

Chapter 1 - Accounting For Partnership Firms - Fundamentals

Q. 1. X and Y are partners sharing profits in the ratio of 2 : 1. The under mentioned trial balance was extracted from their books on 31st March, 2017 :

| Particulars | Dr. Balances | Cr. Balances |
|-------------------------|------------------|------------------|
| | ₹ | ₹ |
| Xs Capital . | | 3,20,000 |
| Ts Capital | | 2,40,000 |
| Xs Drawings | 40,000 | |
| Ts Drawings | 32,000 | |
| Stock (1st April, 2016) | 45,200 | |
| Purchases and Sales | 8,68,000 | 12,45,000 |
| Debtors and Creditors | 1,52,000 | 48,000 |
| Buildings | 6,00,000 | |
| Cash in hand | 5,900 | |
| Bank Overdraft | | 27,500 |
| Salaries to Staff | 74,700 | |
| Rent | 26,400 | |
| Advertising Expenditure | 5,000 | |
| Travelling Expenses | 31,300 | |
| | 18,80,500 | 18,80,500 |

You are required to prepare the Profit and Loss Account and Profit and Loss Appropriation Account for the year ended 31st March, 2017 and a Balance Sheet as on that date. The following adjustments are to be made:

- (i) The value of stock on March 31, 2017 was ₹64,000.
- (ii) Charge depreciation on Buildings at 10%.
- (iii) Provide for outstanding rent ₹2,400.
- (iv) Partners are entitled to interest on Capital @ 5% and X is entitled to a salary of ₹48,000 p.a.

SOLUTION:

PROFIT & LOSS ACCOUNT OF THE FIRM

Dr. *for the year ended 31st March, 2017* Cr.

| Particulars | ₹ | Particulars | ₹ |
|---------------------|------------------|------------------|------------------|
| To Opening Stock | 45,200 | By Sales | 12,45,000 |
| To Purchases | 8,68,000 | By Closing Stock | 64,000 |
| To Gross Profit c/d | 3,95,800 | | |
| | 13,09,000 | | 13,09,000 |

| | | | |
|---|-----------------|---------------------|-----------------|
| To Salaries to Staff | 74,700 | By Gross Profit b/d | 3,95,800 |
| To Rent 26,400 | | | |
| Add: Outstanding 2,400 | 28,800 | | |
| To Advertising Expenditure | 5,000 | | |
| To Travelling Expenses | 31,300 | | |
| To Depreciation on Buildings | 60,000 | | |
| To Net Profit transferred to Profit & Loss Appropriation A/c | | | |
| | 1,96,000 | | |
| | 3,95,800 | | 3,95,800 |

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr.

for the year ended 31st March, 2017

Cr.

| Particulars | | ₹ | Particulars | | ₹ |
|--|--------|-----------------|--|--|-----------------|
| To Xs Salary A/c | | 48,000 | By Net Profit as per Profit & Loss A/c | | 1,96,000 |
| To Interest on Capital: | | | | | |
| X | 16,000 | | | | |
| Y | 12,000 | 28,000 | | | |
| To Profit transferred to Capital Accounts: | | | | | |
| X | 80,000 | | | | |
| Y | 40,000 | 1,20,000 | | | |
| | | 1,96,000 | | | 1,96,000 |

BALANCE SHEET OF THE FIRM

as at 31st March, 2017

| Liabilities | | ₹ | Assets | | ₹ |
|--------------------------|-----------------|----------|--------------------|----------|----------|
| Bank Overdraft | | 27,500 | Cash in Hand | | 5,900 |
| Outstanding Rent | | 2,400 | Debtors | | 1,52,000 |
| Creditors | | 48,000 | Closing Stock | | 64,000 |
| Xs Capital | 3,20,000 | | Buildings | 6,00,000 | |
| Less: Drawings | 40,000 | | Less: Depreciation | 60,000 | 5,40,000 |
| | 2,80,000 | | | | |
| Add: Interest on Capital | 16,000 | 4,24,000 | | | |
| Add: Salary | 48,000 | | | | |
| Add: Net Profit | 80,000 | | | | |
| Y's Capital | 2,40,000 | | | | |
| Less: Drawings | 32,000 | | | | |
| | 2,08,000 | | | | |

| | | | | | |
|---------------------------------|--------|-----------------|--|--|-----------------|
| Add: Interest on Capital | 12,000 | | | | |
| Add: Net Profit | 40,000 | 2,60,000 | | | |
| | | 7,61,900 | | | 7,61,900 |

Q. 2. Girish and Satish are partners in a firm. Their Capitals on April 1, 2016 were ₹5,60,000 and ₹4,75,000 respectively. On August 1, 2016 they decided that their Capitals should be ₹5,00,000 each. The necessary adjustment in the Capitals were made by introducing or withdrawing cash. Interest on Capital is allowed at 6% p.a. You are required to compute interest on Capital for the year ending March 31, 2017.

SOLUTION :

Calculation of Interest on Capitals :

| | | |
|---------------------------|---------------------------------------|-----------------|
| Girish : | | |
| On ₹5,60,000 for 4 months | $= 5,60,000 \times 6/100 \times 4/12$ | = 11,200 |
| On ₹5,00,000 for 8 months | $= 5,00,000 \times 6/100 \times 8/12$ | = 20,000 |
| | | = 31,200 |
| Satish : | | |
| On ₹4,75,000 for 4 months | $= 4,75,000 \times 6/100 \times 4/12$ | = 9,500 |
| On ₹5,00,000 for 8 months | $= 5,00,000 \times 6/100 \times 8/12$ | = 20,000 |
| | | 29,500 |

Q. 3. X, Y and Z are partners in a firm. Their Capitals as on April 1, 2016 were ₹5,00,000; ₹4,00,000 and ₹3,00,000 respectively. On July 1, 2016 they introduced further Capitals of ₹1,00,000; ₹80,000 and ₹50,000 respectively. On February 1, 2017 Y withdrew ₹15,000 from his Capital. Interest is to be allowed @ 8% p.a. on the Capitals. Compute interest on Capitals for the year ending March 31, 2017.

SOLUTION:

Calculation of Interest on Capitals :

| | | |
|--|---------------------------------------|-----------------|
| X : | | |
| On ₹5,00,000 for 3 months (i.e., from April 1, 2016 to 30th June, 2016) | $= 5,00,000 \times 8/100 \times 3/12$ | = 10,000 |
| On ₹6,00,000 for 9 months (i.e., from 1st July, 2016 to 31st March, 2017) | $= 6,00,000 \times 8/100 \times 9/12$ | = 36,000 |
| | | = 46,000 |
| Y : | | |

| | | |
|--|--|---------------------|
| On ₹3,00,000 for 3 months (i.e., from April 1, 2016 to 30th June, 2016) | = 3,00,000 × 8/100 × 3/12 = 3,50,000 × 8/100 × 9/12 | = 6,000 = 21,000 |
| On ₹3,50,000 for 9 months (i.e., from 1st July, 2016 to 31st March, 2017) | | |
| | | 27,000 |

Q. 4. On March 31, 2016 after the close of accounts, the capitals of Mountain, Hill and Rock stood in the books of the firm at ₹4,00,000; ₹3,00,000 and ₹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 ₹1,50,000 and the partner's drawings had been Mountain : ₹20,000; Hill ₹15,000 and Rock ₹10,000.

Calculate interest on capital.

SOLUTION:

Since interest on capitals is always calculated on capitals in the beginning and the same have not been given, it is necessary to calculate the capitals in the beginning:

Statement showing the calculation of capitals in the beginning :

| Particulars | Mountain | Hill | Rock |
|--|----------|----------|----------|
| | ₹ | ₹ | ₹ |
| Capitals at the end i.e. on March 31, 2016 | 4,00,000 | 3,00,000 | 2,00,000 |
| Add: Drawings (which were previously deducted) | 20,000 | 15,000 | 10,000 |
| Less : Share of Profit (which has already been added) ₹ 1,50,000 credited in the profit sharing ratio i.e. equally | 4,20,000 | 3,15,000 | 2,10,000 |
| | 50,000 | 50,000 | 50,000 |
| Capitals in the beginning i.e. on April 1, 2015 | 3,70,000 | 2,65,000 | 1,60,000 |

| Interest on Capital @10% | | ₹ |
|--------------------------|------------------|----------|
| Mountain: | 10% on ₹3,70,000 | = 37,000 |
| Hill: | 10% on ₹2,65,000 | = 26,500 |
| Rock: | 10% on ₹1,60,000 | = 16,000 |

FLUCTUATING CAPITALS

Q. 5 (A). On 1st April, 2016 A and B commenced business with Capitals of ₹60,000 and ₹20,000 respectively. On 31st March, 2017 the trading profit (before taking into account the provisions of deed) was ₹24,000. Interest on capitals is to be allowed at 6% p.a. B was entitled to a salary of ₹6,000 p.a. The drawings of the partners A and B were ₹6,000 and ₹4,000 respectively. The interest on Drawings for A being ₹200 and B ₹100. Assuming that A and B are equal partners, prepare the Profit & Loss Appropriation A/c and Partner's Capital Accounts as at 31st March, 2017.

