

Accounts

(Part 1) (Chapter - 1) (Accounting for Partnership: Basic Concepts)

(Class 12)

Short Answer Questions

Question 1:

Define Partnership Deed.

Answer 1:

Partnership Deed is a written agreement among the partners of a partnership firm. It generally contains the details about all the aspects affecting the relationship between the partners including the objective of business, contribution of capital by each partner, ratio in which the profits and the losses will be shared by the partners and entitlement of partners to interest on capital, interest on loan, etc. It includes the following details:

- Name and address of the firm
- Name and address of all partners
- Profit and loss sharing ratio
- Contribution to capital by each partner
- Rights, types of roles and duties of partners
- Duration of partnership
- Rate of interest on capital, drawings and loans
- Salaries, commission, if payable to partners.
- Rules regarding admission, retirement, death and dissolution of the firm, etc.

Question 2:

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

Answer 2:

The Partnership agreement can be either oral or written. The Partnership Act does not require that the agreement must be in writing. But wherever it is in writing, the document, which contains terms of the agreement is called 'Partnership Deed'. But a written agreement is better than oral agreement and therefore helps in settling disputes between the partners. It has to be duly signed and registered under Partnership Act.

Question 3:

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

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

Answer 3:

(i) When capitals are fixed:

Items that are credited to Partner's Capital Account are

- Opening balance of capital
- Additional capital introduced during the year

Items that are debited to Partner's Capital Account are:

- Capital withdrawn
- Closing balance of capital

(ii) When capitals are fluctuating:

Items that are credited to Partner's Capital Account are

- Opening balance of capital
- Additional capital introduced during the year
- Salaries to the partner
- Share in profit

- Commission to the partners
- Interest on Capital
- Bonus to the partners

Items that are debited to Partner's Capital Account are

- Capital withdrawn
- Share in loss
- Interest on drawings
- Closing balance of capital

Question 4:

Why is Profit and Loss Appropriation Account prepared?

Answer 4:

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

- **To record omitted items and rectify errors if any:** If any error or omission is noticed after the preparation of Profit and Loss Account and Balance Sheet, then these are adjusted by opening Profit and Loss Adjustment Account in the subsequent accounting period without altering old Profit and Loss Account.
- **To distribute profit or loss between the partners:** In addition of adjusting the items and rectifying errors, this account is also used for distribution of profit or loss between the partners. It acts as a substitute for Profit and Loss Appropriation Account. The reason behind preparation of the Profit and Loss Adjustment Account is to ascertain true profit or loss.

Question 5:

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

Answer 5:

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

- When Additional capital is introduced by the partner during the year.
- When Capital is permanently withdrawn by the partner from the firm.

Question 6:

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

Answer 6:

If a fixed amount is withdrawn on the first day of every quarter, then the interest on drawings is calculated for a period of seven and half (7 ½) months.

Example: If a partner withdraws ₹7,000 in the beginning of each quarter and the interest is charged @ 12% on the drawings, then interest on drawings will be calculated as:

Total drawings made by the partner during the whole year are ₹28,000 (₹7000 × 4)

Interest on drawings = $28000 \times 12/100 \times 7.5/12 = 2100$

Question 7:

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

- (i) Sharing of profits and losses
- (ii) Interest on partner's capital
- (iii) Interest on Partner's drawings

- (iv) Interest on Partner's loan
- (v) Salary to a partner

Answer 7:

- (i) Sharing of profits and losses: Profits and losses are to be shared equally by all the partners of the firm.
- (ii) Interest on partner's capital: No interest on capital should be given to the partners of the firm.
- (iii) Interest on Partner's drawings: No interest on drawing should be charged from the partners of the firm for the amount of capital withdrawn.
- (iv) Interest on Partner's loan: The partners are entitled for 6% p.a. interest on the loan lent to the firm.
- (v) Salary to a partner: No salary should be given to any partner.

Long Answer Questions

Question 1:

What is meant by partnership? Explain its chief characteristics? Explain.

Answer 1:

When two or more persons join hands to set up a business and share its profits and losses, they are said to be in partnership. Section 4 of the Indian Partnership Act 1932 defines partnership as the 'relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all'. Persons who have entered into partnership with one another are individually called 'partners' and collectively called 'firm'. The name under which the business is carried is called the 'firm's name'. A partnership firm has no separate legal entity, apart from the partners constituting it. Thus, the essential features of partnership are:

- **Two or More Persons:** In order to form partnership, there should be at least two persons coming together for a common goal. In other words, the minimum number of partners in a firm can be two. There is however, a limit on their maximum number.
- **Agreement:** Partnership is the result of an agreement between two or more persons to do business and share its profits and losses. It is not necessary that such agreement is in written form. An oral agreement is equally valid. But in order to avoid disputes, it is preferred that the partners have a written agreement.
- **Business:** The agreement should be to carry on some business. Mere co ownership of a property does not amount to partnership.
- **Mutual Agency:** The business of a partnership concern may be carried on by all the partners or any of them acting for all. Every partner is entitled to participate in the conduct of the affairs of its business. There exists a relationship of mutual agency between all the partners. Each partner carrying on the business is the principal as well as the agent for all the other partners.
- **Sharing of Profit:** The agreement between partners must be to share profits and losses of a business. Though the definition contained in the Partnership Act describes partnership as relation between people who agree to share the profits of a business, the sharing of loss is implied.
- **Liability of Partnership:** Each partner is liable jointly with all the other partners and also severally to the third party for all the acts of the firm done while he is a partner. Not only that the liability of a partner for acts of the firm is also unlimited.

Question 2:

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

Answer 2:

The main provisions of the Indian Partnership Act 1932 that are relevant to partnership accounts if there is no partnership deed are:

- (a) **Profit Sharing Ratio:** The profits and losses of the firm are to be shared equally by partners, irrespective of their capital contribution in the firm.
- (b) **Interest on Capital:** No interest on capital is payable if the partnership deed is silent.
- (c) **Interest on Drawings:** No interest is to be charged on the drawings made by the partners, if there is no mention in the Deed.
- (d) **Interest on Advances:** If any partner has advanced some money to the firm beyond the amount of his capital for the purpose of business, he shall be entitled to get an interest on the amount at the rate of 6 percent per annum.
- (e) **Remuneration for Firm's Work:** No partner is entitled to get salary or other remuneration for taking part in the conduct of the business of the firm unless there is a provision for the same in the Partnership Deed.

