

**Illustration 6 :** Govind and Gopal had started partnership firm on 1-4-2016. Partners are entitled for 5 % interest on capital. 10 % commission is payable to Gopal on profit, after deduction of commission from the profit. Partners sharing profit-loss in the proportion of 3:2. There are several mistakes in the Trading Account and Profit-Loss Account prepared by an unexperienced accountant. You are asked to prepare revised annual accounts from the given trading account, profit-loss account and list of assets and liabilities and other information.

Dr		Trading Account and Profit and Loss Account as on 31-3-17		Cr
Particular	Amt. (₹)	Particular	Amt. (₹)	
To Purchase	2,48,600	By Sales	3,32,400	
+ Goods returned credit	2400	– Goods returned debit	600	3,31,800
	2,51,000	By Interest	600	
+ Closing stock	50,000	+ Discount received	800	1400
	3,01,000	By Net loss		27,200
To Wages	11,200			
To Carriage inward	8000			
– To carriage outward	4000			
	4000			
To Salary	18,000			
To Rent	12,000			
To Postage expense	600			
To Sundry expense	1200			
To Telephone expense	1600			
To Govind's drawing	6000			
To Gopal's drawing	4800			
	3,60,400			3,60,400

The position of assets and liabilities as on 31-3-2017 was as follows :

**Assets :** Stock ₹ 50,000, debtors ₹ 1,00,000, furniture ₹ 20,000, building ₹ 50,000, cash on hand ₹ 6000, bank balance ₹ 24,000

**Liabilities :** Creditors ₹ 40,000, bills payable ₹ 14,000, capital of Govind ₹ 1,00,000, capital of Gopal ₹ 30,000

**Adjustments :** (1) Write off bad debts of ₹ 2800. (2) Provide 2 % discount reserve on debtors. (3) Maintain bad debts reserve of ₹ 7200. (4) Provide 5 % depreciation on furniture and building.

**Ans. :** **Revised Trading Account of Govind and Gopal's Partnership Firm**  
**for the year ending on 31-3-2017**

Dr		Cr	
Particular	Amt. (₹)	Particular	Amt. (₹)
To Purchase	2,48,600	By Sales	3,32,400
– Goods returned	600	– Goods returned	2400
	2,48,000		3,30,000
To Wages	11,200	By Closing stock	50,000
To Carriage inward	8000		
To Profit and loss A/c (Gross profit)	1,12,800		
	3,80,000		3,80,000

**Profit and Loss Account of Govind and Gopal's Partnership Firm**  
for the year ending on 31-3-2017

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
<b>Administrative expenses :</b>		By Trading A/c (Gross profit)	1,12,800
To Salary	18,000	By Interest received	600
To Rent	12,000	By Discount received	800
To Postage expense	600		
To Sundry expense	1200		
To Telephone expense	1600		
<b>Sales-distribution expenses :</b>			
To Carriage outward	4000		
To Discount reserve - debtors	1800		
<b>Other expense-loss :</b>			
To Bad debts (Adj.)	2800		
+ Bad debts reserve (Adj.)	7200		
	10,000		
<b>Depreciation :</b>			
To Furniture	1000		
+ To Building	2500		
	3500		
Profit and Loss App. A/c (Net profit)	61,500		
	<b>1,14,200</b>		<b>1,14,200</b>

**Profit and Loss Appropriation Account of Govind and Gopal's Partnership Firm**  
for the year ending on 31-3-2017

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on partners' capital :		By Profit and loss A/c (Net profit)	61,500
Govind	5000		
Gopal	1500		
	6500		
To Gopal's commission 10 %	5000		
To Partners capital A/c (Divisible profit)			
Govind	30,000		
Gopal	20,000		
	50,000		
	<b>61,500</b>		<b>61,500</b>

**Partners' Capital Accounts**

Dr

Cr

Date	Particular	Govind(₹)	Gopal (₹)	Date	Particular	Govind(₹)	Gopal (₹)
31-3-17	To Drawings A/c	6000	4800	1-4-16	By Balance b/d	1,00,000	30,000
31-3-17	To Balance c/d	1,29,000	51,700	31-3-17	By Int. on capital A/c	5000	1500
				31-3-17	By Commission A/c	—	5000
				31-3-17	By P & L App. A/c	30,000	20,000
		<b>1,35,000</b>	<b>56,500</b>			<b>1,35,000</b>	<b>56,500</b>

**Balance Sheet as on 31-3-17 of Partnership Firm of Govind and Gopal**

Capital-Liabilities	Amt. (₹)	Assets-Debts	Amt. (₹)
<b>Capital :</b>		<b>Non-Current Assets :</b>	
Govind 1,29,000		<b>Fixed Assets :</b>	
Gopal 51,700	1,80,700	Furniture 20,000	
<b>Non-current liabilities :</b>	—	— Depreciation 1000	19,000
<b>Current liabilities :</b>		Building 50,000	
Creditors 40,000		— Depreciation 2500	47,500
Bills payable 14,000		<b>Current Assets :</b>	
		Debtors 1,00,000	
		— Bad debts (Adj.) 2800	
		97,200	
		— Bad debts reserve (Adj.) 7200	
		90,000	
		— Discount reserve (Adj.) 1800	88,200
		Cash on hand	6000
		Bank balance	24,000
		Closing stock	50,000
	<b>2,34,700</b>		<b>2,34,700</b>

**Illustration 7 :** From the following Trial Balance dated 31-3-2017 and adjustments prepare final account of partnership firm of Parekh and Mehta.