SOLUTION :

PROFIT AND LOSS APPROPRIATION ACCOUNT

| <i>Dr.</i> | <i>for the year ended 31st March. 2017</i> | | <i>Cr.</i> |
|----------------------------|--|---------------------------|------------|
| <i>Particulars</i> | ₹ | <i>Particulars</i> | ₹ |
| To Interest on Capitals : | | By Profit & Loss A/c | |
| A 60,000 x 6% | 3,600 | — being profit | 24,000 |
| B 20,000 x 6% | 1,200 | By Interest on Drawings : | |
| | 4,800 | A | 200 |
| To Salary to B | 6,000 | B | 100 |
| To Profit transferred to : | | | 300 |
| A's Capital A/c | 6,750 | | |
| B's Capital A/c | 6,750 | | |
| | 13,500 | | |
| | 24,300 | | 24,300 |

| <i>Dr.</i> | PARTNERS' CAPITAL ACCOUNTS | | | <i>Cr.</i> | |
|-------------------------|----------------------------|----------|-------------------------|------------|----------|
| <i>Particulars</i> | <i>A</i> | <i>B</i> | <i>Particulars</i> | <i>A</i> | <i>B</i> |
| 31.3.2017 | ₹ | ₹ | 1.4.2016 | ₹ | ₹ |
| To Drawings | 6,000 | 4,000 | By Bank | 60,000 | 20,000 |
| To Interest on Drawings | 200 | | 31.3.2017 | | |
| To Balance c/d | 64,150 | 100 | By Interest on Capitals | 3,600 | 1,200 |
| | | 29,850 | By Salary | — | 6,000 |

| | | | | |
|--------|--------|---------------------------------------|--------|--------|
| | | By Profit & Loss Appropriation A/c | 6,750 | 6,750 |
| 70,350 | 33,950 | | 70,350 | 33,950 |

Note: *Capitals will be treated fluctuating in the absence of information.*

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

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

| Dr. | | for the year ended | | Cr. |
|---|--------|----------------------------------|--------|-----|
| Particulars | ₹ | Particulars | ₹ | |
| To Salary : | | By Profit & Loss A/c | | |
| Anubha(₹700 x 12) | 8,400 | (Profit for the year) | 45,000 | |
| Kajal (₹500 x 12) | 6,000 | By Interest on Drawings : | | |
| To Interest on Capital: | | Anubha: | 213 | |
| Anubha 4,500 | | $8,500 \times 5/100 \times 8/12$ | | |
| Kajal 3,000 | 7,500 | Kajal: | | |
| To Profit transferred to Capital A/cs : | | $6,500 \times 5/100 \times 8/12$ | 163 | |
| Anubha | | | | |
| (2/3 of 23,476) | 15,651 | | | |
| Kajal | | | | |
| (1/3 of 23,476) | 7,825 | | | |
| | 23,476 | | | |
| | 45,376 | | 45,376 | |

| PARTNER'S CAPITAL ACCOUNTS | | | | | |
|----------------------------|--------|-------|-------------|--------|-------|
| Dr. | | | Cr. | | |
| Particulars | Anubha | Kajal | Particulars | Anubha | Kajal |
| | ₹ | ₹ | | ₹ | ₹ |

| | | | | | |
|-------------------------|----------|--------|------------------------|----------|--------|
| To Drawings | 8,500 | 6,500 | By Bank | 90,000 | 60,000 |
| To Interest on Drawings | 213 | 163 | By Salary | 8,400 | 6,000 |
| To Balance c/d | 1,09,838 | 70,162 | By Interest on Capital | 4,500 | 3,000 |
| | | | By P & L Appropriation | | |
| | | | A/c (Share of Profit) | 15,651 | 7,825 |
| | 1,18,551 | 76,825 | | 1,18,551 | 76,825 |

Q. 6. A and B started a partnership business on 1st April, 2015. They contributed ₹6,00,000 and ₹4,00,000 respectively, as their capitals. The terms of the partnership agreement are as under :

(i) Interest on capital and drawings @ 6% per annum.

(ii) B is to get a monthly salary of ₹2,500.

(iii) Sharing of profit or loss will be in the ratio of their capital contribution.

The profit for the year ended 31st March, 2016, before making above appropriations was ₹2,07,400. The drawings of A and B were ₹48,000 and ₹40,000 respectively. Interest on drawings amounted to ₹1,500 for A and ₹1,100 for B.

Prepare profit and loss appropriation account and partners' capital accounts assuming that their capitals are fluctuating.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

| <i>Dr.</i> | | <i>for the year ended 31st March, 2016</i> | | <i>Cr.</i> | |
|-----------------------------|--------|--|--|------------|--|
| Particulars | ₹ | Particulars | | ₹ | |
| To Salary to B (2,500 x 12) | 30,000 | By Profit & Loss A/c | | | |
| To Interest on Capital: | | (Net Profit as per | | | |
| A | 36,000 | Profit & Loss A/c) | | | |
| | | | | 2,07,400 | |

| | | | | | |
|--|--------|-----------------|---------------------------|-------|-----------------|
| B | 24,000 | 60,000 | By Interest on Drawings : | | |
| To Profit transferred to Capital A/cs: | | | A | 1,500 | |
| A 3/5 | 72,000 | | B | 1,100 | 2,600 |
| B 2/5 | 48,000 | 1,20,000 | | | |
| | | 2,10,000 | | | 2,10,000 |

| PARTNER'S CAPITAL ACCOUNTS | | | | | |
|----------------------------|-----------------|-----------------|--|-----------------|-----------------|
| Dr. | | | | | Cr. |
| Particulars | A | B | Particulars | A | B |
| 31.3.2016 | ₹ | ₹ | 1.4.2015 | ₹ | ₹ |
| To Drawings | 48,000 | 40,000 | By Bank | 6,00,000 | 4,00,000 |
| To Interest on Drawings | 1,500 | 1,100 | 31.3.2016 | | |
| To Balance c/d | 6,58,500 | 4,60,900 | By Salary | | 30,000 |
| | | | By Interest on Capital | 36,000 | 24,000 |
| | | | By Profit & Loss Appropriation A/c (Share of Profit) | 72,000 | 48,000 |
| | 7,08,000 | 5,02,000 | | 7,08,000 | 5,02,000 |

Q. 7. X and Y are partners with capitals of ₹1,00,000 and ₹80,000 respectively on 1st April, 2016 and their profit sharing ratio is 2 : 1. Interest on capital is agreed @ 12% p.a. Y is to be allowed an annual salary of ₹6,000. The profit for the year ended 31st March, 2017 amounted to ₹50,000. Manager is entitled to a commission of 10% of the profits.

Prepare Profit and Loss Appropriation Account and Capital Accounts.

SOLUTION:

PROFIT AND LOSS ACCOUNT

Dr. for the year ended 31st March, 2017 Cr.

| Particulars | ₹ | Particulars | ₹ |
|---|---------------|------------------------|---------------|
| To Manager's Commission 10% of ₹ 50,000 | 5,000 | By Profit for the year | 50,000 |
| To Net Profit transferred to Profit & Loss Appropriation A/c | 45,000 | | |
| | 50,000 | | 50,000 |

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2017 Cr.

| Particulars | ₹ | Particulars | ₹ |
|----------------------------------|---------------|----------------------|---------------|
| To Interest on Capitals : | | By Profit & Loss A/c | 45,000 |
| x 12,000 | | | |
| Y 9,600 | 21,600 | | |
| To Salary to Y | 6,000 | | |
| To Profit transferred to Capital | | | |
| Accounts X 11,600 | | | |
| Y 5,800 | 17,400 | | |
| | 45,000 | | 45,000 |

PARTNER'S CAPITAL ACCOUNTS

Dr. Cr.

| Particulars | X | Y | Particulars | X | Y |
|----------------|----------|----------|--------------------------|----------|--------|
| 31.3.2017 | ₹ | ₹ | 1.4.2016 | ₹ | ₹ |
| To Balance c/d | 1,23,600 | 1,01,400 | By Balance b/d 31.3.2017 | 1,00,000 | 80,000 |

| | | | | |
|--|-----------------|------------------------|-----------------|-----------------|
| | | By Interest on Capital | 12,000 | 9,600 |
| | | By Salary | — | 6,000 |
| | | By P & L Appropriation | | |
| | | A/c | 11,600 | 5,800 |
| | 1,23,600 | 1,01,400 | 1,23,600 | 1,01,400 |

Fixed Capitals

Q. 8. Y and Z are partners with capitals of ₹25,000 and ₹15,000 respectively on 1st April, 2016. Each partner is entitled to 9% p.a. interest on his capital. Z is entitled to a salary of ₹6,000 p.a. together with a commission of 6% of Net Profit remaining after deducting interest on capitals and salary and after charging his commission. The profits for the year ended 31st March, 2017 before making any of the above mentioned adjustments amount to ₹30,800. Prepare Partner's Capital Accounts : (i) when capitals are fixed, and (ii) when capitals are fluctuating.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2017 Cr.

| Particulars | | ₹ | Particulars | ₹ |
|--------------------------------|--------|---------------|------------------------|---------------|
| To Interest on Capitals : Y | 2,250 | | By Profit and Loss A/c | 30,800 |
| Z | 1,350 | | | |
| | | 3,600 | | |
| To Salary (Z) | | 6,000 | | |
| To Commission (Z) (See Note 1) | | 1,200 | | |
| To Profits: | | | | |
| Y | 10,000 | | | |
| Z | 10,000 | 20,000 | | |
| | | 30,800 | | 30,800 |

Note (1) Calculation of Z's Commission :

Profit: ₹30,800 - ₹3,600 - ₹6,000 = ₹21,200

$21,200 \times 6/106 = ₹1,200.$

(i) When Capitals are fixed :

| Dr. | | CAPITAL ACCOUNTS | | Cr. | |
|----------------|---------------|------------------|----------------|---------------|---------------|
| Particulars | Y | Z | Particulars | Y | Z |
| 31.3.2017 | ₹ | ₹ | 1.4.2016 | ₹ | ₹ |
| To Balance c/d | 25,000 | 15,000 | By Balance b/d | 25,000 | 15,000 |
| | 25,000 | 15,000 | | 25,000 | 15,000 |

CURRENT ACCOUNTS

| Dr. | | | Cr. | | |
|----------------|--------|--------|--------------------------------|--------|--------|
| Particulars | Y | Z | Particulars | Y | Z |
| 31.3.2017 | ₹ | ₹ | 31.3.2017 | ₹ | ₹ |
| To Balance c/d | 12,250 | 18,550 | By Interest on Capitals | 2,250 | 1,350 |
| | | | By Salary | — | 6,000 |
| | | | By Commission By Profit & Loss | — | 1,200 |
| | | | Appropriation A/c | 10,000 | 10,000 |
| | 12,250 | 18,550 | | 12,250 | 18,550 |

(ii) When Capitals are fluctuating:

| Dr. | | CAPITAL ACCOUNTS | | Cr. | |
|-------------|---|------------------|-------------|-----|---|
| Particulars | Y | Z | Particulars | Y | Z |
| 31.3.2017 | ₹ | ₹ | 1.4.2016 | ₹ | ₹ |

| | | | | | |
|----------------|---------------|---------------|-------------------------|---------------|---------------|
| To Balance c/d | 37,250 | 33,550 | By Balance b/d | 25,000 | 15,000 |
| | | | 31.3.2017 | | |
| | | | By Interest on Capitals | 2,250 | 1,350 |
| | | | By Salary | — | 6,000 |
| | | | By Commission | — | 1,200 |
| | | | By Profit and Loss | | |
| | | | Appropriation A/c | 10,000 | 10,000 |
| | 37,250 | 33,550 | | 37,250 | 33,550 |

