Part 01
CHAPTER 02
Accounting for Partnership: Basic Concepts

Question 1
Define Partnership Deed.

Answers: Partnership Deed is referred to as the agreement between two or more parties among themselves in order to build the agreements and the terms of the partnership. The agreement of the partnership which is enshrined in the partnership deed is binding upon all the parties of the partnership. Thus the document which contains of all such formal agreements for the partnership is known as Partnership Deed. It is important here to highlight that these agreements can be both written and of verbal nature, but when the cases arrive before the court than law only recognizes the formal written agreement which is in place between the partners.

Question 2
Explain in 50 words as to why is it considered desirable to make the partnership agreement in writing.

Answers: It is important for the partnership to be written in the formal manner because the partnership is the formal relation between two or more than two parties and hence the written terms and conditions creates the legal and the ethical binding upon the members of the partnership to function as per the agreements established in the Partnership Deed. Hence the partners are in the safe zone after having created the Partnership Deed in the formal written manner because the partners can approach the court which recognizes the written agreement in the cases of the disputes.

Question 3

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

i. Capitals are fixed
ii. Capitals are fluctuating

Answer: A partner's capital account is prepared under the two methods: (i) Fixed capital method and (ii) Fluctuating capital method.

(i) Under fixed capital account there will be two accounts for each partner namely the partners' capital account and partner's current account. Capital account is credited only when fresh capital is introduced or debited when capital is withdrawn. When there is no addition or withdrawal during a year, capital remains as it is and only current accounts record transactions related to drawings, interest on drawings, interest on capital, commission, salary, profit and loss share etc.

(ii) Under Fluctuating capital account: Only one capital account keeps changing during the year. There is no current account prepared or maintained under this method. All the transactions are related to the drawings, interest on drawings, interest on capital, commission, salary, and profit and loss share.

Question 4
Why is Profit and Loss Adjustments Account prepared? Explain.

Answer: The preparation of the Profit and Loss account is made in order to create the relevant adjustments after the preparation of the Profit and Loss account is prepared after preparing profit and loss account and the balance sheet. They are prepared in the subsequent accounting period if any errors or omissions are noticed. Such errors and omissions are adjusted through profit and loss adjustment account. Besides errors and mistakes rectification, this account is also prepared to distribute the profit and loss among partners. These account acts as a substitute for profit and loss appropriation account.

Question 5
Give two circumstances under which the fixed capitals of partners may change.

Answer: Capital is referred to as the contribution made by the partner or the owner of the organization to the business. The partner's capital accounts is prepared under the following two methods:
(i) Fixed capital method and (ii) Fluctuating capital method.
The circumstances under which the fixed capital may change are:
1. When the additional capital is introduced in the during the year.
2. When the withdrawals from the capital are made for the temporary period by any partner of 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: In the cases when the amount is withdrawn at the beginning of the every quarter, the interest on the drawings is calculated for the period of $7\frac{1}{2}$ months. The interest on drawings is referred to as the interest charged on the drawings made by the partner of the organization. Thus, in the instanced case of a person withdrawing 2000 on the first day of the quarter, at the rate of the interest of drawings at 10% the interest on the drawings will be

$2000 \times 7\frac{1}{2}/12 \text{ months} \times \frac{10}{100} = 1{,}250$

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 partner.

Answers: The law has not made it compulsory to prepare partnership deed for creation for mutual agreement between

the partners in a partnership deed. In the absence of partnership deed, the below rules apply:
(i) Sharing of profits and losses: Partners share losses and profits equally
(ii) Interest on partners' capital: Partners are not entitled for any interest on capital balances.
(iii) Interest on Partner's drawings: No interest is to be charged on partners drawings.
(iv) Interest on partner's loan: Interest of 6% p.a. is allowed on any loan other than capital.
(v) Salary to partner: Partners are not entitled to any salary or remuneration.

Question 8
What is partnership? What are its chief characteristics? Explain.