**Trial Balance as on 31-3-2017 of Partnership Firm of Parekh and Mehta**

Debit Balances	Amt. (₹)	Credit Balances	Amt. (₹)
Opening stock	30,000	<b>Capital :</b>	
Purchase	4,00,000	Parekh	50,000
Debtors	1,50,000	Mehta	50,000
Cash and Bank	12,000	Creditors	50,000
Rent-taxes	3000	Sales	6,00,000
Insurance premium	9000		
Salary	42,000		
Carriage inward	18,000		
Carriage outward	21,000		
Recoverable claims	5000		
Advertisement suspense A/c	9000		
Furniture and fittings (C.P. ₹ 30,000)	23,000		
Office equipments (C.P. ₹ 15,000)	10,000		
Tender deposit (From 1-10-16)	6000		
Bills receivables	6000		
Bad debts	4000		
Electricity expense	2000		
	<b>7,50,000</b>		<b>7,50,000</b>

**Adjustments :** (1) Closing stock was ₹ 1,05,000. (2) A purchase bill of ₹ 15,000 is received from creditors, but not recorded. (3) Recoverable claims from insurance co. settled for ₹ 2000. (4) From the advertisement suspense account, written off 50 % as a advertisement expense of current year. (5) Provide depreciation at 5 % on furniture and fittings and office equipments as per straight line method. (6) ₹ 1000 paid in advance for insurance premium. (7) 12 % interest is receivable on tender deposit. (8) A discounted bill of ₹ 2000 was dishonored on 30-3-2017, which was earlier discounted in the bank. (9) Provide 2 % bad debts reserve on debtors.

**Ans. : Trading Account of Partnership of Parekh and Mehta for Year Ending on 31-3-2017**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Opening stock	30,000	By Sales	6,00,000
To Purchase 4,00,000		By Closing stock	1,05,000
+ Unrecorded 15,000	4,15,000		
To Carriage inward	18,000		
To Profit and loss A/c (Gross profit)	2,42,000		
	<b>7,05,000</b>		<b>7,05,000</b>

**Profit and Loss Account of Partnership of Parekh and Mehta for year ending on 31-3-2017**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
<b>Administrative expense :</b>		By Trading A/c (Gross profit)	2,42,000
To Insurance premium 9000		By Outstanding interest on	
– Prepaid 1000	8000	tender deposit	360
To Salary	42,000		
To Electricity expense	2000		
To Rent and taxes	3000		
<b>Sales-distribution expense :</b>			
To Carriage outward	21,000		
To Advertisement suspense - 50 %	4500		
<b>Other expense-loss :</b>			
To Loss on recoverable claim	3000		
<b>Depreciation :</b>			
Furniture and fittings 1500			
+ Office equipments 750	2250		
To Bad debts (Trial balance) 4000			
+ To Bad debts reserve (Adj.) 3040	7040		
To Capital A/c (Divisible profit) :			
Parekh 74,785			
Mehta 74,785	1,49,570		
	<b>2,42,360</b>		<b>2,42,360</b>



**Note :** No transactions pertaining to partners capital are given, like interest on capital, interest on drawings and other personal transactions of partners. Thus profit and loss appropriation account is not opened.

**Balance Sheet of partnership firm of Parekh and Mehta as on 31-3-17**

Capital-Liabilities		Amt. (₹)	Assets-Debts		Amt. (₹)
Parekh	50,000	1,24,785	<b>Fixed Assets :</b>		21,500
+ Divisible profit	74,785		Furniture and fittings	23,000	
Mehta	50,000	1,24,785	— Depreciation	1500	9250
+ Divisible profit	74,785		Office equipments	10,000	
<b>Liabilities :</b>		65,000	— Depreciation	750	1,48,960
Creditors	50,000		<b>Current Assets :</b>		
+ Unrecorded purchase	15,000		Debtors	1,50,000	6000
			+ Dishonored bill	2000	
				1,52,000	1,05,000
			— Bad debts reserve 2 %	3040	
			Tender deposit		4500
			Advertisement suspense A/c	9000	
			— 50 % written off	4500	12,000
			Bills receivables		
			Closing stock		1000
			Cash-bank	12,000	
			+ Insurance Co.'s settlement	2000	360
				14,000	
			— Dishonored bill	2000	
			Prepaid insurance		
			Outstanding interest on tender deposit		
		<b>3,14,570</b>			<b>3,14,570</b>

**Note :** (1) Under straight line method of depreciation, depreciation is calculated on the cost price of furniture and fittings and office equipments. (2) On tender deposit 6 months interest at 12 % is calculated.

