

CBSE Test Paper 02
Ch-2 Fundamentals of partnership and Goodwill

1. If dates of the withdrawal of drawings are not given then interest on drawings should be charged:
 - a. For 0 months
 - b. For 6 months
 - c. For 12months
 - d. For 8 months
2. Calculate the average profit of last four year's profits. The profits of the last four years were:

2008	27000
2009	39000
2010	16000(loss)
2011	40000

- a. ₹10000
 - b. Rs. 22500
 - c. ₹30000
 - d. ₹40000
3. A, B and C are partners sharing profits equally. A and B has given a minimum gurantee of Rs. 8,000 to the C. How much amount of profit C will get, when profit of the firm is Rs.30,000.
 - a. 22,000
 - b. 10,000
 - c. 30,000
 - d. 8,000
4. Salary paid to a partner will be shown in:
 - a. Partners current account only
 - b. Profit and loss appropriation account
 - c. Profit and loss account
 - d. Partners capital account only
5. When rate of Interest on Drawings is given without the word per annum, interest will be calculated _____

- a. For 12 month
 - b. Irrespective of a time period
 - c. For 6 month
 - d. For 1 month
6. In the absence of provision in the partnership deed, in which ratio is the deficiency arising out of guarantee of profit to a partner borne by the other partners?
7. Following is the extract of the Balance Sheet of, Neelkant and Mahadev as on March 31, 2017:

Balance Sheet as at March 31, 2017			
Liabilities	Amount Rs	Assets	Amount Rs
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 Rs 30,000. Profits during 2017 is Rs 10,00,000. Calculate interest on capital @ 5% p.a for the year ending March 31, 2017.

8. Ritesh and Hitesh are childhood friends. Ritesh is a consultant whereas Hitesh is an architect. They contributed equal amounts and purchased a building for Rs.2 crores. After a year, they sold it for Rs.3 crores and shared the profits equally. Are they doing the business in a partnership? Give reason in support of your answer.
9. State the provisions of Indian Partnership Act, 1932 regarding the payment of remuneration to a partner for the services rendered.

10. P and Q are partners from 1st January, 1998 without any partnership agreement and they introduced capital of Rs. 40,000 and Rs. 20,000 respectively. On 1st July, 1998, P advances Rs. 10,000 by way of loan to the firm without any agreement as to interest. The Profit & Loss Account for the year 1998 disclosed a profit of Rs.14,250; but the partners cannot agree upon the question of interest and upon the basis of division of profits. You are required to divide the profit between them giving reasons for your method.

11. A, B and C were partners in a firm. On 1st April, 2008, their fixed capitals stood at Rs 50,000, Rs 25,000 and Rs 25,000 respectively. As per the provisions of the partnership deed

- i. B was entitled for a salary of Rs 5,000 per annum.
- ii. All the partners were entitled to interest on capital at 5% per annum.
- iii. Profits were to be shared in the ratio of capitals.

The net profit for the year ending 31st March 2009 of Rs33,000 and 31st March, 2010 of Rs45,000 was divided equally without providing for the above terms. Pass an adjustment journal entry to rectify the above error.

12. A and B entered into partnership on 1st April, 2009 without any partnership deed. They introduced capital of Rs 5,00,000 and Rs 3,00,000 respectively. On 31st October, 2009, A advanced Rs 2,00,000 by way of loan to the firm without any agreement as to interest. The profit and loss account for the year ended 31st March, 2010 showed a profit of Rs 4,30,000, but the partners could not agree upon the amount of interest on loan to be charged and the basis of division of profits.

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

13. Anju, Manju and Mamta are partners whose fixed capitals were Rs 10,000, Rs 8,000 and Rs 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 2014 (4:3:5), 2015 (3:2:1) and 2016 (1:1:1). Make necessary and adjustment entry at the beginning of the fourth year i.e. Jan. 2017.

14. S and P are partners in a firm sharing profits and losses equally. On 1st April, 2011, the capital of the partners were, S Rs 20,000 and P Rs 16,000. The profit and loss account of the firm showed a net profit of 37,500 (before interest on P's loan) for the year ended 31st March, 2012. Considering the following information, prepare the profit and loss appropriation account of the firm and the partners' capital account.
- Interest on capital to be allowed @ 6% p.a.
 - Interest on P's loan account of Rs 10,000 for the whole year.
 - Interest on drawings of partners @ 6% p.a. Drawings being S Rs 4,000 and P Rs 3,000.
 - Transfer 10% of the distributable profits of the reserve.
15. Kajol and Sunny were partners sharing profits and losses in the ratio of 3:2. The following Balances were extracted from the books of account for the year ended March 31, 2015.