Q. 9. A and B are partners in a firm sharing profits or losses in the ratio of 2 : 3 with capitals of ₹4,00,000 and ₹8,00,000 respectively on 1st April, 2016. Each partner is entitled to 10% p.a. interest on his capital. B is entitled a commission of 10% on net profit remaining after deducting interest on capital but before charging any commission. A is entitled a commission of 8% of net profit remaining after deducting interest on capital and after charging all commissions. The profit for the year ended 31st March, 2017 prior to calculation of interest on capital was ₹6,00,000. Prepare Profit and Loss Appropriation Account.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.

for the year ended 31st March, 2017

Cr.

| Particulars | ₹ | Particulars | ₹ |
|----------------------------|-----------------|-------------------------------------|-----------------|
| To Interest on Capital | | By Profit & Loss A/c — being profit | 6,00,000 |
| A 40,000 | | | |
| B 80,000 | 1,20,000 | | |
| To Commission (See Note 1) | | | |
| A 32,000 | | | |
| B 48,000 | 80,000 | | |
| To Profit transferred to : | | | |
| A's Capital A/c 1,60,000 | | | |
| B's Capital A/c 2,40,000 | 4,00,000 | | |
| | 6,00,000 | | 6,00,000 |

Note 1.: Calculation of Partner's Commission :

Profit: ₹6,00,000 - ₹1,20,000 = ₹4,80,000

B's Commission (before charging such commission) = ₹4,80,000 x 10/100 = ₹48,000

A's Commission (after charging such commission) =

A's Commission will be calculated after charging B's Commission and his own Commission:

Hence, A's Commission = (4,80,000 - 48,000) x 8/108 = ₹32,000

Q. 10. A and B are partners in a firm. Their capitals as on 1st April, 2016 were ₹2,10,000 and ₹90,000 respectively. They share profits in the ratio of 2:1. On 1st August, 2016, they decided that their capitals should be readjusted according to their profit sharing ratio. The necessary adjustments in the capitals were made by withdrawing or introducing cash. Interest on capital is allowed at 12% p.a. Compute interest on capitals for the year ending on 31st March, 2017.

SOLUTION:

Total capital of A and B = 2,10,000 + 90,000 = ₹3,00,000

Therefore, A's adjusted capital should be 3,00,000 x 2/3 = 2,00,000

B's adjusted capital should be 3,00,000 x 1/3 = 1,00,000

On 1st August A will withdraw ₹10,000 whereas B will bring in cash amounting to ₹10,000.

| Interest on Capitals: | A (₹) | B (₹) |
|--|---------------|---------------|
| From 1st April, 2016 to 31st July, 2016: ₹2,10,000 × 4/12 × 12/100 ₹90,000 × 4/12 × 12/100 | 8,400 | 3,600 |
| From 1st August, 2016 to 31st March, 2017: ₹2,00,000 × 8/12 × 12/100 ₹1,00,000 × 8/12 × 12/100 | 16,000 | 8,000 |
| | 24,400 | 11,600 |

Q. 11. A, B and C were partners in a firm having capitals of ₹2,00,000; ₹2,00,000 and ₹80,000 respectively on 1st April, 2015. Their Current Account balances were A : ₹20,000; B : ₹ 10,000 and C : ₹5,000 (Dr.). According to the partnership deed the partners were entitled to interest on capital @ 10% p.a. B being the working partner was also entitled to a salary of ₹6,000 per quarter. The profits were to be divided as follows:

- The first ₹60,000 in proportion to their capitals.
- Next ₹1,00,000 in the ratio of 4:3 : 1.
- Remaining profits to be shared equally.

The firm made a profit of ₹2,80,000 for the year ended 31st March, 2016 before charging any of the above items. Prepare the Profit & Loss Appropriation Account and pass necessary journal entry for apportionment of profits.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2016* *Cr.*

| Particulars | ₹ | Particulars | ₹ |
|--|----------|-------------------------------|----------|
| To Interest on Capital (at 10% p.a.) | | By Profit & Loss A/c | 2,80,000 |
| A : on ₹2,00,000 20,000 | | (Net Profit as per P & L A/c) | |
| B: on ₹2,00,000 20,000 | | | |
| C : on ₹ 80,000 8,000 | 48,000 | | |
| To Salary (B) (₹6,000 x4) | 24,000 | | |
| To Profit transferred to : | | | |
| A's Current A/c 91,000 | | | |
| B's Current A/c 78,500 | | | |
| C's Current A/c 38,500 | 2,08,000 | | |
| | 2,80,000 | | 2,80,000 |

JOURNAL ENTRY (For Appropriation of Profit)

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|-----------|---|------|----------|---------|
| 31.3.2016 | Profit & Loss Appropriation A/c Dr. | | 2,08,000 | |
| | To/I's Current A/c | | | 91,000 |
| | To B's Current A/c | | | 78,500 |
| | To C's Current A/c | | | 38,500 |
| | (Profit transferred to current accounts) | | | |

Working Note:

Profit after interest on capital and Salary:

$$₹2,80,000 - ₹48,000 - ₹24,000 = ₹2,08,000$$

| | A(₹) | B(₹) | C(₹) |
|---|---------------|---------------|---------------|
| First ₹60,000 in Capital Ratio i.e. 5:5:2 | 25,000 | 25,000 | 10,000 |
| Next ₹1,00,000 in 4 : 3 : 1 | 50,000 | 37,500 | 12,500 |
| Remaining ₹48,000 equally | 16,000 | 16,000 | 16,000 |
| | 91,000 | 78,500 | 38,500 |

SOLUTION : 12.**PROFIT AND LOSS APPROPRIATION ACCOUNT**

| Dr. | | | | Cr. | | | |
|-------------------------------------|----------|---------------|-----------------|-------------------------|------------|-------|-----------------|
| for the year ended 31st March, 2016 | | | | | | | |
| Particulars | | | ₹ | Particulars | | | ₹ |
| To Salary | | | | By Profit & Loss A/c | | | |
| A | 600 x 12 | 7,200 | | (Profit for the year) | | | 1,72,000 |
| B | 400 x 12 | 4,800 | 12,000 | By Interest on Drawings | | | |
| To Commission to C | | | | (4% on annual drawings) | | | |
| (5% on 1,60,000) | | | 8,000 | B | 400 | | |
| To Interest on Capital: | | | | C | <u>600</u> | 1,000 | |
| A | | 6,000 | | | | | |
| B | | 12,000 | | | | | |
| C | | <u>18,000</u> | 36,000 | | | | |
| To Profit transferred to : | | | | | | | |
| A's Current A/c | | 39,000 | | | | | |
| B's Current A/c | | 39,000 | | | | | |
| C's Current A/c | | <u>39,000</u> | 1,17,000 | | | | |
| | | | 1,73,000 | | | | 1,73,000 |

Note: Since 4% interest is to be charged on annual drawings, it will be charged for full year instead of six months.

SOLUTION: 13.

| Dr. | | | | | PARTNER'S CAPITAL ACCOUNTS | | | | | Cr. | | | |
|---------|----------------|------------------|------------------|-----------------|----------------------------|------------------|------------------|------------------|-----------------|-----|--|--|--|
| Date | Particulars | A | B | C | Date | Particulars | A | B | C | | | | |
| | | ₹ | ₹ | ₹ | | | ₹ | ₹ | ₹ | | | | |
| 2017 | | | | | 2016 | | | | | | | | |
| Mar. 31 | To Balance c/d | 12,53,000 | 10,53,000 | 7,53,000 | April 1 | By Bank A/c | 10,00,000 | 8,00,000 | 5,00,000 | | | | |
| | | | | | 2017 | | | | | | | | |
| | | | | | Mar. 31 | By P&L Appr. A/c | 2,53,000 | 2,53,000 | 2,53,000 | | | | |
| | | 12,53,000 | 10,53,000 | 7,53,000 | | | 12,53,000 | 10,53,000 | 7,53,000 | | | | |

| Dr. | | | B's LOAN ACCOUNT | | | Cr. | | |
|---------------|----------------|-----------------|------------------|-------------------------|-----------------|-----|--|--|
| Date | Particulars | ₹ | Date | Particulars | ₹ | | | |
| 2017 March 31 | To Balance c/d | 2,09,000 | 2016 July 1 | By Bank A/c | 2,00,000 | | | |
| | | | 2017 March 31 | By Interest on Loan A/c | 9,000 | | | |
| | | 2,09,000 | | | 2,09,000 | | | |

Dr.

C's LOAN ACCOUNT

Cr.

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---------------|----------------|-----------------|---------------|-------------------------|-----------------|
| 2017 March 31 | To Balance c/d | 1,02,000 | 2016 Dec. 1 | By Bank A/c | 1,00,000 |
| | | | 2017 March 31 | By Interest on Loan A/c | 2,000 |
| | | 1,02,000 | | | 1,02,000 |

Working Notes:

(1) In the absence of agreement, Interest on Loan is to be paid @6% p.a. and profits will be shared equally.

₹

(2) Interest on B's Loan = $2,00,000 \times 6/100 \times 9/12 = 9,000$

Interest on C's Loan = $1,00,000 \times 6/100 \times 4/12 = 2,000$

Total**11,000**

(3) Net Profit after interest on Loan = ₹7,70,000 – ₹11,000 = ₹7,59,000

(4) Each partner's share of profit = ₹7,59,000 ÷ 3 = ₹2,53,000

SOLUTION : 14.**PROFIT AND LOSS ACCOUNT**

Dr. for the year ended 31st March, 2016

Cr.

| Particulars | ₹ | Particulars | ₹ |
|--|-----------------|---------------------------|-----------------|
| To Interest on Mamta's Loan | 4,800 | By Profit before interest | 2,26,440 |
| To Profit transferred to Profit & Loss Appropriation A/c | 2,21,640 | | |
| | 2,26,440 | | 2,26,440 |

PROFIT AND LOSS APPROPRIATION ACCOUNT Dr.

for the year ended 31st March, 2016

Cr.

| Particulars | ₹ | Particulars | ₹ |
|----------------------------|-----------------|---------------------------|-----------------|
| To Interest on Capital: | | By Profit & Loss A/c — | |
| Lata | 21,000 | Net Profit | 2,21,640 |
| Mamta | 14,000 | By Interest on Drawings : | |
| To Salary (Lata) | 30,000 | Lata | 1,440 |
| To General Reserve A/c | 16,000 | Mamta | 1,920 |
| To Profit transferred to : | | | 3,360 |
| Lata's Capital A/c | 1,00,800 | | |
| Mamta's Capital A/c | 43,200 | | |
| | 1,44,000 | | |
| | 2,25,000 | | 2,25,000 |

Notes: (1) Interest on Mamta's Loan has been calculated at 6% p.a.