**Illustration 8 :** Radha and Mira are partners sharing profit-loss in proportion of 3:2. Their Trial Balance as on 31-3-2017 was as shown on page number 65 :

**Trial Balance of partnership firm of Radha and Mira as on 31-3-17**

Particular	Debit (₹)	Credit (₹)
<b>Capital Account :</b>		
Radha	—	20,000
Mira	—	10,000
<b>Current Account :</b>		
Radha	5000	—
Mira	—	1000
Purchase and sales	15,000	32,000
Receivables and Payables	16,000	9800
Motor car	12,000	—
Goods returned	1000	500
Sundry expense	800	—
Providend fund and contribution to providend fund	200	4000
Bank and cash	2500	19,847
Opening stock	9000	—
Bank interest	142	—
Building	12,950	—
Stationery stock (1-4-16)	200	—
Stationery purchase	1000	—
Bad debts return	—	700
Sale of old newspapers	—	1000
Professional tax	800	—
Patent	4000	—
Trademark	5000	—
Carriage inward	200	—
Discount	125	325
Plant-machines	8325	—
Depreciation on plant-machines	675	—
Depreciation on motor car	2000	—
Freight and octroi	350	—
Discount reserve	—	250
Bad debt reserve	—	1000
Investments of providend fund	4000	—
Interest on providend fund investments	—	240
9 % Kanaiya's loan (1-6-16)	—	7000
Interest on loan	315	—
Insurance premium (Out of which premium of ₹ 400 is for the year ending on 30-6-2017)	600	—
Salary and wages	3730	—
Furniture	1500	—
Dead stock	150	—
Demurrage	100	—
<b>Total</b>	<b>1,07,662</b>	<b>1,07,662</b>

**Adjustments :** (1) Value of closing stock is ₹ 15,000, out of which 10 % and 15 % goods have market value less than book value by 12 % and 20 % respectively. (2) Stationery stock as on 31-3-17 ₹ 500. (3) A furniture of ₹ 600, sold to Kishan for ₹ 400 on 1-10-2016, which is recorded in the sales book. (4) Increase in the rate of depreciation to 10 % on plant and machines. (5) Provide 5 % depreciation on furniture. (6) Write off ₹ 600 from debtors as bad debts and provide bad debts reserve 5 %. (7) Provide 2 % discount reserve on debtors. (8) Goods of ₹ 3000 withdrawn by Mira for personal use on 1-1-17, it is recorded in the sales book. (9) Calculate 10 % p.a. interest on capital of partners. (10) ₹ 2000 annual salary will be given to Radha for her active participation in business.

**Ans. : Trading Account of partnership firm of Radha and Mira for the year ending on 31-3-2017**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Opening stock	9000	By Sales	32,000
To Purchase	15,000	— Sales returned	1000
— Purchase returned	500		31,000
	14,500	— Sales of furniture (Kishan)	400
— Goods withdrawn (Mira)	3000		30,600
To Demurrage	100	— Wrongly recorded drawings	3000
To Carriage inward A/c	200	By Closing stock	14,370
To Freight and octroi	350		
To Profit and loss A/c (Gross profit)	20,820		
	41,970		41,970

**Profit and Loss Account of partnership firm of Radha and Mira for the year ending on 31-3-2017**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
<b>Administrative Expense :</b>		By Trading A/c (Gross profit)	20,820
To Insurance premium	600	By Discount received	325
— Prepaid	100	By Bad debts returned	700
To Stationery expense :		By Sale of old newspapers	1000
Opening stock	200		
+ Purchase	1000		
	1200		
— Closing stock	500		
To Professional tax	800		
To Salary-wages	3730		
To Sundry expense	800		
To Contribution to PF	200		

<b>Financial Expense :</b>			
<b>Interest on Loan (Kanaiya) :</b>			
Interest paid 315			
+ Outstanding 210	525		
To Bank interest	142		
<b>Sales-Distribution Expense :</b>			
To Discount (Trial balance) 125			
+ Discount reserve (Adj.) 228			
353			
– Discount reserve (Trial bal.) 250	103		
<b>Other Expenses-Loss :</b>			
<b>Depreciation :</b>			
Motor car 2000			
+ Plant 675			
+ Addition 225 900	2900		
To Furniture :			
Furniture sold 15			
Remaining 45	60		
To Loss on sale of furniture	185		
To Bad debts (Adj.) 600			
+ Bad debts reserve (Adj.) 600			
1200			
– Bad debts reserve (Trial bal.) 1000	200		
To Profit and loss Appropriation A/c (Net profit)	12,000		
	<b>22,845</b>		<b>22,845</b>

**Profit and Loss Appropriation Account of partnership firm of Radha and Mira**

Dr Cr  
**for the year ending on 31-3-2017**

Particular	Amt. (₹)	Particular	Amt. (₹)
<b>To Interest on Capital :</b>		By Profit and loss A/c (Net profit)	12,000
Radha 2000			
Mira 1000	3000		
To Radha's salary A/c	2000		
To Partners' capital A/c (Divisible profit 3:2) :			
Radha 4200			
Mira 2800	7000		
	<b>12,000</b>		<b>12,000</b>

