rs. 2,000 (Dr).

According to the partnership deed, the partners were entitled to interest on capital @ 5% per annum C being the working partner was also entitled to a salary of Rs 6,000 per annum. The profits were to be divided as follows

(i) The first Rs. 20,000 in proportion to their capitals.
(ii) Next Rs. 30,000 in the ratio of 5: 3: 2.
(iii) Remaining profits to be shared equally.
The firm made a profit of Rs. 1,56,000 before charging any of the above items.

Prepare the profit and loss appropriation account and pass necessary journal entry for appropriation of profit. (All India 2009; Foreign 2009; Delhi 2009,2008)

Ans.

Profit and Loss Appropriation Account

Dr for the year ending .... Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Interest on Capitals			By Net Profit as per Profit and Loss A/c	1,56,000
A's Current A/c	3,000			
B's Current A/c	3,000			
C's Current A/c	4,000	10,000		
To Salary				
C's Current A/c		6,000		
To Profit Transferred to				
A's Current A/c	51,000			
B's Current A/c	45,000			
C's Current A/c	44,000	1,40,000		
		1,56,000		1,56,000

JOURNAL

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Profit and Loss Appropriation A/c	Dr		1,40,000	
	To A's Current A/c				51,000
	To B's Current A/c				45,000
	To C's Current A/c				44,000
	(Being profit distributed among the partners)				

Working Note

(i) Capital ratio of A, B and C = 60,000 : 60,000 : 80,000 i.e. 3 : 3 : 4.

(ii)

Profit	Ratio	A	B	C
20,000	3 : 3 : 4	6,000	6,000	8,000
30,000	5 : 3 : 2	15,000	9,000	6,000
90,000	1 : 1 : 1	30,000	30,000	30,000
1,40,000		51,000	45,000	44,000

8. A and B were partners in a firm sharing profits and losses in the ratio of their capitals which were Rs. 5,00,000 and Rs. 4,00,000 respectively. The partnership agreement provided a salary of Rs. 20,000 per annum to B and 10% per annum interest on partner's capitals.

The profit of the firm for the year ended 31st March, 2008 was Rs. 1,46,000. Prepare profit and loss appropriation account of A and B for the year ended 31st March, 2008. (Delhi 2009c)

Ans. **Profit and Loss Appropriation Account**

for the year ending 31st March, 2008

Dr | Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Interest on Capitals			By Net Profit as per Profit and Loss A/c	1,46,000
A's Capital A/c (5,00,000 × 10%)	50,000			
B's Capital A/c (4,00,000 × 10%)	40,000	90,000		
To B's Capital A/c (Salary)		20,000		
To Profit Transferred to				
A's Capital A/c	20,000			
B's Capital A/c	16,000	36,000		
		1,46,000		1,46,000

Working Note

Capital ratio of A and B = 5,00,000 : 4,00,000, i.e. 5 : 4

9. Sharma and Verma were partners in a firm sharing profits in the ratio of 4: 1. Their capitals on 1st April, 2006 were Sharma Rs. 5,00,000 and Verma Rs. 1,00,000. The partnership deed provided that Sharma will get a commission of 10% on the net profit after allowing a salary of Rs. 5,000 per month to Verma.

The profits of the firm for the year ended 31st March, 2007 was Rs. 2,80,000. Prepare profit and loss appropriation account of Sharma and Verma for the year ended 31st March, 2007.

Ans.

Profit and Loss Appropriation Account

Dr — for the year ending 31st March, 2007 — Cr

Particulars		Amt (₹)	Particulars	Amt (₹)
To Verma's Capital A/c (Salary) (5,000 × 12)		60,000	By Net Profit as per Profit and Loss A/c	2,80,000
To Sharma's Capital A/c (Commission)		22,000		
To Profit Transferred to				
Sharma's Capital A/c	1,58,400			
Verma's Capital A/c	39,600	1,98,000		
		2,80,000		2,80,000

Working Note

Profit before Verma's salary = 2,80,000

(−) Verma's salary = (60,000)

Profit after Verma's salary 2,20,000

$$\text{Commission to Sharma} = 2,20,000 \times \frac{10}{100} = ₹\ 22,000$$