(2) Interest on Drawings has been calculated for an average period of

6 months.

(3) Distributable Profit =

Total of Credit side 2,25,000

(-) Total of Debit side (35,000 + 30,000) 65,000

General Reserve is 10% of 1,60,000 = **16,000** 1,60,000

SOLUTION : 15.

Case (a) **PROFIT AND LOSS ACCOUNT**

Dr. for the year ending on 31st March, 2016 Cr.

| Particulars | ₹ | Particulars | ₹ |
|---------------------------|---------------|------------------------------|---------------|
| To Interest on Loan : | | By Profit before interest | 7,500 |
| A 9,000 | | By Net Loss transferred to : | |
| B 4,500 | 13,500 | A's Capital A/c 1,200 | |
| | | B's Capital A/c 1,800 | |
| | | C's Capital A/c 3,000 | 6,000 |
| | 13,500 | | 13,500 |

Case (b) **PROFIT AND LOSS ACCOUNT**

Dr. for the year ending on 31st March, 2016 Cr.

| Particulars | ₹ | Particulars | ₹ |
|---------------------------|---------------|------------------------------|---------------|
| To Loss before interest | 7,500 | By Net Loss transferred to : | |
| To Interest on Loan: | | A's Capital A/c 4,200 | |
| A 9,000 | | B's Capital A/c 6,300 | |
| B 4,500 | 13,500 | C's Capital A/c 10,500 | 21,000 |
| | 21,000 | | 21,000 |

Notes: (i) Interest on A's Loan = ₹2,00,000 x 6/100 x 9/12 = ₹9,000

Interest on B's Loan = ₹1,00,000 x 6/100 x 9/12 = ₹4,500

SOLUTION : 16.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2015 Cr.

| Particulars | ₹ | Particulars | ₹ |
|----------------------------|--------|-----------------------|----------|
| To Interest on Capitals : | | By Profit & Loss A/c | |
| P 40,000 | | Net Profit (₹7,60,000 | |
| Q 24,000 | 64,000 | —Rent ₹2,40,000) | 5,20,000 |
| To Q's Salary | 60,000 | | |
| To Commission: P | 60,000 | | |

| | | | | | |
|--------------------------|---|----------|----------|--|----------|
| | Q | 16,000 | 76,000 | | |
| To Profit transferred to | | | | | |
| P's Capital A/c | | 1,92,000 | | | |
| Q's Capital A/c | | 1,28,000 | 3,20,000 | | |
| | | | 5,20,000 | | 5,20,000 |

| PARTNER'S CAPITAL ACCOUNTS | | | | | | | |
|----------------------------|-------------|----------|----------|---------|----------------------------|----------|----------|
| Dr. | | | | Cr. | | | |
| Date | Particulars | P | Q | Date | Particulars | P | Q |
| 2015 | | ₹ | ₹ | 2014 | | ₹ | ₹ |
| Mar. 31 | To Drawings | 40,000 | 30,000 | Apr. 1 | By Bal. b/d | 5,00,000 | 3,00,000 |
| Mar. 31 | To Bal. c/d | 7,52,000 | 4,98,000 | 2015 | | | |
| | | | | Mar. 31 | By Interest on Capital | 40,000 | 24,000 |
| | | | | Mar. 31 | By Salary | | 60,000 |
| | | | | Mar. 31 | By Commi-ssion | 60,000 | 16,000 |
| | | | | Mar. 31 | By P & L App. A/c (Profit) | 1,92,000 | 1,28,000 |
| | | 7,92,000 | 5,28,000 | | | 7,92,000 | 5,28,000 |

Working Notes:

(1) Net Profit transferred from P & L A/c to P & L App. A/c

$$= ₹7,60,000 - \text{Rent } ₹2,40,000 = ₹5,20,000$$

(2) Net Profit after deducting interest on capitals, salary and P's commission:

$$₹5,20,000 - ₹64,000 - ₹60,000 - ₹60,000 = ₹3,36,000$$

$$\text{Q's Commission} = ₹3,36,000 \times \frac{5}{105} = ₹16,000$$

(3) Rent will be credited to Rent Payable Account.

SOLUTION : 17.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ending on 31st March, 2016 Cr.

| Particulars | ₹ | Particulars | ₹ |
|-------------------------|--------|--|--------|
| To Interest on Capital: | | By Net Profit as per Profit & Loss A/c | 45,000 |
| X 2/3 of 45,000 | 30,000 | | |
| Y 1/3 of 45,000 | 15,000 | | |
| | 45,000 | | 45,000 |

Working Note:

| | | |
|--|---|-----------------|
| Interest on X's Capital = 8% on ₹10,00,000 | ₹ | 80,000 |
| Interest on Y's Capital = 8% on ₹5,00,000 | | 40,000 |
| | | <u>1,20,000</u> |

Since available profit is only ₹45,000 which is less than appropriations of ₹1,20,000, profit will be distributed in the ratio of appropriations as follows :

Interest on Capital 80,000 : 40,000
or 2 : 1

SOLUTION : 18.

PROFIT AND LOSS APPROPRIATION ACCOUNT

| Dr. | | for the year ended 31st March, 2014 | | Cr. | |
|----------------------------|---------------|-------------------------------------|--------|-----|---------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Transfer to Reserves | 8,000 | By Profit and Loss A/c | 80,000 | | |
| To Interest on Capitals : | | Less : Interest on Puja's | | | |
| Pooja | 7,000 | Loan (20,000 x 6/100 | | | |
| Archna | 3,000 | x 5/12) | 500 | | 79,500 |
| To Profit transferred to : | | By Interest on drawings | | | |
| Pooja's Current A/c | 41,280 | Pooja | 240 | | |
| Archna's Current A/c | 20,640 | Archna | 180 | | 420 |
| | 79,920 | | | | 79,920 |

| Dr. | | CURRENT ACCOUNTS | | Cr. | |
|-------------------------|---------------|------------------|------------------------|---------------|---------------|
| Particulars | Pooja | Archna | Particulars | Pooja | Archna |
| 1.4.2013 | ₹ | ₹ | 1.4.2013 | ₹ | ₹ |
| To Balance b/d | — | 23,000 | By Balance b/d | 5,000 | — |
| 31.3.2014 | | | 31.3.2014 | | |
| To Drawings | 4,800 | 3,600 | By Interest on Capital | 7,000 | 3,000 |
| To Interest on Drawings | 240 | 180 | By Profit and Loss | | |
| To Balance c/d | 48,240 | — | Appropriation A/c | 41,280 | 20,640 |
| | | | By Balance c/d | — | 3,140 |
| | 53,280 | 26,780 | | 53,280 | 26,780 |

Note: Interest on Loan is not recorded in the Current Account.

Interest on Drawings

SOLUTION : 19 (A).

(i) SIMPLE METHOD

| Date | Amount ₹ | Period (Months upto March 31) | Interest @ 9% ₹ |
|--------------|---------------|----------------------------------|--------------------|
| April 30 | 8,000 | 11 | 660 |
| June 30 | 6,000 | 9 | 405 |
| September 30 | 5,000 | 6 | 225 |
| December 31 | 12,000 | 3 | 270 |
| January 31 | 10,000 | 2 | 150 |
| | 41,000 | | 1,710 |

| (ii) PRODUCT METHOD | | | |
|----------------------------|---------------------|--|-----------------|
| Date | Amount ₹ | Period (Months upto March 31) | Products |
| April 30 | 8,000 | 11 | 88,000 |
| June 30 | 6,000 | 9 | 54,000 |
| September 30 | 5,000 | 6 | 30,000 |
| December 31 | 12,000 | 3 | 36,000 |
| January 31 | 10,000 | 2 | 20,000 |
| | 41,000 | | 2,28,000 |

Interest = Total of Products x 9/100 x 1/12
= 2,28,000 x 9/100 x 1/12 = ₹1,710

SOLUTION : 19 (B).

(i) SIMPLE METHOD

| Date | Amount ₹ | Period (Months upto March 31) | Interest @ 10% ₹ |
|--------------|---------------------|--|-----------------------------|
| 1st June | 1,000 | 10 | 83 |
| 1st August | 750 | 8 | 50 |
| 1st October | 1,250 | 6 | 63 |
| 1st December | 500 | 4 | 17 |
| 1st February | 500 | 2 | 8 |
| | 4,000 | | 221 |

| (ii) PRODUCT METHOD | | | |
|----------------------------|---------------------|--|-----------------|
| Date | Amount ₹ | Period (Months upto March 31) | Products |
| 1st June | 1,000 | 10 | 10,000 |
| 1st August | 750 | 8 | 6,000 |
| 1st October | 1,250 | 6 | 7,500 |
| 1st December | 500 | 4 | 2,000 |
| 1st February | 500 | 2 | 1,000 |
| | 4,000 | | 26,500 |

Interest = Total of Products x 10/100 x 1/12
= 26,500 x 10/100 x 1/12 = ₹221

SOLUTION: 20 (A).

Gopal withdrew ₹1,000 p.m. regularly on the first day of every month during the year ended 31st March, 2014 for personal expenses. His interest on drawings will be calculated as follows:
12,000 x 15/100 x 6.5/12 = ₹975

SOLUTION: 20 (B).

(i) The interest on drawings of X who draws at the beginning of every month is:

$$48,000 \times 9/100 \times 6.5/12 = ₹2,340$$

(ii) The interest on drawings of Y who draws at the end of every month is:

$$48,000 \times 9/100 \times 5.5/12 = ₹1,980$$

(iii) The interest on drawings of Z who draws in the middle of every month is:

$$48,000 \times 9/100 \times 6/12 = ₹2,160$$

SOLUTION : 21.

Case (i) Total Drawings for the year = ₹5,000 x 4 = ₹20,000
Average Period = (12 months + 3 months) ÷ 2 = 7.5 months

$$\text{Interest on Drawings} = ₹20,000 \times 8/100 \times 7.5/12 = ₹1,000$$

Case (ii) Total Drawings for the year = ₹6,000 x 4 = ₹24,000
Average Period = (9 months + 0 month) ÷ 2 = 4.5 months

$$\text{Interest on Drawings} = ₹24,000 \times 8/100 \times 4.5/12 = ₹720$$

Case (iii) Total Drawings for the year = ₹10,000 x 4 = ₹40,000
Average Period = (10.5 months + 1.5 months) ÷ 2 = 6 months

$$\text{Interest on Drawings} = ₹40,000 \times 8/100 \times 6/12 = ₹1,600$$

SOLUTION: 22.