Dr

## Partners Capital Accounts

Cr

Date	Particular	Radha (₹)	Mira (₹)	Date	Particular	Radha (₹)	Mira (₹)
1-4-16	To Balance b/d	5000	—	1-4-16	By Balance b/d	—	1000
31-3-17	To Drawings A/c	—	3000	31-3-17	Int. on capital A/c	2000	1000
31-3-17	To Balance c/d	3200	1800	31-3-17	By Salary A/c	2000	—
				31-3-17	By P&L App. A/c (Divisible profit)	4200	2800
		<b>8200</b>	<b>4800</b>			<b>8200</b>	<b>4800</b>

## Balance Sheet of partnership firm of Radha and Mira as on 31-3-17

Capital-Liabilities	Amt. (₹)	Assets-Debts	Amt. (₹)
<b>Capital Accounts :</b>		<b>Non-Current Assets :</b>	
Radha	20,000	<b>Fixed Assets : Tangible Assets :</b>	
Mira	10,000	Furniture	1500
	30,000	— Sale	600
<b>Current Accounts :</b>			900
Radha	3200	— Depreciation	45
Mira	1800		855
<b>Non-Current Liabilities :</b>		Motor car	12,000
Loan of Kanaiya	7000	Building	12,950
Provident fund	4000	Plant-Machines	8325
+ Interest	240	+ Depreciation (Trial bal.)	675
<b>Current Liabilities :</b>			9000
Bank overdraft	19,847	— Depreciation 10 % (Adj.)	900
Creditors	9800	<b>Intangible Assets :</b>	
Outstanding interest of loan	210	Patent	4000
		Trademark	5000
		PF investment	4000
		<b>Current Assets :</b>	
		Dead stock	150
		Closing stock of goods	14,370
		Stationery stock	500
		Debtors	16,000
		— Sale of furniture	400
			15,600
		— Wrongly recorded drawings of Mira	3000
			12,600
		— Bad debts (Adj.)	600
			12,000
		— Bad debts reserve (Adj.)	600
			11,400
		— Discount reserve 2 %	228
		Kishan's A/c (debtors)(furniture's sale)	400
		Prepaid insurance	100
		Cash balance	2500
	<b>76,097</b>		<b>76,097</b>

**Explanation of adjustments :****(1) Closing stock :**

₹ 15,000		
↓	↓	↓
10 %	15 %	75 %
₹ 1500	₹ 2250	₹ 11,250
– 12 % 180	– 20 % 450	–
₹ 1320	₹ 1800	₹ 11,250 = ₹ 14,370

**(2) Depreciation and sale of furniture :**

Balance as per trial balance	₹ 1500
– Sale of furniture	₹ 600
Balance of furniture	₹ 900

**Depreciation and loss on sale of furniture :**

Opening balance of sale of furniture	₹ 600
– Depreciation : 6 months, 5 %	₹ 15
	₹ 585
– Selling price	₹ 400
Loss on sale of furniture	₹ 185

(To be shown debit side of profit and loss account)

Balance of furniture ₹ 900 × $\frac{5}{100}$ =	₹ 45	Depreciation
+ Depreciation on sale of furniture	₹ 15	
To be shown debit side of P & L A/c	₹ 60	

Deduct ₹ 45 from the balance of furniture of balance sheet.

**(3) Calculation of interest on Kanaiya's loan :**

$7000 \times \frac{9}{100} \times \frac{10}{12} =$	₹ 525	Total interest
– Interest paid	₹ 315	
	₹ 210	Outstanding interest

**(4) Depreciation on plant-machinery :**

Balance as per trial balance	₹ 8325
+ Depreciation charged	₹ 675
Value before depreciation	₹ 9000
– Depreciation 10 %	900
Value after depreciation	8100
Depreciation charged	₹ 675
Outstanding	₹ 225
Total depreciation	₹ 900

Rate of depreciation = $\frac{675}{9000} \times 100 = 7.5 \%$
New depreciation rate = 10 % ∴ $9000 \times 10 \%$
New depreciation = 900 10 %
– Old depreciation = 675 7.5 %
Yet to be recovered = 225

(To be shown debit side of profit and loss A/c)

**(5) Furniture sold to Kishan on credit, thus it would appear in balance sheet at assets side.**

**Illustration 9 :** Mahi and Rahi are partners sharing profit-loss in the proportion of 6:4. From the given trial balance dated 31-3-2017 and adjustments, prepare final accounts of partnership firm.

**Trial Balance of partnership firm of Mahi and Rahi as on 31-3-2017**

Debit Balances		Amt. (₹)	Credit Balances		Amt. (₹)
<b>Drawings :</b>			<b>Capital Accounts :</b>		
Mahi	3000		Mahi	20,000	
Rahi	2000	5000	Rahi	12,500	
Opening stock		1750	Sales	2,00,000	
Purchase		1,38,750	Purchase return	1250	
Travelling expense :			Discount and allowance	1250	
Rahi		3000	Dividend on share of SBI	50	
Salesman		5250	Bank A/c	3000	
Salary : Accountant		2500	Creditors	1250	
Collection clerk		1250	Loan borrowed from friend	2500	
Shop rent		900			
Debtors		5000			
Carriage (goods)		7500			
Advertisement expense		10,000			
Prepaid rent of shop (1-4-16)		75			
Discount and allowance		4250			
Donation expense		10,000			
Income tax		12,500			
Professional tax		125			
Bank overdraft interest		6000			
Bank commission		250			
Share of SBI		500			
Fixed assets		1250			
Fixed assets maintenance		500			
Cash balance		450			
Goodwill		25,000			
		<b>2,41,800</b>			<b>2,41,800</b>