Question 3:

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

Answer 3:

Partnership Deed is a written agreement among the partners of a partnership firm. It generally contains the details about all the aspects affecting the relationship between the partners including the objective of business, contribution of capital by each partner, ratio in which the profits and the losses will be shared by the partners and entitlement of partners to interest on capital, interest on loan, etc. It includes the following details:

- Name and address of the firm
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- Rights, types of roles and duties of partners
- Duration of partnership
- Rate of interest on capital, drawings and loans
- Salaries, commission, if payable to partners.
- Rules regarding admission, retirement, death and dissolution of the firm, etc.

The Partnership agreement can be either oral or written. The Partnership Act does not require that the agreement must be in writing. But wherever it is in writing, the document, which contains terms of the agreement is called 'Partnership Deed'. But a written agreement is better than oral agreement and therefore helps in settling disputes between the partners. It has to be duly signed and registered under Partnership Act.

Question 4:

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

Answer4:

When a partner withdraws any amount, either in cash or in any other form from the firm for personal use is called drawings. Interest on drawings is an interest charged by the firm on the amount of drawings made by the partner. The calculation of interest on drawings charged by the firm in different situations are:

Situation 1:

When amount, date and rate of interest on drawings are given

If a partner withdraws ₹10000 on 1st May and the interest on drawings is charged at 10% p.a. and firm closes its books on 31st December every year, then the interest on drawings will be ₹667

Interest on drawings = Total Amount * Rate of Interest * Period /12

Interest on drawings = $10000 * 10/100 * 8/12 = ₹667$

Situation 2:

When amount and rate of interest on drawings are given

- **Case 1: If the amount and rate of interest on drawings (per annum) are given, but date is not mentioned:**

Now, in such case the period of drawing will be taken as 6 months.

Example: A partner withdraws ₹15,000 and rate of interest on drawings is 10% p.a. Interest on drawing will be ₹750.

Interest on Drawings = $15,000 * 10/100 * 6/12 = ₹750$

- **Case 2: If amount and rate of interest on drawings are given, but date and per annum rate of interest are not given**

Now, the interest will be charged annually.

Example: When a partner withdraws ₹15,000 and the rate of interest on drawings is 10%, the interest on drawings will be ₹1500

Interest on Drawings = $15,000 * 10/100 = ₹1500$

Situation 3:

Fixed amount is withdrawn at regular intervals

- **Case 1: Fixed amount withdrawn at the beginning of each month**

Now, Interest will be calculated for 6.5 months.

Example: When a partner withdraws ₹1500 in the beginning of each month and the interest on drawings is 10% p.a., the interest on drawings will be ₹975.

Interest on Drawings = $18000 * 10/100 * 6.5/12 = ₹975$

- **Case 2: Fixed amount is withdrawn at the end of each month**

Now, the interest will be calculated for 5.5 months.

Example: When a partner withdraws ₹1500 at the end of each month and the rate of interest is 10% p.a., the interest on drawings amount to ₹825

Interest on Drawings = $18000 * 10/100 * 5.5/12 = ₹825$

- **Case 3: Fixed amount is withdrawn in the middle of every month**

Assume drawings are made on the 15th of every month and the interest on drawings is calculated for 6 months.

Example: When a partner withdraws ₹1500 on the 15th of every month and the rate of interest is 10% p.a., the interest on drawings amount to ₹900.

Interest on Drawings = $18000 * 10/100 * 6/12 = ₹900$

- **Case 4: Fixed amount is withdrawn at the beginning of every quarter**

Now, the interest will be calculated for 7.5 months.

Example: When a partner withdraws ₹1500 at the beginning of every quarter and the rate of interest is 10% p.a., the interest on drawings will be ₹1125

Interest on Drawings = $18000 * 10/100 * 7.5/12 = ₹1125$

- **Case 5: Fixed amount is withdrawn at the end of every quarter**

Now, the interest on drawings will be calculated for 4.5 months.

Example: When a partner withdraws ₹1500 at the end of every quarter and the rate of interest is 10% p.a., the interest on drawings will be ₹675.

Interest on Drawings = $18000 * 10/100 * 4.5/12 = ₹675$

Different amount is withdrawn at different intervals

Example- A partner withdraws ₹4,000 on 1 March, ₹1500 on 01 June, ₹2000 on 1 Sep and ₹1500 on Dec. 31 and the rate of interest on drawings is 10% p.a. The firm closes its book on 31 December.

Date	Amount (₹)	Months	Product
1 March	4,000	10	$4,000 * 10 = 40,000$
1 June	1,500	7	$1,500 * 7 = 10,500$
1 Sep	2,000	4	$2,000 * 4 = 8,000$
31 Dec	1,500	0	$1,500 * 0 = 0$
			58,500

Question 5:

Answer 5:

But if the existing partners decide to change the profit-sharing ratio then some partners gain at the cost of other partners. Thus, the gaining partner should compensate the sacrificing partner.

Gaining Partner's Capital A/c Dr.
To Sacrificing Partner's Capital A/c
(Adjustment entry passed)

Particulars	A	B	C
Share of profit as per 3:2:1	75000	50000	25000
Profit on revaluation of building	30000	20000	10000

	105000	70000	35000
Share of profit as per 1:1:1	70000	70000	70000
Difference (Gain or Loss)	35000 (Loss)	Nil	35000 (Gain)

Journal Entry

C's Capital A/c	Dr	35000	
To A's Capital A/c			35000
(Adjustment entry passed)			

Numerical Questions

Fixed and Fluctuating Capitals

Question 1:

Tripathi and Chauhan are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were Rs.60,000 and Rs.40,000 as on April 01, 2019. During the year they earned a profit of Rs. 30,000. According to the partnership deed both the partners are entitled to Rs. 1,000 per month as salary and 5% p.a. interest on their capital. They are also to be charged an interest of 5% p.a. on their drawings, irrespective of the period, which is Rs. 12,000 for Tripathi, Rs. 8,000 for Chauhan. Prepare Partner's capital/current accounts when, capitals are fixed.