Answers: According to Sec 4 of Partnership act 1932, partnership is a mutual agreement between two or more partners who decide to enter into a partnership deed or agreement and share profit or losses as agreed upon. People who join hands together are known as partners and the collectively it is called a firm. The important characteristics of partnership are:-

1. Two or more person: To enter into a partnership, there must be at least two or more people with a common goal. The maximum number of partners can be 20 for businesses other than banking and for banking they must be 10.

2. Partnership deed: Partnership relation is an outcome of an agreement between two or more parties. There are certain terms and conditions that bind the partners into relationship. The document which contains the written agreement is called the partnership deed.
3. Business: Partnership should be formed to carry out legal business because any type of illegality will not be a valid business.
4. Profit and loss sharing: There is sharing of profits and losses equally or at a ratio agreed upon by the partners.
5. Liability: There is unlimited liability under partnership. If the partners are liable to pay to the third party, even their personal property would not be spared.

Question 9

Discuss the main provisions of the Indian Partnership Act 932 that are relevant to partnership accounts if there is no partnership deed.

Answer: There must be a partnership deed among the partners before entering into a partnership. However, the law has not made it compulsory to prepare partnership deed for creation for mutual agreement between the partners in a partnership. In the absence of partnership deed, the below rules apply;

(i) Sharing of profits and losses: Partners are entitled to share equally the profits earned by the firm and contribute equally to the losses sustained by the firm.

(ii) Interest on partners' capital: Partners are not entitled for any interest on capital balances. Sec 13, clause c provides that the interest on capital is payable out of profits only, where there is agreement for interest on capital payment.
(iii) Interest on Partner's drawings: No interest is to be charged on partners' drawings.
(iv) Interest on partner's loan or advances: - Interest of 6% p.a. is allowed on any loan other than capital.
(v) Right to remuneration: Partners are not entitled to any salary or remuneration or commission for taking part in the conduct of the business or for services rendered.

Question 10

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

Answer: - Partnership relation is an outcome of an agreement between two or more parties. There are certain terms and conditions that bind the partners into relationship. The document which contains the written agreement is called the partnership deed. It is always desirable to make the partnership agreement in writing. It is safer and more prudent as the written agreement turns out to be helpful in case of disputes which can be referred to in the future. It ensures smooth functioning of the business as it helps in settling the disputes if any. Partners might be sharing very good relations now but there is no guarantee the relations remain the same in the future. Hence, to keep up the good relations and give legality to the business it is always advisable to make partnership agreement in writing to make the terms and conditions clear.

Question 11
Illustrate how interest on drawings will be calculated under various situations.

Answer: The interest on the drawing is an income for the organization as the drawings are referred to as the amounts which are withdrawn by the partners of the organization from the firm for their personal use. Thus, organizations are expected to charge the interest in the drawings which are made by the Partners. The method of the calculation of the interest in the drawings is dependent upon the time and the frequency of the drawings. Following are the cases when the interest on the drawings are calculated by the organization:

1. When the information about the amount, date and the rate of the interest on drawing is mentioned.
2. When the information of the Date or time is not given but the rate of interest p.a. and amount is given. In such cases the time is considered to be 6 months.
3. When the fixed amount is withdrawn at the regular interval. This can happen at the beginning, middle or the end of each month. When the withdrawals are made in the beginning of the month than the annual interest is calculated for the 6.5 months; similarly for the withdrawals made at the middle of the month than the interest is calculated for 5.5 months and for the withdrawals made at the mid for each month is

calculated for 6 months. Similarly, for the withdrawals made at the beginning of the quarter the rate of interest is calculated for 7.5 months, the withdrawals made at the end of every quarter the rate of interest is calculated at 4.5 months.

4. When the different amount is withdrawn by the partner at the different points of causing withdrawals at the irregular intervals. Thus, in such cases the drawings have to be calculated by the Product Method as per which the interest on the drawings is calculated by the sum of the products of the time and the drawings for one unit of time.

Question 12

Write a note on guarantee of profit to a partner.

Answer: - On the account of the admission of the partner in the organization, the newly admitting partner is guaranteed the minimum amount in the cases when the share of his profits and loss sharing ratio is less than the minimum amount. For example, if Ram is admitted with ¼th share of the profit in the business with a guarantee that he will get minimum 5000 as profits, then when the profit of the concern is 16000, he will get 5000 and when the profit of the concern is 28000, he will get 7000.