**Adjustments :** (1) Provide 12 % interest on capital of partners and 5 % on drawings. (2) 3 % commission on sales is payable to Mahi. (3) Every month ₹ 300 is payable to Rahi for travelling expense done for business. (4) ₹ 50 interest is outstanding on loan of friend. (5) Shop rent is paid for 12 months for the year ending on 30-4-2017. (6) Provide 20 % depreciation on fixed assets. (7) There is doubtful recovery of ₹ 250. (8) Closing stock ₹ 19,025.

**Ans. : Trading Account of partnership firm of Mahi and Rahi for year ending on 31-3-2017**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Opening stock	1750	By Sales	2,00,000
To Purchase 1,38,750		By Closing stock	19,025
— Purchase return 1250	1,37,500		
To Carriage (Goods)	7500		
To Profit and loss A/c (Gross profit)	72,275		
	<b>2,19,025</b>		<b>2,19,025</b>

**Profit and Loss Account of partnership firm of Mahi and Rahi for year ending on 31-3-2017**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
<b>Administrative Expense :</b>		By Trading A/c (Gross profit)	72,275
To Salary of accountant	2500	By Discount allowance A/c	1250
To Professional tax	125	By Dividend on share of SBI	50
To Shop rent 900			
+ Prepaid of 2017 (1-4-16) 75	975		
— Prepaid of 2018 (1-4-17) 75	900		
<b>Sales-Distribution Expense :</b>			
To Salary of collection clerk	1250		
Advertisement expense A/c	10,000		
To Salesman travelling expense	5250		
To Discount - allowance A/c	4250		
<b>To Other Expenses-Loss A/c :</b>			
To Bank overdraft interest A/c	6000		
To Bank commission A/c	250		
To Fixed assets maintenance A/c	500		
To Outstanding int. on loan of friend	50		
To Donation expense A/c	10,000		
To Depreciation on fixed assets A/c	250		
To Bad debts reserve A/c	250		
To Income tax A/c	12,500		
P & L Appropriation A/c (Net profit)	19,500		
	<b>73,575</b>		<b>73,575</b>



Dr **Profit and Loss Appropriation Account of partnership firm of Mahi and Rahi** Cr  
for year ending on 31-3-2017

Particular	Amt. (₹)	Particular	Amt. (₹)
<b>Interest on capital :</b>		By Profit and loss A/c (Net profit)	19,500
Mahi 2400		<b>Interest on drawings :</b>	
Rahi 1500	3900	Mahi 150	
To Travelling expense A/c		Rahi 100	250
Rahi 3000			
+ Outstanding 600	3600		
To Mahi's commission A/c 3 %	6000		
To Partners' capital A/c(Divisible profit)			
Mahi 3750			
Rahi 2500	6250		
	<b>19,750</b>		<b>19,750</b>

Dr **Partners' Capital Accounts** Cr

Date	Particular	Mahi (₹)	Rahi (₹)	Date	Particular	Mahi (₹)	Rahi (₹)
31-3-17	To Drawings A/c	3000	2000	1-4-16	By Balance b/d	20,000	12,500
31-3-17	To Interest on drawing A/c	150	100	31-3-17	By Int. on capital	2400	1500
31-3-17	To Balance c/d	29,000	15,000	31-3-17	By Travelling exp.	—	600
				31-3-17	By Commission A/c	6000	—
				31-3-17	By P&L App. A/c (Divisible profit)	3750	2500
		<b>32,150</b>	<b>17,100</b>			<b>32,150</b>	<b>17,100</b>

**Balance Sheet of partnership firm of Mahi and Rahi as on 31-3-17**

Capital-Liabilities	Amt. (₹)	Assets-Debts	Amt. (₹)
<b>Capital Account :</b>		<b>Non-Current Assets :</b>	
Mahi 29,000		<b>Fixed Assets :</b>	
Rahi 15,000		<b>Tangible Assets :</b>	
<b>Non-Current Liabilities :</b>		Fixed assets 1250	
Loan borrowed from friend 2500		— Depreciation 250	1000
<b>Current Liabilities :</b>		<b>Intangible Assets : Goodwill</b>	25,000
Bank A/c 3000		<b>Investments :</b>	
Creditors 1250		Shares of SBI	500
Interest outstanding of friend's loan 50		<b>Current Assets :</b>	
		Closing stock	19,025
		Debtors 5000	
		— Bad debts reserve (Adj.) 250	4750
		Cash balance	450
		Prepaid rent	75
	<b>50,800</b>		<b>50,800</b>

<b>Note :</b> (1) Outstanding shop rent as per trial balance	₹ 900
+ Paid in previous year of current year (1-4-16)	₹ 75
	<u>₹ 975</u>
– Paid in current year of Next year (30-4-17)	₹ 75
[900 ÷ 12 = 75]	<u>₹ 900</u>

(2) Income tax is expense of partnership firm. Thus disclosed the at debit side of P & L A/c.