Case (i) Average Period = (12 months + 1 months)/2 = 6 ½ months

$$\text{Interest on Drawings} = ₹48,000 \times 9/100 \times 6.5/12 = ₹2,340$$

Case (ii) Average Period = (11 months + 0 months)/2 = 5 ½ months

$$\text{Interest on Drawings} = ₹60,000 \times 9/100 \times 5.5/12 = ₹2,475$$

Case (iii) Assuming that the drawings were made in the middle of every month:

$$\text{Average Period} = (11.5 \text{ months} + 0.5 \text{ month})/2 = 6 \text{ months}$$

$$\text{Interest on Drawings} = ₹72,000 \times 9/100 \times 6/12 = ₹3,240$$

Case (iv) As the date of drawing is not given, interest will be calculated for an average period of 6 months.

$$\text{Interest on Drawings} = ₹72,000 \times 9/100 \times 6/12 = ₹3,240$$

Case (v)

| Date | Amount of Drawings ₹ | Period (Months upto 31st March, 2007) | Products ₹ |
|------------------|-------------------------|---------------------------------------|---------------|
| 30th April, 2015 | 10,000 | 11 | 1,10,000 |
| 1st July, 2015 | 15,000 | 9 | 1,35,000 |
| 1st Oct., 2015 | 18,000 | 6 | 1,08,000 |

| | | | |
|------------------|--------|---|----------|
| 30th Nov., 2015 | 12,000 | 4 | 48,000 |
| 31st March, 2016 | 20,000 | 0 | — |
| | | | 4,01,000 |

Interest on Drawings = ₹4,01,000 x 9/100 x 1/12 = ₹3,008

Case (vi) Average Period = $(12 \text{ months} + 3 \text{ months})/2$ = 7 ½ months
Total Drawings for the year = ₹12,000 x 4 = ₹48,000
Interest on Drawings = ₹48,000 x 9/100 x 7.5/12 = ₹2,700

Case (vii) Average Period = $(9 \text{ months} + 0 \text{ month})/2$ = 4 ½ months
Total Drawings for the year = ₹18,000 x 4 = ₹72,000
Interest on Drawings = ₹72,000 x 9/100 x 4.5/12 = ₹2,430

Case (viii) Average Period = $(10.5 \text{ months} + 1.5 \text{ months})/2$ = 6 months
Total Drawings for the year = ₹18,000 x 4 = ₹72,000
Interest on Drawings = ₹72,000 x 9/100 x 6/12 = ₹3,240

SOLUTION : 23 (A).

Gupta withdraws ₹800 at the beginning of every month for the six months ending 30th September, 2013. Hence, his drawings for the period of six months would be:

Total drawings = 6 x ₹800 = ₹4,800.

$(\text{Time left after first drawing} + \text{Time left after last drawing})/2$

= $(6 + 1)/2$ = 3.5 months.

$4,800 \times 15/100 \times 3.5/12$ = ₹210

SOLUTION : 23 (B).

Gupta withdraws ₹800 at the end of every month for the six months ending 30th September, 2013.

Total drawings = 6 x ₹800 = ₹4,800

$(\text{Time left after first drawing} + \text{Time left after last drawing})/2$

= $(5 + 0)/2$ = 2.5 months.

$4,800 \times 15/100 \times 2.5/12$ = ₹150

SOLUTION : 23 (C).

Total Drawings of A = ₹15,000 x 6 = ₹ 90,000

Total Drawings of B = ₹20,000 x 6 = ₹1,20,000

Total Drawings of C = ₹25,000 x 6 = ₹1,50,000

| | A | B | C |
|----------------|------------------------|--------------------------|----------------------------|
| Average Period | $(6+1)/2$ = 3.5 months | $(5 + 0)/2$ = 2.5 months | $(5.5 + 0.5)/2$ = 3 months |

| | | | |
|----------------------|--|--|--|
| Interest on Drawings | $\text{₹}90,000 \times 10/100 \times 3.5/12 = \text{₹}2,625$ | $\text{₹}1,20,000 \times 10/100 \times 2.5/12 = \text{₹}2,500$ | $\text{₹}1,50,000 \times 10/100 \times 3/12 = \text{₹}3,750$ |
|----------------------|--|--|--|

SOLUTION : 24 (A).

Total Drawings = ₹10,000 x 9 months = ₹90,000
Average Period = (9 months + 1 month)/2 = 5 months
Interest on Drawings = ₹90,000 x 9/100 x 5/12 = ₹3,375

SOLUTION : 24 (B).

Total Drawings = ₹10,000 x 9 months = ₹90,000
Average Period = (8 months + 0 month)/2 = 4 months
Interest on Drawings = ₹90,000 x 9/100 x 4/12 = ₹2,700

SOLUTION : 24 (C).

Total Drawings = ₹10,000 x 9 months = ₹90,000
Average Period = (8.5 months + 0.5 month)/2 = 4.5 months
Interest on Drawings = ₹90,000 x 9/100 x 4.5/12 = ₹3,038

SOLUTION : 25.

Case (i) Interest on Drawings = ₹60,000 x 8/100 x 6/12 = ₹2,400

Case (ii) Since rate of interest is 8% and not 8% p.a. interest will be calculated for 12 months:

Interest on Drawings = ₹60,000 x 8/100 = ₹4,800

SOLUTION : 26.

PROFIT AND LOSS APPROPRIATION ACCOUNT

| Dr. For the year ended 31st March. 2014 | | | | Cr. | |
|---|--------|--------|---------------------------|-------|--------|
| Particulars | | ₹ | Particulars | | ₹ |
| To Salary to Amit | | 18,000 | By Profit & Loss A/c | | 74,040 |
| To Profits transferred to : | | | By Interest on Drawings : | | |
| Amit's Current A/c | 30,000 | | Amit | 1,560 | |
| Nami's Current A/c | 20,000 | | Namit | 1,320 | |
| Ruchi's Current A/c | 10,000 | 60,000 | Ruchi | 1,080 | 3,960 |
| | | 78,000 | | | 78,000 |

| Dr. CURRENT ACCOUNTS | | | | | Cr. | | | | |
|----------------------|----------------|------|-------|-------|---------|----------------|--------|-------|-------|
| Date | Particulars | Amit | Namit | Ruchi | Date | Particulars | Amit | Namit | Ruchi |
| 2013 | | ₹ | ₹ | ₹ | 2013 | | ₹ | ₹ | ₹ |
| April 1 | To Balance b/d | — | — | 1,000 | April 1 | By Balance b/d | 5,000 | 2,000 | — |
| 2014 | | | | | 2014 | | | | |
| March | To Dra- | | | | March | By Salary | 18,000 | — | — |

| | | | | | | | | | |
|----|------------------------------|--------|--------|--------|----|----------------------------|--------|--------|--------|
| 31 | wings | 24,000 | 24,000 | 24,000 | 31 | | | | |
| | To Interest on Dra- Wings(1) | 1,560 | 1,320 | 1,080 | | By P & L Appropriation A/c | 30,000 | 20,000 | 10,000 |
| | To Balance c/d | 27,440 | — | — | | By Balance c/d | — | 3,320 | 16,080 |
| | | 53,000 | 25,320 | 26,080 | | | 53,000 | 25,320 | 26,080 |

(1) Calculation of Interest on Drawings:

Amit withdraws on the First day of each month

$$24,000 \times 12/100 \times 6.5/12 = ₹1,560$$

Namit withdraws on the last date of each month

$$24,000 \times 12/100 \times 5.5/12 = ₹1,320$$

Ruchi withdraws at the end of each quarter:

$$\text{Average Period} = (9 \text{ months} + 0 \text{ month})/2 = 4.5 \text{ months}$$

$$\text{Interest on Drawings} = 24,000 \times 12/100 = ₹1,080$$

SOLUTION : 27.

JOURNAL

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|-------------|--|------|----------|----------|
| 2016 Jan. 1 | Q's Capital A/c | | 1,20,000 | |
| | To Bank A/c | Dr. | | 1,20,000 |
| | (Withdrawal by Q out of Capital) | | | |
| March 31 | Profit and Loss A/c | Dr. | 4,30,000 | |
| | To Profit and Loss Appropriation A/c | | | 4,30,000 |
| | (The transfer of profit to Profit and Loss Appropriation A/c) | | | |
| March 31 | Interest on Capital A/c | Dr. | 1,27,000 | |
| | To P's Capital A/c | | | 80,000 |
| | To Q's Capital A/c | | | 47,000 |
| | (Interest on partner's capitals) | | | |
| | Profit and Loss Appropriation A/c Dr. | | 1,27,000 | |
| | To Interest on Capital A/c | | | 1,27,000 |
| | (Transfer of interest on Capital to Profit and Loss App. A/c) | | | |
| March 31 | P's Capital A/c | Dr. | 6,600 | |
| | R's Capital A/c | Dr. | 7,200 | |
| | To Interest on Drawings A/c | | | 13,800 |
| | (Interest on partner's drawings) | | | |
| | Interest on Drawings A/c Dr. | | 13,800 | |
| | To Profit and Loss Appropriation A/c | | | 13,800 |
| | (Transfer of interest on drawings to Profit and Loss App. A/c) | | | |

| | | | | |
|----------|--|-----|----------|----------|
| March 31 | Profit and Loss Appropriation A/c | Dr. | 3,16,800 | |
| | To P's Capital A/c | | | 1.05.600 |
| | To Q's Capital A/c | | | 1.05.600 |
| | To R's Capital A/c | | | 1.05.600 |
| | (Transfer of profit to capital accounts) | | | |

| Dr. PARTNER'S CAPITAL ACCOUNTS Cr. | | | | | | | | | |
|------------------------------------|-------------------------|-----------------|-----------------|-----------------|---------|------------------------|-----------------|-----------------|-----------------|
| Date | Particulars | P | Q | R | Date | Particulars | P | Q | R |
| 2015 | | ₹ | ₹ | ₹ | 2015 | | ₹ | ₹ | ₹ |
| Apr. 1 | To Bal. b/d | | | 20,000 | Apr. 1 | By Bal. b/d | 8,00,000 | 5,00,000 | |
| 2016 | | | | | 2016 | | | | |
| Jan. 1 | To Bank A/c | | 1,20,000 | | Mar. 31 | By Int. on Capital A/c | 80,000 | 47,000 | |
| Mar. 31 | To Drawings A/c | 1,20,000 | | 1,20,000 | Mar. 31 | By P&L App. A/c | 1,05,600 | 1,05,600 | 1,05,600 |
| Mar. 31 | To Int. on Drawings A/c | 6,600 | | 7,200 | Mar. 31 | By Bal. c/d | | | 41,600 |
| Mar. 31 | To Bal. c/d | 8,59,000 | 5,32,600 | | | | | | |
| | | 9,85,600 | 6,52,600 | 1,47,200 | | | 9,85,600 | 6,52,600 | 1,47,200 |

Working Notes:

(1) Interest on Q's Capital:

| | |
|--|---------------|
| On ₹5,00,000 for 9 months : $5,00,000 \times 10/100 \times 9/12$ | ₹ 37,500 |
| On ₹3,80,000 for 3 months : $3,80,000 \times 10/100 \times 3/12$ | 9,500 |
| | <u>47,000</u> |

(2) Interest on drawings:

P's Drawings : ₹10,000 x 12 = ₹1,20,000 x 12/100 x 5.5/12 = 6,600

R's Drawings : ₹1,20,000 x 12/100 x 6/12 = 7,200

Note : In the absence of actual dates of drawings of/?, interest thereon has been calculated for the average period i.e. 6 months.