This guarantee can be given by the old partner of the organisation to the newly admitted partner. In other circumstance the guarantee of the minimum amount can be given by the all the other partners of the organisation in the ratio which is agreed and acceptable to all of them. Thus, the new profit or the loss sharing ratios have to be agreed by all the partners of the organisation. Thus, in both the cases the minimum guaranteed amount of the profit is determined and the difference of the amount of the share of the profit under the new terms upon the reconstitution of the partnership will be made. The amount of the difference which is so determined is adjusted in the form of the debit in the favour of the incoming partner's account.

Question 13

How will you deal with a change in profit sharing ration among the existing partners? Take imaginary figures to illustrate your answer.

Answers: The changes in the profit-sharing ratio of the partners occur during the admission, retirement or the death of the partner of the organization. Furthermore, the general agreement between the existing partners of the organization may also change the profit sharing ratio of the partners. This hence results in the loss of the other partners and the gain for the one of the partners of the organization. Thus, the gaining partner must compensate to the partners who experience the share in the profit and the loss sharing ratio.

The issues such as the calculation of the goodwill, Change in profit sharing ratio among existing partners takes place only in case of admission, retirement and death of a partner. A general agreement among the partners may also result in change in the PSR. It results in gain to one partner and loss to other. Hence, the gaining partner must compensate the losing partner. Many issues have to be looked into like goodwill, reserves, capital adjustment, profit or loss on the revaluation of assets or liabilities. In case of goodwill, goodwill is calculated and proportionate amount is given by the partner who gains to the partner who loses. Gaining partner’s capital account is debited (gain) and sacrificing partners’ capital account credited (sacrifice amount). Gaining ratio and sacrificing ratio is calculated to distribute compensation from one to the other.

Example: X and Y share profits in the ratio of 3:1. They decided to share profits in the ratio 5:3. The goodwill is valued at 2, 40,000. The following adjustment entry will be passed.

Old ratio = X is ¾ and Y is ¼

New ratio = X is 5/8 and Y is 3/8

Y gains by 3/8-1/4 = 1/8

X loses by ¾ -5/8 = 1/8

Y will pay X 1/8 of 240,000 =30,000

Journal entry will be:

Y’s capital account … Dr 30000

To X’s capital account …. 30000

Question 14

Triphati 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 January 01, 2015. 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% interest on their capital. They are also to be charged an interest of 5% on their drawings, irrespective of the period, which is Rs 12,000 for Tripathi, Rs 8,000 for

Chauhan. Prepare Partner's Accounts when, capitals are fixed.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	30000
Triphati's Current A/c	18000		
Chauhan's Current A/c	12000		
	30000		30000

Partners Capital A/c					
Particulars	Triphati	Chauhan	Particulars	Triphati	Chauhan
Balance c/d	60000	40000	Balance b/d	60000	40000
	60000	40000		60000	40000

Partners Capital A/c					
Particulars	Triphati	Chauhan	Particulars	Triphati	Chauhan
Drawing	12000	8000	Partners Salary	12000	12000
Interest on Drawing	600	400	Interest on Capital	3000	2000

Balance c/d	20400	17600	P/L Appropriation	18000	12000
	33000	26000		33000	26000

Question 15

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 at the end of the period 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:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	45000
Anubha's Capital 30000			
Kajal's Capital 15000	45000		
	45000		45000

Partners Capital A/c

Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
Drawing	8500	6500	Balance b/d	90000	60000
Interest on Drawing	425	325	Partners Salary	8400	6000
Balance c/d	123975	77175	Interest on Capital	4500	3000
			P/L Appropriation	30000	15000
	132900	84000		132900	84000

Question 16

Harshad and Dhiman are in partnership since April 01, 2016. No Partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advanced an amount of Rs 1,00,000 to the firm, on October 01, 2016. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2017. The profits for the year ended March 31, 2017 amounted to Rs 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 Rs 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:

Harshad's Claim:

Decisions

(i) If there is no agreement on interest on partner's capital according to Indian Partnership Act 1932, no interest will be allowed to partners.