Particulars	Debit Amount Rs	Credit Amount Rs
Capital:		.
Kajol		1,15,000
Sunny		91,000
Current accounts [on 1-04-2005*]		
Kajol		4,500
Sunny	3,200	
Drawings		
Kajol	6,000	
Sunny	3,000	
Opening stock	22,700	
Purchases and Sales	1,65,000	2,35,800
Freight inward	1,200	

Returns	2,000	3,200
Printing and Stationery	900	
Wages	5,500	
Bills receivables and Bills Payables	25,000	21,000
Discount	400	800
Salaries	6,000	
Rent	7,200	
Insurance premium	2,000	
Traveling expenses	700	
Sundry expenses	1,100	
Commission		1,600
Debtors and Creditors	74,000	78,000
Building	85,000	
Plant and Machinery	70,000	
Motor car	60,000	
Furniture and Fixtures	15,000	
Bad debts	1,500	
Provision for doubtful debts		2,200
Loan		25,000
Legal expenses	300	
Audit fee	900	
Cash in hand	7,500	
Cash at bank	12,000	
	5,78,100	5,78,100

Prepare final accounts for the year ended March 31, 2015, with the following adjustments:

- i. Stock on March 31, 2015, was Rs 37,500.
- ii. Bad debts Rs 3,000; Provision for bad debts is to be made at 5% on debtors
- iii. Rent Prepaid was Rs 1,200.
- iv. Wages outstanding were Rs 2,200.
- v. Interest on capital to be allowed on capital at 6% per annum and interest on drawings to be charged @ 5% per annum.
- vi. Kajol is entitled to a Salary of Rs 1,500 per annum.
- vii. Prepaid insurance was Rs 500.
- viii. Depreciation was charged on Building, @ 4%; Plant and Machinery, @ 5%; Motor car, @ 10% and furniture and fixture, @ 5%.
- ix. Goods worth Rs 7,000 were destroyed by fire on January 20, 2015. The Insurance company agreed to pay Rs 5,000 in full settlement of the claim.

CBSE Test Paper 02
Ch-2 Fundamentals of partnership and Goodwill

Answer

1. b. For 6 months, **Explanation:** When partnership deed provides for the interest on drawings but dates of withdrawal of drawings are not given, in such a case average time period should be taken as six months. Interest on Drawings =
$$\text{Total Drawings} \times \text{Rate}/100 \times 6/12$$
2. b. Rs. 22500, **Explanation:** Calculation of average profit when loss is given:
 - i. Calculation of total profits earned during 4 years: $27,000 + 39,000 - 16,000 + 40,000 = 90,000$
 - ii. Average profit = $90,000/4 = 22,500$
3. b. 10,000, **Explanation:** Minimum guarantee of profit to a partner means, that partner will not get the less amount than the guarantee amount. If there is any deficiency, it will borne by the existing partners who have given guarantee. But it does not mean that he will get only guarantee amount, if his profit exceeds the limit of guaranteed amount, that will be paid to him. For example, in the above question guaranteed amount of C is Rs. 8,000 but he is getting Rs. 10,000 as per the profit sharing ratio. So he will get Rs. 10,000.
4. b. Profit and loss appropriation account, **Explanation:** Salary paid to partner is an appropriation of profit. All appropriation items are shown in the Profit and loss appropriation account.
5. b. Irrespective of time period, **Explanation:** The word per annum is the key element in the calculation of interest on drawings. When per annum word is given, it means interest on drawings is to be calculated on the time basis or for a particular time period. When word per annum is not given with the rate of interest on drawings, it means interest on drawings is to be calculated for the full year irrespective of time period.
6. In the **absence of provision** in the partnership deed, the deficiency arising out of guarantee of profit to a partner will be borne by the other partners In their **old profit sharing ratio**.