Answer 1:

(a) If interest on Capital and Partners' salaries and interest on drawings is charged against profit

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Tripathi's Current Account Chauhan's Current Account	18,000 12,000	Profit and Loss	30,000
	30,000		30,000

Partners' Capital Account

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

Partners' Current Account

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

(b). If interest on Capital and Partners' salaries and interest on drawings is distributed out of profit:

Profit and Loss Appropriation Account

Dr.			Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)	
Partners' Salary		Profit and Loss (Profit)	30,000	
Tripathi 12,000 (1,000 × 12)		Interest on Drawings		
Chauhan 12,000 (1,000 × 12)	24,000	Tripathi 600		
		Chauhan 400	1,000	
Interest on Capital				
Tripathi 3,000				
Chauhan 2,000	5,000			
Profit Transferred to				
Tripathi's Current 1,200				
Chauhan's Current 800	2,000			
	31000		31000	

Partners' Capital Account

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

Partners' Current Account

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

Question 2:

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

Answer 2:

(a) If Partners Salaries, Interest on capital and Interest on Drawing are treated through Profit and Loss Account.

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Profit Transferred to:		Profit and Loss	45,000
Anubha's Capital 30,000			
Kajal's Capital <u>15,000</u>	45,000		
	45,000		45,000

Partners' Capital Account

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

(b) If Partner's Salaries, interest on capital and interest on drawings is distributed out of profit:

Profit and Loss Appropriation Account

Dr.			Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)	
Partners' Salaries:		Profit and Loss Account	45,000	
Anubha 8,400				
Kaja <u>16,000</u>	14,400	Interest on Drawings		
		Anubha 425		
Interest on Capital:		Kajal <u>325</u>	750	
Anubha 4,500				
Kajal <u>3,000</u>	7,500			
Profit transferred to				
Anubha's Capital 15,900				
Kajal's Capital <u>7,970</u>				
	23,850			
	45,750		45,750	

Partners' Capital Account

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

Distribution of Profits

Question 3:

Harshad and Dhiman are in partnership since April 01, 2019. No Partnership agreement was made. They contributed ₹ 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advanced an amount of ₹ 1,00,000 to the firm, on October 01, 2019. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2019. The profits for the year ended March 31, 2020 amounted to ₹ 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

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

Dhiman Claims:

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

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

Answer 3:

Profit and Loss Adjustment Account

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

Profit and Loss Appropriation A/c

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Harshad 88,500 Dhiman 88,500	1,77,000	Profit and Loss Adjustment (Net profit for the year)	1,77,000
		1,77,000	1,77,000

Notes:

In the absence of partnership agreement:

- (a) Interest on partners loan will be allowed at 6% p.a
- (b) Profits should be shared equally

Question 4:

Aakriti and Bindu entered into partnership for making garment on April 01, 2019 without any Partnership agreement. They introduced Capitals of Rs. 5,00,000 and Rs. 3,00,000 respectively on October 01, 2019. Aakriti Advanced. Rs, 20,000 by way of loan to the firm without any agreement as to interest. Profit and Loss account for the year ended March 31 2020 showed profit of Rs, 43,000. Partners could not agree upon the question of interest and the basis of division of profit. You are required to divide the profits between them by preparing Profit and Loss Appropriation Account. Also give reasons in Support of your answer.

Answer 4:**Profit and Loss Adjustment Account**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Interest on Partner's Loan Aakriti (20000*6/12*6/100)	600	Profit and Loss	43,000
Profit transferred to Aakriti's Capital 21,200 Bindu's Capital <u>21,200</u>	42,400		
	43,000		43,000

Notes: In the absence of partnership deed:

- a) Interest on partners loan shall be allowed at 6% p.a.
- b) Interest on capital shall not be allowed.
- c) Profit shall be distributed equally.

Question 5:

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

Answer 5:

In case of Loss :

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount (₹)
Partner's Salaries Shikha	60,000	Profit and Loss	23,200
Interest on Capital Rakhi 20,000 Shikha <u>30,000</u>	50,000	Loss transferred to Rakhi 34,720 Shikha <u>52,080</u>	86,800
	1,10,000		1,10,000

Partners' Capital Account

Dr.

Cr.

Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
Drawings	7,000	10,000	Balance b/d	2,00,000	3,00,000
Profit & Loss	34,720	52,080	Partner's Salaries		60,000
Appropriation			Interest on Capital	20,000	30,000
Balance c/d	1,78,280	3,27,920			
	2,20,000	3,90,000		2,20,000	3,90,000

When interest on capital and salaries is provided out of profit of the firm:

Profit and Loss Appropriation Account

Dr.

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Partner's Salaries		Profit and Loss	23,200
Shikha	12,655		
Interest on Capital			
Rakhi	4,218		
Shikha	6,327		
	23,200		23,200

Partners' Capital Account

Dr.

Cr.

Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
Drawings	7,000	10,000	Balance b/d	2,00,000	3,00,000
Balance c/d	1,97,218	3,08,972	Partner's Salaries		12,655
			Interest on Capital	4,218	6,327
	2,04,218	3,18,972		2,04,218	31,8,972

Calculation:

Amount Ratio	Amount (₹)	
Partners Salaries :		
Shikhar	60,000	$6 = 23,200 \times 6/11 = 12,655$
Interest on Capital :		
Rakhi	20,000	$2 = 23,200 \times 2/11 = 4,218$
Shikhar	30,000	$1 = 23,200 \times 3/11 = 6,327$

Question 6:

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

Answer 6:

Profit and Loss Adjustment Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Interest on Capital		Profit and Loss (12500+2500)	15,000
Lokesh 30,000			
Azad 1,800	4,800		
Partner's Salaries			
Azad 2,500	2,500		
Provision for Manager's Commission (15000*5/100)	750		
Profit transferred to			
Lokesh 4,170			
Azad 2,780	6,950		
	15,000		15,000

Partners' Capital Account

Dr.			Cr.		
Particulars	Lokesh	Azad	Particulars	Lokesh	Azad
			Balance b/d	50,000	30,000
			Interest on Capital	3,000	1,800
			Partner's Salaries		2,500
			Profit and Appropriation	4,170	2,780
Balance c/d	57,170	37,080			
	57,170	37,080		57,170	37,080

Question 7:

The partnership agreement between Maneesh and Girish provides that:

- Profits will be shared equally;
- Maneesh will be allowed a salary of ₹ 400p.m;
- Girish who manages the sales department will be allowed a commission equal to 10% of the net profits, after allowing Maneesh's salary;
- 7% p.a. interest will be allowed on partner's fixed capital;
- 5% p.a. interest will be charged on partner's annual drawings;
- The fixed capitals of Maneesh and Girish are ₹ 1,00,000 and ₹ 80,000, respectively. Their annual drawings were ₹ 16,000 and 14,000, respectively. The net profit for the year ending March 31, 2019 amounted to ₹ 40,000;

Prepare firm's Profit and Loss Appropriation Account.