(ii) If there is no agreement on matter of profit sharing, according to Indian Partnership Act 1932, profit shall be distributed equally.

Dhiman's Claim:

Decisions

(i) Dhiman's claim is justified, as per the Indian Partnership Act 1932. If no agreement exists regarding profit distribution, the profit shall be distributed equally.

(ii) No salary will be allowed to any partner because there is no agreement on matter of remuneration.

(iii) Dhiman's claim is not justified on the matter of interest on capital. However, it is justified on the basis of interest on loan. If there is no agreement on interest on partner's loan, interest will be provided at 6% p.a.

Profit and Loss Adjustment A/c			
Particulars	Amount	Particulars	Amount
Interest on Partner's loan Harshad	3000	Profit and Loss	180000
(100000 x 6/100 x 6/12)			
P/L Appropriation	177000		
	180000		180000

Profit and Loss A/c			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss Adjustment	177000
Harshad's Capital	88500		
Sharma's Capital	88500		
	177000		177000

Question 17

Aakriti and Bindu entered into partnership for making garment on April 01, 2016 without any Partnership agreement. They introduced Capitals of Rs 5,00,000 and Rs 3,00,000 respectively on October 01, 2016. 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 2017 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 giving reason for your solution.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Interest on Partner's loan Aakriti	600	Profit and Loss	43000
(20000 x 6/100 x 6/12)			
Profit trf to:			
Aakriti's Capital 21200			
Bindu's Capital 21200	42400		
	43000		43000

Reason:
1. Interest on partner's loan shall be allowed at 6% p.a. because there is no partnership agreement.
2. Interest on capital shall not be allowed because there is no agreement on interest on capital.
3. Profit shall be distributed equally because profit sharing ratio has not been given.

Question 17

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. You are required to prepare Profit and Loss Appropriation Account and Partner's Capital Accounts.

Answer: If interest on capital and partner's salaries will be provided even if firm involves in loss.

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Interest on Capital:		Profit and Loss	23200
Rakhi 20000		Loss trf to:	
Shikha 30000	50000	Rakhi's Capital 34720	
Partner's Salary Shikha	60000	Shikha's Capital 52080	86800
	110000		110000

Partners Capital A/c					
Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
Drawing	7000	10000	Balance b/d	200000	300000

P/L Appropriation	34720	52080	Interest on Capital	20000	30000
Balance c/d	178280	327920	Partners Salary		60000
	220000	390000		220000	390000

If interest on capital and salaries will be provided out of profit

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Interest on Capital:		Profit and Loss	23200
Rakhi (23200 x 2/11)	4218		
Shikha (23200 x 3/11)	6327		
Partner's Salary Shikha	12655		
(23200 x 6/11)			
	23200		23200

If profit is less than the sum of distribution items, distribution shall be in proportion of items for distribution.

	Ratio		
Partner Salary Shikha (60000)	6	23200 x 6/11	12655
Interest on Capital: Rakhi (20000)	2	23200 x 2/11	4218

Shikha (30000)	3	23200 x 3/11	6327
	11		23200

Partners Capital A/c					
Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
Drawing	7000	10000	Balance b/d	200000	300000
Balance c/d	197218	308982	Interest on Capital	4218	6327
			Partners Salary		12655
	204218	318982		204218	318982

Question 18

Lokesh and Azad are partners sharing profits in the ratio 3:2, with capitals of Rs 50,000 and Rs 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 accounts showing the allocation of profits and partner's capital accounts.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Interest on Capital:		Profit and Loss	15000
Lokesh 3000		(12500 + 2500)	
Azad 1800	4800		
Partner's Salary Azad	2500		
Prov. For Manager's Commission	750		
(15000 x 5/100)			
Profit trf to:			
Lokesh's Capital 4170			
Azad's Capital 2780	6950		
	15000		15000

Partners Capital A/c					
Particulars	Lokesh	Azad	Particulars	Lokesh	Azad
Balance c/d	57170	37080	Balance b/d	50000	30000
			Interest on Capital	3000	1800
			P/L Appropriation	4170	2780