7. Note: In this question, as the balances of both Partner's Capital Account and of Partner's Current Account are mentioned, so it has been assumed that the capital of the partners is fixed.

As we know, when the capital of the partners is fixed, drawings and interest on capital do not affect the capital balances of the partners. Rather, it would affect their current account balances. Therefore, in this case, capital at the beginning (i.e. opening capital) and capital at the end (i.e. closing capital) of the year would remain the same. Thus, the interest on capital is calculated on fixed capital balances (given in the Balance Sheet of the question).

Calculation of Interest on Capital

Neelkant's	$10,00,000 \times \frac{5}{100} = \text{Rs } 50,000$
Mahadev's	$10,00,000 \times \frac{5}{100} = \text{Rs } 50,000$

8. **No**, they are not doing the business in partnership. Business is a continue process of earning.
9. In the absence of partnership deed, a partner is not entitled to get any remuneration from the firm. Only interest on partners' loan can be given at the rate of 6% per annum and profits / losses should be shared equally.

10. **Profit and Loss Appropriation Account** (For the year ended 31st December, 1998)

Particulars		Amount	Particulars	Amount
To profit transferred to:			By Profit & Loss A/c(Net profit)14250	
P's Capital A/c	6975		Less: Interest on P's Loan (10000@ 6% ×6/12)= 300	13950
Q's Capital A/c	6975	13950		
		13950		13950

Notes -:

1. No interest on capital will be given, to any partner as there is no agreement between the partners.
2. In the absence of any agreement between the partners, profit and loss will be divided equally.
3. If any partner gives a loan to the firm then he is entitled to interest on that loan @ 6% p.a. in case there is no agreement between the partners.

11. Adjusting journal Entry

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	C's Current A/c Dr		9,000	
	To A's Current A/c			8,000
	To B's Current A/c (Being interest on capital and salary not provided previously and profit distributed wrongly, now adjusted)			1,000

Working Note

i. Adjustment Table

Particulars	A(Rs)	B(Rs)	C(Rs)	Total
I. Amount already Recorded				
Profit i.e., 33,000 (1 : 1 : 1) 31st March, 2009	11,000	11,000	11,000	33,000
Profit i.e , 45,000 in (1 : 1 : 1) 31st March, 2010	15,000	15,000	15,000	45,000
	26,000	26,000	26,000	78,000
II. Amount which should have been Recorded				
Salary 31st March, 2009	-----	5,000	-----	5,000
31st March, 2010	-----	5,000	-----	5,000
Interest on Capital 31st March, 2009	2,500	1,250	1,250	5,000

31st March, 2010	2,500	1,250	1,250	5,000
Profits i.e., 23,000 in capital ratio i.e., 2 : 1 : 1 31st March, 2009	11,500	5,750	5,750	23,000
Profits i.e., 35,000 in 2 : 1 : 1 31st March, 2010	17,500	8,750	8,750	35,000
	34,000	27,000	17,000	78,000
Net Effect (I - II)	8,000 (Cr)	1,000 (Cr)	9,000 (Dr)	Nil

ii. **Calculation of Adjusted Profit**

Adjusted Profit = Given Profit - Salary - Interest on Capital

31st March, 2009 \Rightarrow 33,000 - 5,000 - 5,000 (2,500 + 1,250 + 1,250)

31st March, 2010 \Rightarrow 45,000 - 5,000 - 5,000 (2,500 + 1,250 + 1,250)

Calculation of Interest on Capital

$$A = 50,000 \times \frac{5}{100} = \text{Rs } 2,500$$

$$B = 25,000 \times \frac{5}{100} = \text{Rs } 1,250$$

$$C = 25,000 \times \frac{5}{100} = \text{Rs } 1,250$$

12.

JOURNAL

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

Partner's capital account

Dr							
Date	Particulars	A(Rs)	B(Rs)	Date	Particulars	A(Rs)	B(Rs)

				1 Apr,2009	By Balance b/d	5,00,000	3,00,0
31 Mar,2010	To Balance c/d	7,12,500	5,12,500	31 Mar,2010	By Profit and Loss Appropriation A/c	2,12,500	2,12,5
		7,12,500	5,12,500			7,12,500	5,12,5

A's Loan account

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

Working Notes

i. Profit and Loss Appropriation Account

for the year ending 31st March 2010

Dr			Cr	
Particulars		Amt(Rs)	Particulars	Amt(Rs)
To profit transferred to			By Profit and Loss A/c(Net profit)(4,30,000 - 5,000)	4,25,000
A's capital A/c	2,12,500			
B's capital A/c	2,12,500	4,25,000		
		4,25,000		4,25,000

ii. In the absence of agreement,partners are entitled to get interest @6%p.a. on loan

advanced.