(3) Divisible Profit =

₹4,30,000 – Interest on Capital ₹1,27,000 + Interest on Drawings ₹13,800 = ₹3,16,800
Each Partner's share = ₹3,16,800 ÷ 3 = ₹1,05,600

SOLUTION : 28.

Books of Active, Blunt and Circle
Profit & loss Appropriation A/c
for the year ended 31st March, 2015

| Dr. | | | Cr. | | |
|----------------------------|----------|----------|--------------------------------|---------|----------|
| Particulars | | ₹ | Particulars | | ₹ |
| To Interest on Capital : | | | By Profit & Loss A/c | | |
| Active | 27,000 | | (Net Profit for the year) | | 5,93,120 |
| Blunt | 36,000 | | By Interest on Drawings : | | |
| Circle | 21,000 | 84,000 | Active 60,000 x 6/100 x 6.5/12 | = 1,950 | |
| To Salary' : | | | Blunt 84,000 x 6/100 x 5.5/12 | = 2,310 | |
| Blunt | 72,000 | | Circle 80,000 x 6/100 x 6/12 | = 2,400 | 6,660 |
| Circle | 48,000 | 1,20,000 | | | |
| To Commission (Note 1) | | | | | |
| Blunt | 17,990 | | | | |
| Circle | 17,990 | 35,980 | | | |
| To Profit Transferred to : | | | | | |
| (Note 2) | | | | | |
| Active's Current A/c | 1,34,900 | | | | |
| Blunt's Current A/c | 1,04,967 | | | | |
| Circle's Current A/c | 1,19,933 | 3,59,800 | | | |
| | | 5,99,780 | | | 5,99,780 |

| Dr. PARTNERS CURRENT ACCOUNTS Cr. | | | | | | | |
|-----------------------------------|----------|----------|----------|--------------------|----------|----------|----------|
| Particulars | Active | Blunt | Circle | Particulars | Active | Blunt | Circle |
| | ₹ | ₹ | ₹ | | ₹ | ₹ | ₹ |
| To Drawings | 60,000 | 84,000 | 80,000 | By Int. on Capital | 27,000 | 36,000 | 21,000 |
| To Int. on Drawings | 1,950 | 2,310 | 2,400 | By Salary | | 72,000 | 48,000 |
| To Bal. c/d | 99,950 | 1,44,647 | 1,24,523 | By Commission | | 17,990 | 17,990 |
| | | | | By P & L App. A/c | 1,34,900 | 1,04,967 | 1,19,933 |
| | 1,61,900 | 2,30,957 | 2,06,923 | | 1,61,900 | 2,30,957 | 2,06,923 |

Working Note:

(1) Balance of Profit: ₹5,93,120 + 6,660 – 84,000 – 1,20,000 = ₹3,95,780

Commission to Blunt and Circle is 5% to each partner after charging such commission. Hence, the commission will be 5/110 to each partner.

Commission to Blunt = 3,95,780 x 5/110 = ₹17,990

Commission to Circle = 3,95,780 x 5/110 = ₹17,990

Divisible Profit: ₹3,95,780 – 17,990 – 17,990 = ₹3,59,800

| | Active ₹ | Blunt ₹ | Circle ₹ |
|--|-----------------|-----------------|-----------------|
| Upto ₹2,70,000 | 90,000 | 90,000 | 90,000 |
| Equally ₹3,59,800 – 2,70,000 = ₹89,800 in 1/2 : 1/6 : 1/3 | 44,900 | 14,967 | 29,933 |
| | 1,34,900 | 1,04,967 | 1,19,933 |

SOLUTION : 29.

Interest on Capitals:

A = ₹3,00,000 x 10% = ₹30,000

B = ₹2,00,000 x 10% = ₹20,000

| A | | | |
|--------------|-------------|----------|-----------------|
| Date | Amount ₹ | Period | Products ₹ |
| 30. 6.2012 | 20,000 | 9 months | 1,80,000 |
| 31. 7.2012 | 10,000 | 8 months | 80,000 |
| 1.10.2012 | 10,000 | 6 months | 60,000 |
| 1. 3.2013 | 16,000 | 1 month | 16,000 |
| Total | | | 3,36,000 |

A's Interest on Drawing = Total of Products/12 x Rate of Interest/100

A = 3,36,000/12 x 10/100 = ₹2,800

B's Interest on Drawings = B withdraws ₹6,000 at the end of each month thus interest on his drawings would be :

72,000 x 10/100 x 5.5/12 = ₹3,300

Interest on Capital

SOLUTION : 30.

Case (i)

| PROFIT AND LOSS APPROPRIATION A/C | | | |
|-----------------------------------|--------------|--|--------------|
| Dr. | | | Cr. |
| Particulars | ₹ | Particulars | ₹ |
| To Profit transferred to : | | By Profit & Loss A/c (Profit for the year) | 9,000 |
| X 2/3 6,000 | | | |
| Y 1/3 3,000 | 9,000 | | |
| | 9,000 | | 9,000 |

Case (ii)

| Dr. PROFIT AND LOSS APPROPRIATION A/C | | Cr. | |
|---|--------------|-----------------------------|--------------|
| Particulars | ₹ | Particulars | ₹ |
| To Profit & Loss A/c (Loss for the year) | 6,000 | By Loss transferred to : | |
| | | X 2/3 4,000 | |
| | | Y 1/3 2,000 | 6,000 |
| | 6,000 | | 6,000 |

Case (iii)

| Dr. PROFIT AND LOSS APPROPRIATION A/C | | Cr. | |
|---------------------------------------|--------------|---|--------------|
| Particulars | ₹ | Particulars | ₹ |
| To Interest on Capital : | | By Profit & Loss A/c (Profit for the year) | 9,000 |
| X 3,000 | | | |
| Y 1,800 | 4,800 | | |
| To Profit transferred to : | | | |
| X 2/3 2,800 | | | |
| Y 1/3 1,400 | 4,200 | | |
| | 9,000 | | 9,000 |

Case (iv)

| Dr. PROFIT AND LOSS APPROPRIATION A/C | | Cr. | |
|---------------------------------------|--------------|---|--------------|
| Particulars | ₹ | Particulars | ₹ |
| To Interest on Capital: | | By Profit & Loss A/c (Profit for the year) | 3,000 |
| X 3,000 x 5/8 | 1,875 | | |
| Y 3,000 x 3/8 | 1,125 | | |
| | 3,000 | | 3,000 |

Note : The available profit is ₹3,000 whereas the interest due on capitals is ₹4,800 {i.e., ₹3,000 + ₹1,800}. Since the profit is less than the interest, the available profit will be distributed in the ratio of interest i.e., 3,000 : 1,800 or 5 : 3.

Case (v)

| Dr. PROFIT AND LOSS A/C* | | Cr. | |
|------------------------------|-------|---|-------|
| Particulars | ₹ | Particulars | ₹ |
| To Interest on Capital : | | By Profit & Loss A/c (Profit for the year) | 3,000 |
| X 3,000 | | | |
| Y 1,800 | 4,800 | By Loss transferred to : | |
| | | X 2/3 1,200 | |
| | | Y 1/3 600 | 1,800 |

| | | | |
|--|-------|--|-------|
| | 4,800 | | 4,800 |
|--|-------|--|-------|

*Since Interest on Capital is to be allowed even if firm incurs loss, it is debited to P&L A/c and not to P&L Appropriation A/c.

SOLUTION : 31.

(Case I)

| Dr. | | PROFIT AND LOSS APPROPRIATION A/C | | Cr. | |
|------------------------|--------|-----------------------------------|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Interest on Capital | | By Profit & Loss Account | 42,000 | | |
| A 42,000 x 4/7 | 24,000 | | | | |
| B 42,000 x 3/7 | 18,000 | | | | |
| | 42,000 | | 42,000 | | |

Note: The available profit is ₹42,000 whereas the interest due on capitals is ₹56,000 (i.e., ₹32,000 + ₹24,000). Since the profit is less than the interest, the available profit will be distributed in the ratio of interest i.e., 32,000 : 24,000 or 4 : 3.

(Case II)

| Dr. | | PROFIT AND LOSS A/C | | Cr. | |
|------------------------|--------|--------------------------|--------|-----|--|
| Particulars | | Particulars | | | |
| To Interest on Capital | | By Profit & Loss Account | 42,000 | | |
| A 32,000 | | By Loss Transferred to : | | | |
| B 24,000 | 56,000 | A 3/5 8,400 | 14,000 | | |
| | 56,000 | B 2/5 5,600 | 5,600 | | |
| | | | 56,000 | | |

SOLUTION : 32.