			Partners Salary		2500
	57170	37080		57170	37080

Question 19

The partnership agreement between Maneesh and Girish provides that:

(i) Profits will be shared equally;

(ii) Maneesh will be allowed a salary of Rs 400 p.m;

(iii) Girish who manages the sales department will be allowed a commission equal to 10% of the net profits, after allowing Maneesh's salary;

(iv) 7% interest will be allowed on partner's fixed capital;

(v) 5% interest will be charged on partner's annual drawings;

(vi) The fixed capitals of Maneesh and Girish are Rs 1,00,000 and Rs 80,000, respectively. Their annual drawings were Rs 16,000 and 14,000, respectively. The net profit for the year ending March 31, 2015 amounted to Rs 40,000.

Prepare firm's Profit and Loss Appropriation Account.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Partner's Salary Maneesh	4800	Profit and Loss	40000
Partner's Commission Girish	3520	Interest on Drawing:	
[(40000 - 4800) x 10/100]		Ramesh 2000	
Interest on Capital:		Suresh 2500	1500
Maneesh 7000			
Girish 5600	12600		
Profit trf to:			
Maneesh Current 10290			
Girish Current 10290	20580		
	41500		41500

Question 19

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 Rs 10,000 as his share of profits every year. The net profit for the year 2013 amounted to Rs 40,000. Prepare the Profit and Loss Appropriation Account.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	40000
Ram's Capital (20000 - 1250)	18750		
Raj's Capital (12000 - 750)	11250		
George' Capital (8000 + 1250 + 750)	10000		
	40000		40000

Question 20

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

Answer:

Profit and Loss Appropriation A/c for the year 2005			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	40000
Amann's Capital	16000		

Babita's Capital (16000 - 2000)	14000		
Suresh's Capital (8000 + 2000)	10000		
	40000		40000

Profit and Loss Appropriation A/c for the year 2006			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	60000
Amann's Capital	24000		
Babita's Capital	24000		
Suresh's Capital	12000		
	60000		60000

Question 21

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 Rs 1,50,000. Prepare the Profit and Loss Appropriation Account by taking into consideration the following information:

(i) Partners capital on April 1, 2016;

Simmi, Rs 30,000; Sonu, Rs 60,000;

(ii) Current accounts balances on April 1, 2016;
Simmi, Rs 30,000 (cr.); Sonu, Rs 15,000 (cr.);

(iii) Partners drawings during the year amounted to
Simmi, Rs 20,000; Sonu, Rs 15,000;

(iv) Interest on capital was allowed @ 5% p.a.;

(v) Interest on drawing was to be charged @ 6% p.a. at an average of six months;

(vi) Partners' salaries : Simmi Rs 12,000 and Sonu Rs 9,000. Also show the partners' current accounts.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Partner's Salary:		Profit and Loss	150000
Simmi 12000		Interest on Drawing:	
Sonu 9000	21000	Simmi 600	
Interest on Capital:		Sonu 450	1050
Simmi 1500			
Sonu 3000	4500		
Profit trf to:			
Simmi's Current 94162			

Sonu's Current 31388	125550		
	151050		151050

Partners Capital A/c					
Particulars	Simmi	Sonu	Particulars	Simmi	Sonu
Balance c/d	30000	60000	Balance b/d	30000	60000
	30000	60000		30000	60000

Partners Current A/c					
Particulars	Simmi	Sonu	Particulars	Simmi	Sonu
Drawings	20000	15000	Balance b/d	30000	15000
Interest on Drawing	600	450	Interest on Capital	1500	3000
Balance c/d	117662	42938	P/L Appropriation	94162	31388
			Partners Salary	12000	9000
	138262	58388		137662	58388