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

- iii. In the absence of partnership deed, profits among the partners will be divided equally
- iv. Interest on partner's loan is a charge against profit. It means that a partner will get interest on loan whether the firm has earned profit or has incurred loss and it will be subtracted from the net profit before distributing profit to the partners.

13. An amount at an agreed rate of interest which is credited to a partner based on the amount of capital contributed by him/her. In order to ascertain a true picture of the business' profitability, it is a common practice to provide interest on capital. Journal entry for interest on capital includes two accounts; Capital A/c & Interest on Capital A/c. Interest on capital is an expense for the business and is added to the capital of the proprietor thereby increasing his total capital in the business. It is not paid in cash or by the bank.

Interest on Capital

$$\text{Anju} = 10,000 \times \frac{5}{10} = \text{Rs } 500$$

$$\text{Manju} = 8,000 \times \frac{5}{10} = \text{Rs } 400$$

$$\text{Mamta} = 6,000 \times \frac{5}{10} = \text{Rs } 300$$

adjustment of profit

Year 2014

	Anju	Manju	Mamta	=	Total
Interest on Capital	500	400	300	.	1,200
Wrong distribution of Rs 1,200 (4:3:5)	(400)	(300)	(500)	=	(1,200)
	100	100	(200)	.	NIL

Year 2015

--	--	--	--	--	--

	Anju	Manju	Mamta	=	Total
Interest on Capital	500	400	300	.	1,200
Wrong distribution of Rs 1,200 (3:2:1)	(600)	(400)	(200)	=	(1,200)
.	(100)	NIL	100	.	NIL

Year 2016

	Anju	Manju	Mamta	=	Total
Interest on Capital	500	400	300	.	1,200
Wrong distribution of Rs 1,200 (1:1:1)	(400)	(400)	(400)	=	(1,200)
	100	NIL	(100)	.	NIL

Final Adjustment

	Anju	Manju	Mamta
2014	100	100	(200)
2015	(100)	NIL	100
2016	100	NIL	(100)
.	100	100	(200)

Adjusting Journal Entry

Date	Particulars		L.F	Debit Amount Rs	Credit Amount Rs
Jan. 2017					
	Mamta's Capital A/c	Dr.		200	
	To Anju's Capital A/c				100
	To Manju Capital A/c				100
	(Adjustment of profit				

	made)				
--	-------	--	--	--	--

14. Profit and Loss Appropriation Account. It is a special account which a firm prepares to show the distribution of profits/losses among the partners or partner's capital.

**Profit and Loss Appropriation Account
for the year ended on 31st March, 2012**

Dr.					Cr.
Particulars		(Rs)	Particulars		(Rs)
To Interest on Capital A/c			By Net Profit (After Interest on P's Loan) (37,500 - 600)		36,900
S's Capital A/c	1,200		By Interest on Drawings A/c		
P's Capital A/c	960	2,160	S's Capital A/c	120	
To Reserve		3,495	P's Capital A/c	90	210
To Profit Transferred to					
S's Capital A/c	15,727.5				
P's Capital A/c	15,727.5	31,455			
		37,110			37,110

The partnership capital account is an equity account in the accounting records of a partnership. It contains the following types of transactions: Initial and subsequent contributions by partners to the partnership, in the form of either cash or the market value of other types of assets.

Partner's Capital Account

Dr.					Cr.

Particulars	S(Rs)	P(Rs)	Particulars	S(Rs)	P(Rs)
To Bank A/c (Drawings)	4,000	3,000	By Balance b/d	20,000	16,000
To Interest on Drawing A/c	120	90	By Interest on Capital A/c	1,200	960
To Balance c/d	32,807.5	29,597.5	By Profit and loss Appropriation A/c(Profit)	15,727.5	15,727.5
	36,927.5	32,687.5		36,927.5	32,687.5

Working Note :

1. Interest on partner's loan has been allowed @ 65% p.a., as there has been no agreement. But it will be shown on the debit side of the profit and loss account.
2. As the date of drawings is not mentioned, interest has been calculated for the average period, i.e., 6 months.
3. The reserve has been calculated @ 10% of Rs 34,950 i.e., Rs (36,900 + 120 + 90 - 2,160)

15.