**Illustration 10 :** Following are the annual accounts of partnership firm of Labh and Subh.

**Profit and Loss Account of partnership firm of Labh and Shubh as on 31-3-17**

Dr		Cr	
Particular	Amt. (₹)	Particular	Amt. (₹)
To Cost of goods sold A/c	1,16,000	By Sales A/c	1,96,000
To Office expenses A/c	20,000	By Sundry income A/c	2000
To Sales expenses A/c	16,000		
To Financial expenses A/c	4000		
To Sundry expenses A/c	4000		
To Partners' capital A/c (Net profit)			
Labh	22,800		
Subh	15,200		
	<u>38,000</u>		
	<b>1,98,000</b>		<b>1,98,000</b>

**Balance Sheet of partnership firm of Labh and Shubh as on 31-3-17**

Capital-Liabilities	Amt. (₹)	Assets-Debts	Amt. (₹)
<b>Capital :</b>		<b>Non-Current Assets :</b>	
Labh	40,000	<b>Tangible Assets :</b>	
+ Net profit	22,800	Fixed assets	60,000
	<u>62,800</u>	Investments	12,000
– Drawings	12,000	Current assets (with debtors)	28,000
Shubh	30,000		
+ Net profit	15,200		
	<u>45,200</u>		
– Drawings	6000		
Liabilities	8000		
Suspense A/c	2000		
	<u><b>1,00,000</b></u>		<b>1,00,000</b>

After preparation of annual accounts the following adjustments are reported : (1) 5 % interest on capital is not calculated. (2) 10 % depreciation on fixed assets is to be provided. (3) Prepaid rent is ₹ 200. (4) Interest on investment is not received ₹ 400. (5) Maintain Bad debts reserve of ₹ 600. (6) Total of sales book is under cast by ₹ 2000. (7) Purchase of ₹ 800 is not recorded in the books. Write adjustment entries and prepare revised final accounts from the above information.

### Adjustments

Date	Particular	LF No.	Debit (₹)	Credit (₹)
(1)	Interest on capital A/c Dr To Labh's capital A/c To Shubh's capital A/c (Being 5 % interest on capital is charged to partners.)		3500	2000 1500
(2)	Depreciation A/c Dr To fixed assets A/c (Being depreciation is charged at 10 % on fixed assets.)		6000	6000
(3)	Prepaid rent A/c Dr To rent A/c (Being prepaid rent is adjusted.)		200	200
(4)	Outstanding intrest on investment A/c Dr To interest on investment A/c (Being interest on investment is not received.)		400	400
(5)	Profit and Loss A/c Dr To Bad debts reserve A/c (Being provided bad debts reserve.)		600	600
(6)	Suspense A/c Dr To sales A/c (Being total of sales book was under cost.)		2000	2000
(7)	Purchase A/c Dr To creditors A/c (Being entry passed for unrecorded purchase.)		800	800

### Trading Account of partnership firm of Labh and Shubh for year ending of 31-3-17

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Cost of goods sold A/c 1,16,000		By Sales 1,96,000	
+ Unrecorded purchase 800	1,16,800	+ From suspense A/c 2000	1,98,000
To Profit and loss A/c (Gross profit) 81,200			
	<b>1,98,000</b>		<b>1,98,000</b>

**Revised Profit and Loss Account of partnership firm of Labh and Shubh  
for year ending on 31-3-17**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Office expense 20,000		By Trading A/c (Gross profit)	81,200
— Prepaid rent 200	19,800	By Sundry income A/c	2000
To Sales expense	16,000	By Interest on investment A/c	400
To Financial expenses A/c	4000		
To Sundry expenses A/c	4000		
To Depreciation on fixed assets	6000		
To Bad debts reserve	600		
To P & L App. A/c (Net profit)	33,200		
	<b>83,600</b>		<b>83,600</b>

**Revised Profit and Loss Appropriation Account of partnership firm of Labh and Shubh  
for year ending of 31-3-17**

Dr

Cr

Particular	Amt. (₹)	Particular	Amt. (₹)
To Interest on partners' capital :		By Profit and loss A/c (Net profit)	33,200
Labh 2000			
Shubh 1500	3500		
To partners' capital A/c (Divisible profit):			
Labh 17,820			
Shubh 11,880	29,700		
	<b>33,200</b>		<b>33,200</b>

**Partners' Capital Accounts**

Dr

Cr

Date	Particular	Labh (₹)	Shubh (₹)	Date	Particular	Labh (₹)	Shubh (₹)
31-3-17	To Drawings A/c	12,000	6000	1-4-16	By Balance b/d	40,000	30,000
31-3-17	To Balance c/d	47,820	37,380	31-3-17	By Interest on capital A/c	2000	1500
				31-3-17	By P&L App. A/c (Divisible profit)	17,820	11,880
		<b>59,820</b>	<b>43,380</b>			<b>59,820</b>	<b>43,380</b>

