

Chapter 1 Accounting for Partnership Firms – Fundamentals

Question 1

A and B are partners in a firm. A is entitled to a salary of ₹15,000 p.m and a commission of 10% of net profit before charging any commission. B is entitled to a commission of 10% of net profit after charging his commission. Net profit till 31st March 2018 was ₹4,40,000. Show the distribution of profit.

Solution:

Profit and Loss of Appropriate Account			
Till 31st March, 2018			
Dr.			Cr.
Particulars	₹	Particulars	₹
To A's Salary	1,80,000	By Profit & Loss A/c (Net Profit)	4,40,000
To A's Commission			
(₹4,40,000 × 10/100)	44,000		
To B's Commission			
(₹4,40,000 × 10/110)	40,000		
To Profit transferred to:			
A's Capital A/c 88,000			
B's Capital A/c 88,000	1,76,000		
	4,40,000		4,40,000

Question 2

X, Y, and Z are partners sharing profits and losses in the ratio 3:2:1. After the final accounts have been prepared, it discovered that interest in drawings@5% p.a had not been taken into consideration. The drawings of the partners were: X ₹1,50,000, Y ₹1,26,000, Z ₹1,20,000. Prepare a journal entry.

Solution:

Calculation of Interest on Drawings:

Since the date of the drawing is not given, interest will be charged for 6 months.

X: 5% on ₹1,50,000 for 6 months = ₹ 3,750

Y: 5% on ₹1,26,000 for 6 months = ₹ 3,150

Z: 5% on ₹1,20,000 for 6 months = ₹ 3,700

₹ 9,900

Table Showing Adjustments					
		X (₹)	Y (₹)	Z (₹)	Total
Interest on Drawings	Dr.	2,550	1,850	1,000	5,400
Division of ₹5,400 in 3:2:1	Dr.	2,700	1,850	900	5,400
Difference		Cr.150	Dr. 50	DR.100	---

Hence, the adjusting entry will be:

Journal Entry					
Date	Particulars		L.F	Dr. ₹	Cr. ₹
	Y's Capital A/c	Dr.		50	
	Z's Capital A/c	Dr.		100	
	To X's Capital A.c				150
	(Adjustment in respect of interest on drawing omitted in previous year's account)				

Question 3

Akshara and Samiksha are partners. Business is carried from the property owned by Akshara on a monthly rent of ₹5,000. Akshara is entitled to a salary of ₹40,000 per quarter and Samiksha get a commission of 4% on net sales, which during the year was ₹5,00,000. Net profit till 31st March, 2018 before providing for rent was ₹6,00,000

Prepare a profit and loss appropriate account till 31st March 2018.

Solution:

Profit and Loss Appropriate Account		
Dr.	Till 31st March, 2018	Cr.

Particulars	₹	Particulars	₹
To Salary to Akshara	1,60,000	By Profit & Loss A/c (Net Profit)	5,40,000
To commission to Samiksha	2,00,000	(₹6,00,00 – ₹60,000)	
To Profit transferred to:			
Akshara's Capital A/c 90,000	1,80,000		
Samiksha's Capital A/c 90,000			
	5,40,000		5,40,000

*Rent paid to a partner is a charge against profits. It will be debited to the Profit & Loss Account.

Question 4

Ravi and Mohan were partners in a firm sharing profits in the ratio of 7:5. Their respective fixed capitals were Ravi ₹10,00,000 and Mohan ₹7,00,000. The partnership deed provided for the following:

1. Interest on Capital @ 12% pa.
2. Ravi's salary ₹6,000 per month and Mohan's salary ₹60,000 per year.

The profit till March 31-3-2019 was ₹5,04,000 which was distributed equally, without providing for the above. Record an adjustment entry.

Solution:

Statement of Adjustments				
		Ravi (₹)	Mohan (₹)	Total (₹)
Interest on Capitals	Cr.	1,20,000	84,000	2,04,000
Salary	Cr.	72,000	60,000	1,32,000
Profit left* after authorizing interest on capital and salary will be ₹5,04,000 – ₹2,04,000 – ₹1,32,000 = ₹1,68,000. The profit sharing ration will be divided into, i.e, 7:5		98,000	70,000	1,68,000
Net amount that should have been received	Cr.	2,90,000	2,14,000	5,04,000
Less: Profit already distributed equally	Dr.	2,52,000	2,52,000	5,04,000
Net Effect		(Cr.) 38,000	(DR.) 38,000	-----

*Remaining profit will have to be calculated when profit has already been distributed in wrong profit sharing ratio.