Financial Statement as on March 31, 2015					
Trading Account					
Particulars		Amount Rs	Particulars		Amount Rs
Opening Stock		22,700	Sales	2,35,800	
Purchases	1,65,000		Less: Sales Return	(2,000)	2,33,800
Less: Purchases Return	(3,200)				
Less: Goods Lost by Fire	(7,000)	1,54,800	Closing Stock		37,500
Freight Inward		1,200			
Wages	5,500				
Add: Outstanding	2,200	7,700			

Gross Profit		84,900			
		2,71,300			2,71,300
		=====			=====
Profit and Loss Account					
Particulars		Amount Rs	Particulars	Amount Rs	
Printing and Stationery		900	Gross Profit	84,900	
Discount Allowed		400	Discount Received	800	
Salaries		6,000	Commission	1,600	
Rent	7,200		Insurance Co. (Claim)	5,000	
Less: Prepaid	(1,200)	6,000			
Insurance Premium	2,000				
Less: Prepaid	(500)	1,500			
Travelling Expenses		700			
Sundry Expenses		1,100			
Bad Debt	1,500				
Add: Further Bad debt	3,000				
Add: Provision for Bad Debts	3,550				
	8,050				
Less: Provision for Bad Debt (Old)	(2,200)	5,850			
Legal Expenses		300			
Audit Fee		900			
Goods Lost by Fire		7,000			
Depreciation on:					

Building		3,400		
Plant and Machinery		3,500		
Motor Car		6,000		
Furniture and Fixture		750		
Net Profit		48,000		
		92,300 =====		92,300 =====

Profit and Loss Appropriation Account

Particulars		Amount Rs	Particulars		Amount Rs
Interest on Capital:			Net profit		48,000
Kajol	6,900		Interest on Drawings		
Sunny	5,460	12,360	Kajol	150	
Kajol's Salaries:		1,500	Sunny	75	225
Partners Current A/c:					
Kajol	20,619				
Sunny	13,746	34,365			
.		48,225 =====	.		48,225 =====

Partners' Capital Account

Particulars	Kajol	Sunny	Particulars	Kajol	Sunny
Balance c/d	1,15,000	91,000	Balance b/d	1,15,000	91,000
	1,15,000 =====	91,000 =====		1,15,000 =====	91,000 =====

Partners' Current Account

--	--	--	--	--	--

Particulars	Kajol	Sunny	Particulars	Kajol	Sunny
Balance b/d		3,200	Balance b/d	4,500	
Drawings	6,000	3,000	Interest on Capital	6,900	5,460
Interest on Drawings	150	75	Partner's Salaries	1,500	
Balance c/d	27,369	12,931	Profit and Loss Appropriation A/c	20,619	13,746
	33,519 =====	19,206 =====		33,519 =====	19,206 =====

Balance Sheet
as on March 31, 2015

Liabilities		Amount Rs	Assets		Amount Rs
Bills Payable		21,000	Cash in Hand		7,500
Creditors		78,000	Cash at Bank		12,000
Loan		25,000	Bills Receivable		25,000
Wages Outstanding		2,200	Debtors	74,000	
Capital A/C:			Less: Further Bad debt	(3,000)	
Kajol	1,15,000		Less: 5% Provision for Bad Debt	(3,550)	67,450
Sunny	91,000	2,06,000	Closing Stock		37,500
Current A/C:			Prepaid Rent		1,200
Kajol	27,369		Prepaid Insurance		500
Sunny	12,931	40,300	Insurance Company		5,000
			Building	85000	

			Less: 5% Depreciation	(3,400)	81,600
			Plant & Machinery	70,000	.
			Less: 5% Depreciation	(3,500)	66,500
			Motor Car	60,000	.
			Less: 10% Depreciation	(6,000)	54,000
			Furniture	15,000	
			Less: 5% Depreciation	(750)	14,250
		3,72,500 =====			3,72,500 =====