**Balance Sheet of partnership firm of Labh and Shubh as on 31-3-17**

Capital-Liabilities	Amt. (₹)	Assets-Debts	Amt. (₹)
<b>Capital Accounts :</b>		<b>Non-Current Assets :</b>	
Labh	47,820	Fixed assets	60,000
Shubh	37,380	— Depreciation 10 %	6000
Liabilities	8000	Investments	12,000
Unrecorded purchase	800	<b>Current Assets :</b>	
		Debtors	28,000
		— Bad debts reserve	600
		Interest outstanding on investments	400
		Prepaid rent	200
	<b>94,000</b>		<b>94,000</b>

**Note :** (1) Total of sales book is under cast by ₹ 2000. Thus it is added to sales and debited to suspense account. Consequently sales would increase by ₹ 2000 and suspense account will be closed.  
(2) Old profit shared by partner Labh and Shubh is ₹ 22,800 and ₹ 15,200 respectively. So total profit is ₹ 38,000. Proportion will be determined as follows :

$$\frac{22800}{38000} \times 100 = 60 \% : 3$$

$$\frac{15200}{38000} \times 100 = 40 \% : 2$$

∴ Labh and Subh would get in the proportion of 3:2. Divisible profit is calculated as per this proportion.

Revised divisible profit ₹ 29,700 will be shared as follows :

$$\begin{aligned} \text{Labh} &= 29,700 \times \frac{3}{5} \\ &= 17,820 \end{aligned}$$

$$\begin{aligned} \text{Shubh} &= 29,700 \times \frac{2}{5} \\ &= 11,880 \end{aligned}$$

= 11,880 are shown in the profit and loss appropriation account.

**Exercise**

**1. Select appropriate option for each question :**

- (1) In which year partnership act was implemented in India ?  
(a) 1923 (b) 1932  
(c) 1947 (d) 1956
- (2) In which proportion profit-loss will be shared between the partners if no provision is made in the partnership deed ?  
(a) Capital proportion (b) Gaining ratio  
(c) Sacrificing ratio (d) Equal proportion
- (3) Credit balance of trading account represents .....  
(a) gross profit (b) net profit  
(c) gross loss (d) net loss

- (4) Goods returned debit means ..... .
- (a) purchase (b) purchase return  
(c) sales (d) sales return
- (5) Goods returned credit means ..... .
- (a) purchase return (b) sales return  
(c) purchase (d) sales
- (6) Which balance is represented by bank overdraft ?
- (a) Debit balance (b) Credit balance  
(c) Debit and Credit (d) None of the above
- (7) Where will you disclose the credit balance of profit and loss account which is shown in the trial balance ?
- (a) Trading A/c (b) Profit and loss A/c  
(c) Profit and loss appropriation A/c (d) Capital/current A/c
- (8) Which transaction is shown at the debit side of the profit and loss appropriation account ?
- (a) Interest on drawings (b) Interest on debit balance of current A/c  
(c) Net profit (d) Amount to be transferred to general reserve
- (9) Generally, which balance is maintained by current account ?
- (a) debit (b) credit  
(c) debit or credit (d) None of the above
- (10) The financial position of business is disclosed by ..... .
- (a) Trial balance (b) Trading A/c  
(c) Balance sheet (d) Profit and loss A/c

2. Describe the objectives of the preparation of final accounts of a partnership firm.
3. Explain in brief, the method of the preparation of final accounts of a partnership firm.
4. State list of tangible and intangible assets.
5. Where will you disclose the following items given in a trial balance during the preparation of a final account of a partnership firm : (1) Bad debts returned (2) Depreciation : factory's building (3) Wages and salary (4) Provident fund investments (5) Bills payable (6) Goods withdrawn as drawings (7) Goods return credit (8) Goods return debit (9) Loan given to firm by a partner (10) Interest on investments of provident fund.
6. Where will you disclose the effects of the following adjustments during the preparation of final accounts of a partnership firm :  
(1) Closing stock of stationery (2) Unrecorded credit sales (3) Commission payable to partner on net profit (4) Goods withdrawn by partner for personal use. (5) Interest on debit balance of Partners' current account (6) Certain amount is written off from leasehold property (7) Receivable income (outstanding income) (8) Prepaid expenses (9) Discount reserve on debtors.

**7. Write adjustment entries for the following adjustments :**

- (1) Book value of stock is ₹ 40,000, but its market value is 20 % less than the book value.
- (2) Salary outstanding ₹ 1000.
- (3) Mahendra lended loan of ₹ 25,000 to the firm, but 10 % for 6 months is outstanding on it.
- (4) Interest received in advance ₹ 500.
- (5) Provide depreciation at 8 % for 8 months on a building of ₹ 5,00,000.
- (6) Closing stock of stationery at the end of the accounting period is ₹ 250.
- (7) Closing balance at the end of accounting period, of debtors of business is ₹ 50,000, out which written off ₹ 4500 as bad debts. Provide 10 % bad debts reserve on debtors.
- (8) One partner has withdrawn goods of ₹ 5000 for personal use, this transaction is not recorded.
- (9) Goods of ₹ 3000 destroyed by fire. Insurance company has admitted the the claim of 80 %.