Answer 7:

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount	Particulars	Amount

	(₹)		(₹)
Partner's Salary Maneesh	4,800	Profit and Loss	40,000
Partner's commission Girish ((40,000-4,800) *10/100)	3,520	Interest on Drawings Maneesh 800 Girish <u>700</u>	1,500
Interest on Capital Mannesh 7,000 Girish <u>5,600</u>	12,600		
Profit transferred to Maneesh 10,290 Girish <u>10,290</u>	20,580		
	41,500		41,500

Question 8:

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

Answer 8:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Ram (20,000-1,250)	18,750	Profit and Loss	40,000
Raj (12,000-750)	11,250		
George (8,000+1,250+750)	10,000		
	40,000		40,000

Question 9:

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

Answer 9:

Profit and Loss Appropriation Account for the year ended 2016

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Amann	16,000	Profit and Loss	40,000

Babita (16,000-2,000)	14,000		
Suresh	10,000		
	40,000		40,000

**Profit and Loss Appropriation Account
for the year ended 2017**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Amann	24,000	Profit and Loss	60,000
Babita	24,000		
Suresh	12,000		
	60,000		60,000

Question 10:

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

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

Answer 10:

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Interest on Capital		Profit and Loss Account	1,50,000
Simmi	1,500		
Sonu	<u>3,000</u>	Interest on Drawings	
	4,500	Simmi	600
Partners' Salaries		Sonu	<u>450</u>
Simmi	12,000		1,050
Sonu	<u>9,000</u>		
	21,000		
Profit transferred to			
Simmi's Current	94,162		
Sonu's Current	<u>31,388</u>		
	1,25,550		
	1,51,050		1,51,050

Partners' Capital Account

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

Partners' Current Account

Dr.			Cr.		
Particulars	Simmi	Sonu	Particulars	Simmi	Sonu
Drawings	20,000	15,000	Balance b/d	30,000	15,000
Interest on Drawings	600	450	Interest on Capital	1,500	3,000
Balance c/d	1,17,662	43,388	Partners' Salaries	12,000	9,000
			Profit and Loss Appropriation	94,162	31,388
	1,37,662	58,388		1,37,662	58,388

Question 11:

Arvind and Anand are partners sharing profits and losses in the ratio 8:3:1. Balances in their capital accounts on April 01, 2019 were, Arvind- Rs. 4,40,000 and Anand Rs. 2,60,000. As per their agreement, partners were entitled to interest on capital @ 5% p.a., and interest on drawings was to be charged @ 6% p.a. Arvind was allowed an annual salary of Rs. 35,000/- for the additional responsibilities taken up by him. Partners' drawings for the year were, Arvind Rs. 40,000 and Anand Rs. 28,000. Profit and loss account of the firm for the year ending March 31, 2020 showed a Net Loss of Rs. 32,400. Prepare Profit and Loss Appropriation Account.

Answer 11:

Dr.		Profit and Loss Appropriation A/c		Cr.
Particulars	₹	Particulars		₹
To P&L – Loss	32,400	By Interest on drawings		
		Arvind	1,200	
		Anand	840	2,040
		By loss t/fd to capital accounts		
		Arvind	22,770	
		Anand	7,590	30,360
	32,400			32,400

No salary and interest on capital will be allowed in case of loss.

Interest on drawings:

$$\text{Arvind} = 40,000 \times 6/100 \times 6/12 = \text{Rs. } 1,200$$

$$\text{Anand} = 28,000 \times 6/100 \times 6/12 = \text{Rs. } 840$$

Question 12:

Ramesh and Suresh were partners in a firm sharing profits in the ratio of their capitals contributed on commencement of business which were ₹ 80,000 and ₹ 60,000 respectively. The firm started business on April 1, 2016. According to the partnership agreement, interest on capital and drawings are 12% and 10% p.a., respectively. Ramesh and Suresh are to get a monthly salary of ₹ 2,000 and ₹ 3,000, respectively. The profits for year ended March 31, 2017 before making above appropriations was ₹ 1,00,300. The drawings of Ramesh and Suresh were ₹ 40,000 and ₹ 50,000, respectively. Interest on drawings amounted to ₹ 2,000 for Ramesh and ₹ 2,500 for Suresh. Prepare Profit and Loss Appropriation Account and partners' capital accounts, assuming that their capitals are fluctuating.

Answer 12:

Profit and Loss Appropriation Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Interest on Capital		Profit and Loss	1,00,300
Ramesh 9,600		Interest on Drawings	
Suresh 7,200	16,800	Ramesh 2,000	
		Suresh 2,500	4,500
Partners' Salaries			
Ramesh 24,000			
Suresh 36,000	60,000		
Profit Transferred to			
Ramesh 28,000*4/7	28,000		
Suresh 28,000*3/7			
	1,04,800		1,04,800

$$\text{Capital Ratio} = 80,000:60,000 = 4:3$$

Partners Capital Account

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

Question 13:

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

- (i) Profits would be shared by Sukesh and Vanita in the ratio of 3:2;
- (ii) 5% interest is to be allowed on capital;
- (iii) Vanita should be paid a monthly salary of ₹ 600.

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

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

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

Answer 13:

Profit and Loss Appropriation Account

Dr.			Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)	
Interest on Capital		Profit and Loss (9,500+7,200)	16,700	
Sukesh 2,000				
Vanita 2,000	4,000			
Partner's Salary	7,200			
Profit transferred to Sukesh Current A/c	3,300			
5,500*3/5				
Vanita Current A/c	2,200			
28,000*2/5				
	16,700		16,700	

Partner's Capital Account

Dr.			Cr.		
Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
			Balance b/d	40,000	40,000
Balance c/d	40,000	40,000			
	40,000	40,000		40,000	40,000

Partner's Current Account

Dr.