In the Books of Brij and Nandan PROFIT AND LOSS APPROPRIATION ACCOUNT

| Dr. | | for the year ended 31st March, 2014 | | Cr. | |
|---------------------------|----------|-------------------------------------|----------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Interest on Capital | | By Profit & Loss A/c (Net Profit) | 2,00,000 | | |
| Brij's Capital A/c | | | | | |
| 2,00,000 x 2/5 = 80,000 | | | | | |
| Nandan's Capital A/c | | | | | |
| 2,00,000 x 3/5 = 1,20,000 | 2,00,000 | | | | |
| | 2,00,000 | | 2,00,000 | | |

Working Notes:

Interest on capital of Brij = ₹1,20,000

Interest on capital of Nandan = ₹1,80,000

3,00,000

The available profit is ₹2,00,000, whereas interest due on capitals is ₹3,00,000. Since the profit is less than interest, the available profit will be distributed amongst the partners in the ratio of their interest on capital i.e., 1,20,000 : 1,80,000 or 12 : 18 or 2 : 3.

SOLUTION : 33.

Case (i)

| Dr. | | PROFIT AND LOSS ACCOUNT | | Cr. | |
|-------------------------------------|-----------------|---------------------------|----------|-----|-----------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Interest on Capital : | | By Profit before interest | 1,10,000 | | |
| Kavita 48,000 | | | | | |
| Leela 32,000 | 80,000 | | | | |
| To Profit transferred | | | | | |
| to Profit & Loss App. A/c | 30,000 | | | | |
| | 1,10,000 | | | | 1,10,000 |

| Dr. | | PROFIT AND LOSS APPROPRIATION ACCOUNT | | Cr. | |
|---|---------------|---------------------------------------|--------|-----|---------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Profit transferred to : | | By Profit & Loss A/c | 30,000 | | |
| Kavita's Capital A/c | | | | | |
| (2/3) 20,000 | | | | | |
| Leela's Capital A/c | | | | | |
| (1/3) 10,000 | 30,000 | | | | |
| | 30,000 | | | | 30,000 |

Case (ii)

| Dr. | | PROFIT AND LOSS ACCOUNT | | Cr. | |
|-------------------------------------|---------------|---|--------|-----|---------------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Interest on Capital: | | By Profit before interest | 35,000 | | |
| Kavita 48,000 | | By Loss transferred to : | | | |
| Leela 32,000 | 80,000 | Kavita's Capital A/c | | | |
| | | (2/3) 30,000 | | | |
| | | Leela's Capital A/c | | | |
| | | (1/3) 15,000 | 45,000 | | |
| | 80,000 | | | | 80,000 |

| Dr. | | PROFIT AND LOSS ACCOUNT | | Cr. | |
|------------------------------------|--------|---|---|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Loss before interest | 10,000 | By Loss transferred to : | | | |
| To Interest on Capital: | | Kavita's Capital A/c | | | |
| Kavita 48,000 | | (2/3) 60,000 | | | |

| | | | | | |
|-------|--------|--------|---------------------|--------|--------|
| Leela | 32,000 | 80,000 | Leela's Capital A/c | | |
| | | | (1/3) | 30,000 | 90,000 |
| | | 90,000 | | | 90,000 |

SOLUTION : 34.

In the books of Lalan & Balan

PROFIT AND LOSS ACCOUNT

| Dr. | | for the year ended 31st March. 2011 | | Cr. | |
|-------------------------|--------|-------------------------------------|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Interest on Capital* | | By Profit before Interest | 30,000 | | |
| Lalan's Current A/c | 12,000 | By Profit and Loss Appropriation | | | |
| Balan's Current A/c | 24,000 | A/c (Loss transferred) | 6,000 | | |
| | 36,000 | | 36,000 | | |

PROFIT AND LOSS APPROPRIATION ACCOUNT

| Dr. | | for the year ended 31st March. 2011 | | Cr. | |
|----------------------|-------|-------------------------------------|-------|-----|-------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Profit & Loss A/c | | By Interest on Drawings : | | | |
| (Loss transferred) | 6,000 | 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 |
| | 6,000 | | | | 6,000 |

Note: As the time period of drawings is not given, the interest will be charged for 6 months

Lalan : $3,000 \times 15/100 \times 6/12 = ₹225$

Balan : $5,000 \times 15/100 \times 6/12 = ₹375$

*Since Interest on Capital is to be allowed even if firm incurs loss, it is debited to P&L A/c and not to P&L Appropriation A/c.

SOLUTION 35

Ratio of effective capital will be calculated as under:—

X: ₹90,000 for 6 months

₹60,000 for 6 months

Y: ₹75,000 for 4 months

₹90,000 for 4 months

₹60,000 for 4 months

Z : ₹75,000 for 7 months

Products

5,40,000

3,60,000

9,00,000

3,00,000

3,60,000

2,40,000

9,00,000

5,25,000

₹1,35,000 for 5 months

6,75,000
12,00,000

Thus the profit sharing ratio would be:

9,00,000 : 9,00,000 : 12,00,000 or 3 : 3 : 4

| Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT Cr. | | | |
|---|--------|---------------|----------------------|
| Particulars | | ₹ | Particulars |
| To Profits transferred to : | | | By Profit & Loss A/c |
| X | 12,600 | | |
| Y | 12,600 | | |
| Z | 16,800 | 42,000 | |
| | | <u>42,000</u> | |
| | | | 42,000 |

Adjustment in the Closed Accounts

SOLUTION : 36 (A).

| | |
|---|-------------------|
| | ₹ |
| Interest on A's Capital of ₹8,00,000 @ 8% | 64,000 |
| Interest on B's Capital of ₹4,00,000 @ 8% | 32,000 |
| Interest on C's Capital of ₹3,00,000 @ 8% | 24,000 |
| Total Interest to be allowed | <u>₹ 1,20,000</u> |

This amount of ₹1,20,000 is an item of expense for the firm but this has not been recorded on the debit side of P & L Appropriation A/c of the previous year. As such the profit of the previous year will be reduced by this amount. Hence, this loss of ₹1,20,000 will be shared by the partners in their profit sharing ratio, i.e.. 2:1:1

A = ₹1,20,000 x 2/4 = ₹60,000

B = ₹1,20,000 x 1/4 = ₹30,000

C = ₹1,20,000 x 1/4 = ₹30,000

TABLE SHOWING ADJUSTMENT

| Partner | Adjustment | | Difference | |
|---------|------------|--------|------------|-------|
| | Dr. | Cr. | Dr. | Cr. |
| A | 60,000 | 64,000 | | 4,000 |
| B | 30,000 | 32,000 | | 2,000 |
| C | 30,000 | 24,000 | 6,000 | |

JOURNAL ENTRY

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|------|--|------|------------|----------------|
| | C's Capital A/c Dr. To A's Capital A/c To B's Capital A/c (Adjustment in respect of interest on capital omitted in previous year's accounts) | | 6,000 | 4,000 2,000 |

SOLUTION: 36 (B).

A's Interest on Capital = ₹1,20,000 x 5/100 = ₹6,000

B's Interest on Capital = ₹70,000 x 5/100 = ₹3,500

C's Interest on Capital = ₹50,000 x 5/100 = ₹2,500

TABLE SHOWING ADJUSTMENT

| Partner | Adjustment | | Difference | |
|---------|------------|-------|------------|-------|
| | Dr. | Cr. | Dr. | Cr. |
| A | 5,000 | 6,000 | | 1,000 |
| B | 4,000 | 3,500 | 500 | |
| C | 3,000 | 2,500 | 500 | |

JOURNAL ENTRY

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|----------------------|---|------------|------------|------------|
| 2016 March, 31 | B's Capital A/c C's Capital A/c To A's Capital A/c (Adjustment in respect of interest on capital omitted in previous year's accounts) | Dr. Dr. | 500 500 | 1,000 |

SOLUTION : 37.

₹

| | | |
|---|-----------------------------|-----------------|
| A | 8% on ₹4,00,000 for 2 years | = 64,000 |
| B | 8% on ₹6,00,000 for 2 years | = 96,000 |
| C | 8% on ₹8,00,000 for 2 years | = 1,28,000 |
| | | <u>2,88,000</u> |

TABLE SHOWING ADJUSTMENT

| | A | B | C | Total |
|--|--------------|-------------|---------------|----------|
| Interest on Capital (Cr.) | ₹ 64,000 | ₹ 96,000 | ₹ 1,28,000 | 2,88,000 |
| Division of ₹2,88,000 in profit sharing ratio i.e. 1 : 2 : 3 (Dr.) | 48,000 | 96,000 | 1,44,000 | 2,88,000 |
| Difference | (Cr.) 16,000 | — | (Dr.) 16,000 | — |

JOURNAL ENTRY

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|------------------|--|------|---------|---------|
| 2016 March 31 | C's Current A/c Dr. To A's Current A/c (Omission of interest on Capital for 2 years rectified) | | 16,000 | 16,000 |

SOLUTION: 38.

| | | | |
|------------------|-----------------|---|-----------------|
| Interest charged | on A's drawings | = | ₹8,000 |
| Interest charged | on B's drawings | = | ₹6,000 |
| Interest charged | on C's drawings | = | ₹4,000 |
| | | | ₹ 18,000 |

This amount of ₹18,000 is an item of income for the firm but this has not been recorded on the credit side of P & L Appropriation A/c of the previous year. As such the profit of the previous year will now be increased by this amount. Hence, this profit of ₹18,000 will be shared by the partners in their profit sharing ratio of 5 : 3 : 1 which amounts to A ₹10,000, B ₹6,000 and C ₹2,000.

TABLE SHOWING ADJUSTMENTS

| Partner | Adjustment | | Difference | |
|---------|------------|--------|------------|-------|
| | Dr. | Cr. | Dr. | Cr. |
| A | 8,000 | 10,000 | | 2,000 |
| B | 6,000 | 6,000 | | |
| C | 4,000 | 2,000 | 2,000 | |

JOURNAL ENTRY

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|------|--|------|---------|---------|
| | C's Capital A/c Dr. To A's Capital A/c (Adjustment for omission of interest on drawings) | | 2,000 | 2,000 |

SOLUTION: 39.**Calculation of Interest on Drawings :**

| | ₹ |
|--------------------------------|--------------|
| A : 6% on ₹20,000 for 6 months | 600 |
| B : 6% on ₹24,000 for 6 months | 720 |
| C : 6% on ₹32,000 for 6 months | 960 |
| D : 6% on ₹44,000 for 6 months | 1,320 |
| | <u>3,600</u> |

TABLE SHOWING ADJUSTMENT

| | A | B | C | D | Total |
|------------------------------------|---------|-----|---------|---------|-------|
| | ₹ | ₹ | ₹ | ₹ | |
| Interest on Drawings (Dr.) | 600 | 720 | 960 | 1,320 | 3,600 |
| Division of 3,600 in 2 : 2 : 3 : 3 | | | | | |
| (Cr.) | 720 | 720 | 1,080 | 1,080 | 3,600 |
| Difference | Cr. 120 | — | Cr. 120 | Dr. 240 | — |

JOURNAL ENTRY

| Date | Particulars | LF. | Dr.(₹) | Cr.(₹) |
|------|---|-----|---------|---------|
| | D's Capital A/c Dr. | | 240 | |
| | To A's Capital A/c | | | 120 |
| | To C's Capital A/c | | | 120 |
| | (Omission of interest on drawings, now rectified) | | | |

SOLUTION : 40.