**8. Brahma and Vishnu are partners of a firm sharing profit-loss in the proportion 3:2. From the trial balance dated 31-3-2017 and adjustments, prepare annual accounts of the firm :**

**Trial Balance of Partnership Firm of Brahma and Vishnu as on 31-3-2017**

Debit Balances	Amt. (₹)	Credit Balances	Amt. (₹)
<b>Drawings : Brahma</b>	5000	<b>Capital Accounts : Brahma</b>	55,000
Vishnu	5000	Vishnu	45,000
Leasehold building (from 1-4-16 for 10 years)	60,000	Loan of Brahma (from 1-7-2016)	50,000
Machinery (Office)	50,000	Discount received	400
Discount allowed	350	Creditors	25,000
Debtors	40,000	Commission	2500
Carriage outward	1200	Bills payable	5000
Furniture-fixtures	5000	Trading A/c	97,250
Salary	7500		
Bad debts	1200		
Bills receivable	20,000		
Trading expense	5900		
Cash balance	6000		
Stock (31-3-17)	73,000		
	<b>2,80,150</b>		<b>2,80,150</b>

**Adjustments :** (1) Provide depreciation 6 % on machinery and 20 % on furniture fixtures. (2) Written off ₹ 500 from debtors as bad debts. (3) Annual salary of ₹ 5000 and ₹ 4000 payable to Brahma and Vishnu respectively. (4) Commission ₹ 500 is receivable. (5) Outstanding salary ₹ 3000.

9. Parthiv and Priya are the partners of a partnership firm. From the Trial balance dated 31-3-2017 and adjustments, prepare final accounts of a partnership firm.

**Trial Balance of Partnership Firm of Parthiv and Priya as on 31-3-2017**

Debit Balances	Amt. (₹)	Credit Balances	Amt. (₹)
<b>Drawings : Parthiv</b>	4800	<b>Capital Accounts : Parthiv</b>	24,000
Priya	3200	Priya	16,000
*Net cost of purchase	1,06,000	Sales	2,00,000
Stock of goods (31-3-17)	28,000	Payables	30,000
Receivables	48,000	Goods distribute as sample	2000
Wages-salary	10,000	Bank overdraft	14,000
Trading expense	16,000		
Building	50,000		
Furniture-fittings	10,000		
Office equipments	4000		
Packing material stock	4000		
Cash balance	2000		
	<b>2,86,000</b>		<b>2,86,000</b>

\*Note : Net cost of purchase means adjusted purchase.

**Adjustments :**

- (1) Provide interest 8 % on capital and 12 % on drawings. Parthiv had withdrawn ₹ 400 at the end of each month and Priya had withdrawn on 1-10-16.
  - (2) Credit sales of ₹ 10,000 is not recorded and total of sales book of March is overcast by ₹ 2000.
  - (3) Write off additional bad debts of ₹ 2000 and provide 5 % bad debts reserve on debtors.
  - (4) Furniture of ₹ 4000 became obsolete, which is not recorded in the books.
  - (5) A court has finalised claim of ₹ 4000, for not meeting agreement to provide goods to a customer.
  - (6) Outstanding wages of ₹ 2000 is recorded to wages account but outstanding wages account is not recorded in the trial balance.
10. Luv and Kush are partners of a partnership firm. They distribute 60 % profit in the ratio of 3:2 and remaining in the proportion of 2:1. From the trial balance of the firm dated 31-3-17 and adjustments prepare profit and loss appropriation account, current accounts of partners and balance sheet of the firm.



**Trial Balance of Partnership Firm of Luv and Kush as on 31-3-2017**

Particular	Debit balance (₹)	Credit balance (₹)
Luv's capital - drawings	40,000	1,20,000
Kush's capital - drawings	12,000	80,000
<b>Current accounts :</b> Luv	—	8000
Kush	12,000	—
Profit and loss A/c	—	80,000
Stock (31-3-2017)	72,000	—
Prepaid insurance premium	3200	—
Building	1,60,000	—
Debtors and creditors	80,000	28,000
Cash and bank balance	4800	20,000
Bills payable	—	14,000
Mortgage loan	—	1,00,000
Goodwill	40,000	—
Outstanding wages	—	2800
Receivable rent	1600	—
Commission received in advance	—	800
Bad debts reserve	—	8000
Patents	12,000	—
Furniture	24,000	—
	<b>4,61,600</b>	<b>4,61,600</b>

**Adjustments :** (1) Provide interest on capital at 6 % and on drawings at 10 %. (2) Provide 10 % interest on opening balance of current accounts. (3) Monthly salary of ₹ 1800 is outstanding, payable to Kush. (4) After information of above mentioned adjustments, on remaining profit 10 % commission is payable to Kush.

11. From the Trial Balance and adjustments of partnership firm of Salim and Shabana, prepare final accounts of partnership firm.

### Trial Balance of Partnership Firm of Salim and Shabana as on 31-3-2017

Particular	Debit balance (₹)	Credit balance (₹)
<b>Capital Account :</b> Salim	—	1,60,000
Shabana	—	1,20,000
<b>Current Account :</b> Salim	10,000	—
Shabana	—	40,000
Stock of goods (31-3-17)	54,600	—
Cash balance	560	—
Current account with bank	14,000	—
Fixed deposit of SBI	80,000	—
Debtors - creditors	36,800	24,000
Salary	37,000	—