Dr.

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

Question 14:

Rahul, Rohit and Karan started partnership business on April 1, 2019 with capitals of ₹ 20,00,000, ₹ 18,00,000 and ₹ 16,00,000, respectively. The profit for the year ended March 2020 amounted to ₹1,35,000 and the partner's drawings had been Rahul ₹ 50,000, Rohit ₹ 50,000 and Karan ₹ 40,000. The profits are distributed among partner's in the ratio of 3:2:1. Calculate the interest on capital @ 5% p.a.

Answer 14:

Interest on Capital

Rahul = $20,00,000 \times 5/100 = ₹ 1,00,000$

Rohit = $18,00,000 \times 5/100 = ₹ 90,000$

Karan = $16,00,000 \times 5/100 = ₹ 80,000$

Question 15:

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

Answer 15:

Simple Interest Method

Sunflower

April 01, 2016 to September 30, 2016 = $2,50,000 \times 10/100 \times 6/12 = ₹ 12,500$

October 01, 2016 to March 31, 2017 = $2,00,000 \times 10/100 \times 6/12 = ₹ 10,000$

Interest on Sunflower's Capital = $12,500 + 10,000 = ₹ 22,500$

Pink Rose

April 01, 2016 to September 30, 2016 = $1,50,000 \times 10/100 \times 6/12 = ₹ 7,500$

October 01, 2016 to March 31, 2017 = $2,00,000 \times 10/100 \times 6/12 = ₹ 10,000$

Interest on Pink Rose's Capital = $7,500 + 10,000 = ₹ 17,500$

Product Method

Sunflower

April 01, 2016 to September 30, 2016 = $2,50,000 \times 6 = ₹ 15,00,000$

October 01, 2016 to March 31, 2017 = $2,00,000 \times 6 = ₹ 12,00,000$

Pink Rose

April 01, 2016 to September 30, 2016 = $1,50,000 \times 6 = 9,00,000$

October 01, 2016 to March 31, 2017 = $2,00,000 \times 6 = 12,00,000$

Interest on Sunflower's Capital = $2700000 \times 10/100 \times 1/12 = ₹ 22,500$

Interest on Pink Rose's Capital = $2100000 \times 10/100 \times 1/12 = ₹ 17,500$

Question 16:

On March 31, 2017 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.

Answer 16:

Generally, interest on Capital is calculated on opening balance of capital. If additional capital is not given then opening balance is calculated as mentioned below:

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

Interest on Capital

Mountain = $3,70,000 \times 10/100 = ₹ 37,000$

Hill = $2,65,000 \times 10/100 = ₹ 26,500$

Rock = $1,60,000 \times 10/100 = ₹ 16,000$

Question 17:

Following is the extract of the Balance Sheet of, Neelkant and Mahdev as on March 31, 2020:

Balance Sheet as at March 31, 2020

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

During the year Mahadev's drawings were ₹ 30,000. Profits during 2019-20 is ₹ 10,00,000. Calculate interest on capital @ 5% p.a for the year ending March 31, 2020.

Answer 17:

Interest on Capital

Neelkant = $10,00,000 \times 5/100 = ₹ 50,000$

Mahadev = $10,00,000 \times 5/100 = ₹ 50,000$

Capital of the partners is fixed as both Partner's Capital Account and Partner's Current Account is given. Drawings and interest on capital does not affect the capital balances of the partners when capital of the partner is fixed but will affect the current account. Therefore, opening capital and closing capital of the year would remain constant and interest on capital is calculated on fixed capital balances.

Question 18:

Rishi is a partner in a firm. He withdrew the following amounts during the year ended March 31, 2017.

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

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

Calculate interest on drawings

Answer 18:

Product Method:

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

Interest on Drawings = $3,06,000 \times 9/100 \times 1/12$

= ₹ 2,295

Question 19:

The capital accounts of Moli and Golu showed balances of ₹40,000 and ₹ 20,000 as on April 01, 2019. They shared profits in the ratio of 3:2. They allowed interest on capital @ 10% p.a. and interest on drawings, @ 12 p.a. Golu advanced a loan of ₹ 10,000 to the firm on August 01, 2019. During the year, Moli withdrew ₹ 1,000 per month at the beginning of every month whereas Golu withdrew ₹ 1,000 per month at the end of every month. Profit for the year, before the above-mentioned adjustments was ₹20,950. Calculate interest on drawings show distribution of profits and prepare partner's capital accounts.

Answer 19:

Drawing is made in the beginning of each month.

Interest on Drawings: Total Drawings * Rate/100 * Period/12

Interest on Moli's Drawing = $12,000 * 12/100 * 6.5/12 = ₹ 780$

Drawing is made at the end of each month.

Interest on Golu's Drawing = $12,000 * 12/100 * 5.5/12 = ₹ 660$

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

Particulars	Amount (₹)	Particulars	Amount (₹)
Interest on Capital		Profit and Loss Account	20,950
Moli 4,000			
Golu 2,000	6,000	Interest on Drawings	
		Moli 780	
Interest on Partner's Loan		Golu 660	1,440
Golu			
$10,000 * 6/100 * 8/12$	400		
Profit transferred to			
Moli			
$15,990 * 3/5$ 9,594			
Golu			
$15,990 * 2/5$ 6,396	15,990		
	22,390		22,390

Partners' Capital Account**Dr.****Cr.**

Particulars	Moli	Golu	Particulars	Moli	Golu
Drawings	12,000	12,000	Balance b/d	40,000	20,000
Interest on Drawing	780	660	Interest on Capital	4,000	2,000
Balance c/d	40,814	15,736	Profit and Loss Adjustment	9,544	6,396
	53,594	28,396		53,594	28,396

Question 20:

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

Rakesh	Month	Rs.
	May 31, 2019	600
	June 30, 2019	500
	August 31, 2019	1,000
	November 1, 2019	400
	December 31, 2019	1,500
	January 31, 2020	300
	March 01, 2020	700
Rohan	At the beginning of each month	400

Interest is to be charged @ 6% p.a. Calculate interest on drawings, assuming that book of accounts are closed on March 31, 2020, every year.