A's Drawings = ₹50,000 x 12 = ₹6,00,000

Interest on A's Drawings will be charged for 6.5 months

6,00,000 x 12/100 x 6.5/12 = ₹39,000

TABLE SHOWING ADJUSTMENT

| | A | B | Total |
|------------------------------------|------------|------------|--------|
| | ₹ | ₹ | |
| Interest on Drawings (Dr.) | 39,000 | | 39,000 |
| Division of ₹39,000 in 2 : 1 (Cr.) | 26,000 | 13,000 | |
| Difference | Dr. 13,000 | Cr. 13,000 | 39,000 |

ADJUSTMENT ENTRY

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|--------------|--|------|---------|---------|
| 2016 April 1 | A's Capital A/c Dr. | | 13,000 | |
| | To B's Capital A/c | | | 13,000 |
| | (Adjustment of Omission of interest on A's | | | |

| | | | | |
|--|-----------|--|--|--|
| | drawings) | | | |
|--|-----------|--|--|--|

SOLUTION : 41.

TABLE SHOWING ADJUSTMENT

| | Anil | Sunil | Sanjay | Total |
|---|-----------------|-----------------|---------------|-----------------|
| | Cr. (₹) | Cr. (₹) | Cr. (₹) | (₹) |
| Interest on Capitals @ 10% p.a. | | | | |
| I) for the year ended 31st March 2015 | 80,000 | 70,000 | 30,000 | 1,80,000 |
| II) for the year ended 31st March 2016 | 80,000 | 70,000 | 30,000 | 1,80,000 |
| Total Amount Payable (Cr.) | 1,60,000 | 1,40,000 | 60,000 | 3,60,000 |
| Division of Firm's loss will be as under : | Dr. (₹) | Dr. (₹) | Dr. (₹) | (₹) |
| I) for the year ended 31st March 2015 in the ratio of 4 : 3 : 2 | 80,000 | 60,000 | 40,000 | 1,80,000 |
| II) for the year ended 31st March 2016 in the ratio of 3 : 2 : 1 | 90,000 | 60,000 | 30,000 | 1,80,000 |
| Total Loss (Dr) | 1,70,000 | 1,20,000 | 70,000 | 3,60,000 |

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|-----------------|---|------|------------------|---------|
| 2016 April 1 | Anil's Current A/c Dr. Sanjay's Current A/c Dr. To Sunil's Current A/c (Adjustment for the omission of two years' interest on capitals) | | 10,000 10,000 | 20,000 |

SOLUTION : 42.

TABLE SHOWING ADJUSTMENTS

| | P | Q | R | Total |
|--|--------------------|--------------------|--------------------|---------------|
| | ₹ | ₹ | ₹ | ₹ |
| Interest on Capitals @ 12% p.a. | 6,000 | 3,600 | 2,400 | 12,000 |
| Salary to Partners | 6,000 | — | 12,000 | 18,000 |
| Total Amount Payable (Cr.) | 12,000 | 3,600 | 14,400 | 30,000 |
| Division of firm's loss of ₹30,000 in 2 : 1 : 1 (Dr.) | 15,000 | 7,500 | 7,500 | 30,000 |
| Net Effect | (Dr.) 3,000 | (Dr.) 3,900 | (Cr.) 6,900 | |

JOURNAL ENTRY

| Date | Particulars | L.F. | Dr.(₹) | Cr.(₹) |
|-----------------|---|------|----------------|---------|
| 2011 April 1 | P's Capital A/c Dr. Q's Capital A/c Dr. To R's Capital A/c (Adjustment for the omission of interest on capitals and salary) | | 3,000 3,900 | 6,900 |

SOLUTION : 43 (A)

TABLE SHOWING ADJUSTMENTS

| | A | B | Total |
|---|--------------------|--------------------|----------|
| | ₹ | ₹ | ₹ |
| Interest on Capital (Cr.) | 48,000 | 24,000 | 72,000 |
| Commission due to B | — | 20,000 | 20,000 |
| Salary to A | 50,000 | — | 50,000 |
| | 98,000 | 44,000 | 1,42,000 |
| Less : Interest on Drawings (Dr.) | 12,000 | 10,000 | 22,000 |
| (Cr.) | 86,000 | 34,000 | 1,20,000 |
| Division of Firm's loss of ₹1,20,000 in 2 : 1 (Dr.) | 80,000 | 40,000 | |
| | (Cr.) 6,000 | (Dr.) 6,000 | — |

Adjustment Entry:—

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|---------------------|--|------|---------|---------|
| 10th April, 2016 | B's Capital A/c Dr. To A's Capital A/c (Adjustment for omissions) | | 6,000 | 6,000 |

SOLUTION : 43 (B)

TABLE SHOWING ADJUSTMENTS

| | Kumar | Raja | Total |
|--|---------------------|---------------------|----------|
| | ₹ | ₹ | ₹ |
| Interest on Capital (Cr.) | 81,000 | 36,000 | 1,17,000 |
| Salary (Cr.) | 50,000 | 36,000 | 86,000 |
| | 1,31,000 | 72,000 | 2,03,000 |
| Division of firm's loss of ₹2,03,000 in 7 : 3(Dr.) | 1,42,100 | 60,900 | 2,78,000 |
| Net Effect | (Dr.) 11,100 | (Cr.) 11,100 | — |

ADJUSTMENT ENTRY

| Date | Particulars | L.F. | Dr.(₹) | Cr.(₹) |
|---------------------|---|------|---------|---------|
| 2007 March 31 | Kumar's Current A/c Dr. To Raja's Current A/c (Adjustment for omission of interest on capital and salary) | | 11,100 | 11,100 |

SOLUTION : 44.**TABLE SHOWING ADJUSTMENT**

| | A | B | C | Total |
|---|-------------------------|------------------------|-------------------------|-------------------------|
| | ₹ | ₹ | ₹ | ₹ |
| Salary | | 60,000 | 40,000 | 1,00,000 |
| Interest on Capital | 24,000 | 15,000 | 6,000 | 45,000 |
| Total amount payable (Cr.) | 24,000 | 75,000 | 46,000 | 1,45,000 |
| Division of firm's loss of ₹ 1,45,000 in 2 : 2 : 1 (Dr.) | 58,000 | 58,000 | 29,000 | 1,45,000 |
| | (Dr.) 34,000 | (Cr.) 17,000 | (Cr.) 17,000 | |
| Adjustment for Manager's Commission : 10/110 of ₹2,20,000 = ₹20,000 in 2:2:1 | (Dr.) 8,000 | (Dr.) 8,000 | (Dr.) 4,000 | 20,000 |
| Net Effect | (Dr.) 42,000 | (Cr.) 9,000 | (Cr.) 13,000 | (Cr.) 20,000 |

RECTIFYING ENTRY

| Date | Particulars | L.F. | Dr.(₹) | Cr.(₹) |
|------|---|------|---------|---------------------------|
| | A's Current A/c Dr. To B's Current A/c To C's Current A/c To Manager's Commission Outstanding A/c (Adjustment for omissions of salary, interest on capitals and manager's commission) | | 42,000 | 9,000 13,000 20,000 |

SOLUTION : 45.**TABLE SHOWING ADJUSTMENTS**

| | Suresh | Ramesh | Total |
|---|-----------------|---------------|-----------------|
| | ₹ | ₹ | ₹ |
| Interest on Capital (Cr.) | 45,000 | 30,000 | 75,000 |
| Salary (Cr.) | 60,000 | 24,000 | 84,000 |
| Profit remaining after allowing interest on capital and salary' will be ₹2,34,000 – ₹75,000 – ₹84,000 = ₹75,000. It will be divided in their profit sharing ratio, i.e. 3 : 2 | 45,000 | 30,000 | 75,000 |
| Net amount which should have been received (Cr.) | 1.50,000 | 84,000 | 2,34,000 |

| | | | | |
|--|-------------------|-----------------|-----------------|----------|
| Less : Profit already distributed equally (Dr.) | | 1,17,000 | 1,17,000 | 2,34,000 |
| | Net Effect | (Cr.) 33,000 | (Dr.) 33,000 | |

ADJUSTMENT ENTRY

| Date | Particulars | L.F. | Dr.(₹) | Cr.(₹) |
|------------------|---|------|---------|---------|
| 2007 March 31 | Ramesh's Current A/c Dr. To Suresh's Current A/c (Adjustment for interest on Capital, salary and wrong distribution of profit) | | 33,000 | 33,000 |

SOLUTION : 46.

STATEMENT OF ADJUSTMENT

| | A | B | C | Total |
|--|----------------|-----------------|-----------------|----------|
| | ₹ | ₹ | ₹ | ₹ |
| Salary to C | — | — | 1,20,000 | 1,20,000 |
| Interest on Capitals @ 5% p.a. | 25,000 | 12,500 | 12,500 | 50,000 |
| Balance profit i.e. $₹3,30,000 - ₹1,20,000 - ₹50,000 = ₹1,60,000$ distributed among partners in the ratio of 2 : 1 : 1 | 80,000 | 40,000 | 40,000 | 1,60,000 |
| Net amount which should have been received (Cr.) | 1,05,000 | 52,500 | 1,72,500 | 3,30,000 |
| Less : Profit already distributed (Dr.) | 1,10,000 | 1,10,000 | 1,10,000 | 3,30,000 |
| Net Effect | (Dr.) 5,000 | (Dr.) 57,500 | (Cr.) 62,500 | |

ADJUSTMENT ENTRY

| Date | Particulars | L.F. | Dr.(₹) | Cr.(₹) |
|------------------|---|------|-----------------|---------|
| 2016 March 31 | A's Capital A/c Dr. B's Capital A/c Dr. To C's Capital A/c (Adjustment for the omission of Salary and interest on Capital) | | 5,000 57,500 | 62,500 |