Answer 20:**Rakesh**

	Drawings × Period	Product
31 May 2019 to 31 March 2020	$600 \times 10 =$	6,000
30 June 2019 to 31 March 2020	$500 \times 9 =$	4,500
31 August 2019 to 31 March 2020	$1,000 \times 7 =$	7,000
1 November 2019 to 31 March 2020	$400 \times 5 =$	2,000
31 December 2019 to 31 March 2020	$1,500 \times 3 =$	4,500
31 January 2020 to 31 March 2020	$300 \times 2 =$	6,00
01 March 2020 to 31 March 2020	$700 \times 1 =$	700
	Sum of Product	25,300

$$\begin{aligned}\text{Interest} &= \text{Sum of Product} \times \text{Rate}/100 \times 1/12 \\ &= 25,300 \times 6/100 \times 1/12 \\ &= ₹ 126.5\end{aligned}$$

Roshan

$$\text{Total Drawing} = 400 \times 12 = ₹ 4,800$$

$$\text{Interest on Roshan's Capital} = 4,800 \times 6/100 \times 6.5/12 = ₹ 156$$

Drawing is made in the beginning of each month. Therefore, period is taken 6.5 months.

Question 21:

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

Answer 21:

$$\text{Total Drawing of Himanshu} = 2,500 \times 12 = ₹ 30,000$$

$$\text{Interest on Drawing} = 30,000 \times 12/100 \times 5.5/12 = ₹ 1,650$$

Drawing is made at the end of each month.

Question 22:

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

Answer 22:

$$\text{Total Drawing of Bharam} = ₹ 3000 \times 12 = ₹ 36,000$$

$$\begin{aligned}\text{Interest on Drawing} &= 36,000 \times 10/100 \times 6.5/12 \\ &= ₹ 1,950\end{aligned}$$

Drawing is made in the beginning of each month. Therefore, period is 6.5 months.

Question 23:

Raj and Neeraj are partners in a firm. Their capitals as on April 01, 2019 were ₹ 2,50,000 and ₹ 1,50,000, respectively. They share profits equally. On July 01, 2019, they decided that their capitals should be ₹ 1,00,000 each. The necessary adjustment in the capitals were made by introducing or withdrawing cash by the partners. Interest on capital is allowed @ 8% p.a. Compute interest on capital for both the partners for the year ending on March 31, 2020.

Answer 23:

Interest on Capital

Raj

Period	Months	Capital	Product
1 April 2019 to 30 June 2019	3	2,50,000	7,50,000
1 July 2019 to 31 March 2020	9	1,00,000	9,00,000
			16,50,000

$$\text{Interest} = 16,50,000 * 8/100 * 1/12$$

$$= ₹ 11,000$$

Neeraj

Period	Months	Capital	Product
1 April 2019 to 30 June 2019	3	1,50,000	4,50,000
1 July 2019 to 31 March 2020	9	1,00,000	9,00,000
			13,50,000

$$\text{Interest} = 13,50,000 * 8/100 * 1/12 = ₹ 9,000$$

Question 24:

Amit and Bhola are partners in a firm. They share profits in the ratio of 3:2. As per their partnership agreement, interest on drawings is to be charged @ 10% p.a. Their drawings during 2019 were ₹ 24,000 and ₹ 16,000, respectively. Calculate interest on drawings based on the assumption that the amounts were withdrawn evenly, throughout the year.

Answer 24:

Interest on Drawings = Drawings * Rate

$$\text{Amit} = 24,000 * 10/100 * 6/12 = ₹ 1,200$$

$$\text{Bhola} = 16,000 * 10/100 * 6/12 = ₹ 800$$

Question 25:

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

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

Interest on drawings is to be charged @ 7½ % p.a. Calculate the amount of interest to be charged on Harish's drawings for the year ending December 31, 2017.

Answer 25:

Period	Months	Drawings	Product
01 Feb 17 to 31 Dec. 17	11	4,000	44,000
01 May 17 to 31 Dec. 17	8	10,000	80,000
30 June 17 to 31 Dec. 17	6	4,000	24,000
31 Oct 17 to 31 Dec. 17	2	12,000	24,000
31 Dec 17 to 31 Dec. 17	0	4,000	0
			1,72,000

$$\text{Interest on drawings} = 1,72,000 * 7.5/100 * 1/12 = ₹ 1,075$$

Question 26:

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

Answer 26:**Case 1 :**

If they Withdraw money in the beginning of each month (6.5 months)

Interest of drawings = Total drawings * Rate * 6.5/12

Menon = $24,000 * 10/100 * 6.5/12 = ₹ 1,300$

Thomson = $24,000 * 10/100 * 6.5/12 = ₹ 1,300$

Case 2:

If they withdraw in the middle of every month

Interest on Drawings = Total drawings * Rate * 6/12

Menon = $24,000 * 10/100 * 6/12 = ₹ 1,200$

Thomas = $24,000 * 10/100 * 6/12 = ₹ 1,200$

Case 3 :

If they withdraw at the end of every month

Interest on drawings = Total drawings * Rate/100 * 5.5/12

Menon = $24,000 * 10/100 * 5.5/12 = ₹ 1,100$

Thomas = $24,000 * 10/100 * 5.5/12 = ₹ 1,100$

Question 27:

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

Answer 27:

	Ram	Shyam	Mohan
Capital on March 31, 2017	24,000	18,000	12,000
Add: Drawings	3,600	4,500	2,700
Less: Profit (3:2:1)	(18,000)	(12,000)	(6,000)
Capital on April 01, 2017	9,600	10,500	8,700

Interest on Capital = Opening Capital * Rate/100

Ram = $9,600 * 5/100 = ₹ 480$

Shyam = $10,500 * 5/100 = ₹ 525$

Mohan = $8,700 * 5/100 = ₹ 435$

Guarantee of Profit to the Partners

Question 28:

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

Answer 28:**Profit and Loss Appropriation Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to		Profit and Loss	36,000
Amit 18,000			
Less: Guarantee to Samiksha (1,200)	16,800		
Sumit 12,000			
Less: Guarantee to Samiksha (800)	11,200		
Samiksha 6,000			
Add: Amit Guarantee 1,200			
Add: Sumit Guarantee 800	8,000		
	36,000		36,000

Working Note:

Particulars	Amit	Sumit	Samiksha
Guarantee to Samiksha			8,000
Profit 36,000 (3:2:1)	18,000	12,000	6,000
Deficiency in Samiksha Share			2,000

Deficiency in Samiksha Share to be borne by Amit and Sumit in 3:2

Amit = $2,000 \times \frac{3}{5} = ₹ 1,200$

Sumit = $2,000 \times \frac{2}{5} = ₹ 800$

Question 29:

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

Answer 29:**Journal**

S no.	Particulars	Debit	Credit
1	Profit and Loss A/c To Profit and Loss Appropriation A/c (Being profit transferred from Profit and loss A/c)	40,000	40,000
2	Profit and Loss Appropriation A/c To Pinki's Capital A/c To Deepti's Capital A/c To Kaku's Capital A/c (Being profit distributed among Partner's)	40,000	19,500 15,500 5,000

Working Note :**Calculation for guarantee to the partner**

	Pinki	Deepti	Kaku
Guarantee to Kaku			5,000
Profit of ₹40,000 (5:4:1)	20,000	16,000	4,000
Deficiency in Kaku Share			1,000

Deficiency in Kaku's share to be borne by Pinki and Deepti Equally.

Pinki = $1,000 \times \frac{1}{2} = ₹ 500$

Deepti = $1,000 \times \frac{1}{2} = ₹ 500$

Now, Pinki = ₹ 2,000 – ₹ 500 = ₹ 19,500

Deepti = ₹ 16,000 – ₹ 500 = ₹ 15,500

Question 30:

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

Answer 30:

Profit and Loss Appropriation Account
(for the year ended March 31, 2016)

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Abhay's Capital	20,000	Profit and Loss	40,000
Siddharth's Capital 12,000			
Less: Guarantee to Kusum (2,000)	8,000		
Kusum Capital 8,000			
Add: Deficiency 2,000	10,000		
received from Siddharth			
	40,000		40,000

Profit and Loss Appropriation Account
for the year ended March 31, 2017

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Abhay's Capital	30,000	Profit and Loss	60,000
Siddharth's Capital	18,000		
Kusum's Capital	12,000		
	60,000		60,000

Question 31:

Radha, Mary and Fatima are partners sharing profits in the ratio of 5:4:1. Fatima is given a guarantee that her share of profit, in any year will not be less than ₹ 5,000. The profits for the year ending March 31, 2020 amounts to ₹ 35,000. Shortfall if any, in the profits guaranteed to Fatima is to be borne by Radha and Mary in the ratio of 3:2. Record necessary journal entry to show distribution of profit among partner.

Answer 31:**Profit and Loss Appropriation Account**

Dr. **Cr.**

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

Journal

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

Calculation of guarantee to the partner:

	Radha	Mary	Fatima
Guarantee to Fatima			5,000
Profit 35000 (5:4:1)	17,500	14,000	3,500
Deficiency in Fatima share			1,500

Question 32:

X, Y and Z are in Partnership, sharing profits and losses in the ratio of 3 : 2 : 1, respectively. Z's share in the profit is guaranteed by X and Y to be a minimum of ₹ 8,000. The net profit for the year ended March 31, 2020 was ₹ 30,000. Prepare Profit and Loss Appropriation Account.

Answer 32:**Profit and Loss Appropriation Account****Dr.****Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to X's Capital 35,000 Less: Z Deficiency (1,800) (3000*3/5)	13,200	Profit and Loss	30,000
Y's Capital 10,000 Less: Z Deficiency (1,200) (3000*2/5)	8,800		
Z's Capital 5,000 Add: Share of Deficiency born by X 1,800 Y 1,200	8,000		
	30,000		30,000

Question 33:

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

Answer 33:**Case 1:****Profit and Loss Appropriation Account as on March 31, 2015****Dr****Cr.**

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

Case 2:**Profit and Loss Appropriation Account as on March 31, 2015****Dr.****Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Arun's Capital $360000 \times \frac{2}{5}$	1,44,000	Profit and Loss	3,60,000
Bobby's Capital $360000 \times \frac{2}{5}$	1,44,000		
Chintu's Capital $360000 \times \frac{1}{5}$	72,000		
	3,60,000		3,60,000

Question 34:

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

Answer 34:**Profit and Loss Appropriation Account****Dr.****Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Profit transferred to Ashok's Capital 28,000 Less: Cheena's share of deficiency (6000 * ½) <u>(3,000)</u> Brijesh's Capital 28,000 Less: Cheena's share of deficiency (6000 * ½) <u>(3,000)</u> Cheena's Capital 14,000 Add: Deficiency received from Ashok 3,000 Brijesh <u>3,000</u>	25,000 25,000 20,000	Profit and Loss	70,000
	70,000		70,000

Question 35:

Ram, Mohan and Sohan are partners with capitals of ₹ 5,00,000, ₹ 2,50,000 and 2,00,000 respectively. After providing interest on capital @ 10% p.a. the profits are divisible as follows: Ram $\frac{1}{2}$, Mohan $\frac{1}{3}$ and Sohan $\frac{1}{6}$.

Ram and Mohan have guaranteed that Sohan's share in the profit shall not be less than ₹ 25,000, in any year. The net profit for the year ended March 31, 2017 is ₹ 2,00,000, before charging interest on capital.

You are required to show distribution of profit by preparing P & L Appropriation Account.

Answer 35:**Profit and Loss Appropriation A/c**

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
Interest on Capital		Profit and Loss	2,00,000
Ram 50,000			
Mohan 25,000			
Sohan <u>20,000</u>	95,000		
Profit Transferred to Ram's Capital 52,500			
Less: Share of <u>(4,500)</u> deficiency 7500 * 3/5	48,000		
Mohan's Capital 35,000			
Less: Share of deficiency <u>(3,000)</u> 7500 * 2/5	32,000		
Sohan's Capital 17,500			
Add: Deficiency received from Ram 4,500			
Mohan <u>3,000</u>	25,000		
	2,00,000		2,00,000

Question 36:

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

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

You are required to prepare Profit and Loss Appropriation Account.

Answer 36:**Profit and Loss Appropriation Account****Dr****Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Profit Transferred to Amit's Capital 42000 84,000 * 3/6 Less: Sona's share of Deficiency (600) 1,000 * 3/5	41,400	Profit and Loss Babita's Capital (Deficiency of Fees 25,000 – 16,000)	75,000 9,000
Babita's Capital 28000 84,000 * 2/6 Less: Sona's share of deficiency (400) 1,000 * 2/5 Sona's Capital 14,000 84,000 * 1/6 Add: Deficiency received from Amit 600 Babita 400	27,600 15,000		
	84,000		84,000

Past Adjustment**Question 37:**

The net profit of X, Y and Z for the year ended March 31, 2020 was ₹ 60,000 and the same was distributed among them in their agreed ratio of 3 : 1 : 1. It was subsequently discovered that the under mentioned transactions were not recorded in the books :

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

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

Answer 37:**Past Adjustment:**

	X	Y	Z	Total
Interest on Capital	5,000	4,000	3,000	12,000
Less: Interest on Drawings	(700)	(500)	(300)	(1,500)
Add: Partner's Salaries	1,000	1,500	NIL	2,500
Right distribution of ₹ 13,000	5,300	5,000	2,700	13,000
Less: Wrong distribution of ₹ 13,000 (3:1:1)	(7,800)	(2,600)	(2,600)	(13,000)
	(2,500)	2,400	100	NIL

Journal Entry :

Particulars	Debit (₹)	Credit (₹)
X's Capital A/c	2500	
To Y's Capital A/c		2400
To Z's Capital A/c		100
(Profit adjusted among partners)		

Question 38:

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

Year	Amount (₹)
2014-15	22,000
2015-16	24,000
2016-17	29,000

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

Answer 38:**Distribution of Profit**

Old Ratio	Harry	Porter	Ali	Total
2014 – 15	(8,800)	(8,800)	(4,400)	(22,000)
2015 – 16	(9,600)	(9,600)	(4,800)	(24,000)
2016 – 17	(11,600)	(11,600)	(5,800)	(29,000)
Total Profit of 3 years in old ratio	(30,000)	(30,000)	(15,000)	(75,000)
Distribution of 3 years profit in new Ratio (1:1:1)	25,000	25,000	25,000	75,000
Adjusted Profit	(5,000)	(5,000)	10,000	NIL

Journal Entry

Particulars	Debit (₹)	Credit (₹)
Harry's Capital A/c	5000	
Porter's Capital A/c	5000	
To Ali's Capital A/c		10000
(Profit adjusted due to change in profit sharing ratio)		

Question 39:

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

Balance Sheet as at March 31, 2017

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

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

Answer 39:**Adjustment of Profit**

	Mannu	Shrishti	Total
Interest on Capital	1,500	500	2,000
Less: Interest on Drawings	(120)	(60)	(180)
Right distribution of ₹ 1,820	1,380	440	1,820
Less: Wrong distribution of ₹ 1,820 (3 : 2)	(1,092)	(728)	(1,820)
Adjusted Profit	288	(288)	NIL

Journal Entry

Particulars	Debit(₹)	Credit(₹)
Shrishti's Capital A/c To Mannu's Capital A/c (Adjustment of profit made)	288	288

Question 40:

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

Answer 40:**Calculation of Opening Capital**

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

Adjustment of Profit

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

Journal Entry

Particulars	Dr.	Cr.
Eluin's Capital A/c	570	
To Monu's Capital A/c		10
To Ahmed's Capital A/c		560
(Being Adjustment of Profit made)		

Question 41:

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

Answer 41:

Journal Entry

Particulars	Debit (₹)	Credit (₹)
Azad's Capital A/c	1,000	
To Benny Capital A/c		1,000
(Being adjustment of Profit made)		

Working Note :

Interest on Capital

Azad = $40,000 \times 5/100 = ₹ 2,000$

Benny = $80,000 \times 5/100 = ₹ 4,000$

Adjustment of Profit

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

Question 42:

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

(a) Interest on Capital, at the rate of 10% p.a., was not charged.

(b) Interest on Drawings: Mohan ₹ 250, Vijay ₹ 200, Anil ₹ 150 was not recorded in the books.

Record necessary corrections through journal entries.

Answer 42:**Calculation of Opening Capital:**

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

Interest on Capital

Mohan = $27,000 \times 10/100 = ₹ 2,700$

Vijay = $21,000 \times 10/100 = ₹ 2,100$

Anil = $15,000 \times 10/100 = ₹ 1,500$

Adjustment of Profit

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

Journal Entry

Particulars	Debit (₹)	Credit (₹)
Anil's Capital A/c.Dr. To Vijay's Capital A/c (Adjustment of profit made)	550	550

Question 43:

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

Year	Anju	Manju	Mamta
2016	4	3	5
2017	3	2	1
2018	1	1	1

Make necessary and adjustment entry at the beginning of the fourth year i.e. April 2019.

Answer 43:

Interest on Capital

Anuj = $10,000 \times 5/100 = ₹ 500$

Manju = $8,000 \times 5/100 = ₹ 400$

Mamta = $6,000 \times 5/100 = ₹ 300$

Adjustment of profit

Year 2016

	Anuj	Manju	Mamta	Total
Interest on Capital	500	400	300	1200
Wrong distribution of ₹ 1,200 (4:3:5)	(400)	(300)	(500)	(1200)
	100	100	(200)	Nil

Year 2017

	Anuj	Manju	Mamta	Total
Interest on Capital	500	400	300	1200
Wrong distribution of ₹ 1,200 (4:3:5)	(600)	(400)	(200)	(1200)
	(100)	NIL	100	NIL

Year 2018

	Anuj	Manju	Mamta	Total
Interest on Capital	500	400	300	1200
Wrong distribution of ₹ 1,200 (4:3:5)	(400)	(400)	(400)	(1200)
	100	NIL	(100)	NIL

Final Adjustment:

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

Journal Entry:

Particulars	Debit (₹)	Credit (₹)
Mamta's Capital A/c	200	
To Anuj's Capital A/c		100
To Manju Capital A/c		100
(Adjustment of profit made)		