Question 22

Ramesh and Suresh were partners in a firm sharing profits in the ratio of their capitals contributed on commencement of business which were Rs 80,000 and Rs 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 Rs 2,000 and Rs 3,000, respectively. The profits for year ended March 31, 2017 before making above appropriations was Rs 1,00,300. The drawings of Ramesh and Suresh were Rs 40,000 and Rs 50,000, respectively. Interest on drawings amounted to Rs 2,000 for Ramesh and Rs 2,500 for Suresh. Prepare Profit and Loss Appropriation Account and partners' capital accounts, assuming that their capitals are fluctuating.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Interest on Capital		Profit and Loss	100300
Ramesh 9600		Interest on Drawing:	
Suresh 7200	16800	Ramesh 2000	
Partner's Salaries:		Suresh 2500	4500
Ramesh 24000			
Suresh 36000	60000		
Profit trf to:			
Ramesh's Capital (28000 x 4/7)	16000		
Suresh's Capital (28000 x 3/7)	12000		

	104800		104800

Partners Capital A/c					
Particulars	Ramesh	Suresh	Particulars	Ramesh	Suresh
Drawings	40000	50000	Cash	80000	60000
Interest on Drawing	2000	2500	Interest on Capital	9600	7200
Balance c/d	87600	62700	Partner's Salary	24000	36000
			P/L Appropriation	16000	12000
	129600	115200		129600	115200

Capital ratio = Ramesh : Suresh = 80000 : 60000 = 4 : 3

Question 23

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 Rs 600.

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

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

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

Answer:

Profit and Loss Appropriation A/c				
Particulars		Amount	Particulars	Amount
Interest on Capital:			Profit and Loss	9500
Sukesh	2000			
Vanita	2000	4000		
Profit trf to:				
Sukesh's Current (5500 x 3/5)		3300		
Vanita's Current (5500 x 2/5)		2200		
		9500		9500

Partners Capital A/c					
Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
Balance c/d	40000	40000	Balance b/d	40000	40000
	40000	40000		40000	40000

Partners Current A/c					
Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
Drawings	10850	8150	Balance b/d	7200	2800
Balance c/d	1650	6050	Interest on Capital	2000	2000
			P/L Appropriation	3300	2200
			Partners Salary		7200
	12500	14200		12500	14200

Question 24

Rahul, Rohit and Karan started partnership business on April 1, 2016 with capitals of Rs 20,00,000, Rs 18,00,000 and Rs 16,00,000, respectively. The profit for the year ended March 2017 amounted to Rs 1,35,000 and the partner's drawings had been Rahul Rs 50,000, Rohit Rs 50,000 and Karan Rs 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: Interest on Capital

Rahul = 2000000 x 5/100 = 100000

Rohit = 1800000 x 5/100 = 90000

Karan = 1600000 x 5/100 = 80000

Question 25
Sunflower and Pink Rose started partnership business on April 01, 2016 with capitals of Rs 2,50,000 and Rs 1,50,000, respectively. On October 01, 2016, they decided that their capitals should be Rs 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: Product Method

Sunflower

1 Apr 06 to 30 Sep 06	250000 x 6	1500000
1 Oct 06 to 31 Mar 07	200000 x 6	1200000
	Sum of Product	2700000

Pink Rose

1 Apr 06 to 30 Sep 06	150000 x 6	900000
1 Oct 06 to 31 Mar 07	200000 x 6	1200000
	Sum of Product	2100000

Interest on Capital = Sum of Product x Rate/100 x 1/12
Sunflower = 2700000 x 10/100 x 1/12 = 22500
Pink Rose = 2100000 x 10/100 x 1/12 = 17500

Question 26

On March 31, 2017 after the close of accounts, the capitals of Mountain, Hill and Rock stood in the books of the firm at Rs 4,00,000, Rs 3,00,000 and Rs 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 Rs 1,50,000 and the partner's drawings had been Mountain: Rs 20,000, Hill Rs 15,000 and Rock Rs 10,000. Calculate interest on capital.

Answer:

	Mountain	Hill	Rock
Closing Capital	400000	300000	200000
(+) Drawings	20000	15000	10000
(-) Profit (1:1:1)	-50000	-50000	-50000
Opening Capital	370000	265000	160000

Interest on Capital

Mountain = 370000 x 10/100 = 37000

Hill = 265000 x 10/100 = 26500

Rock = 160000 x 10/100 = 16000

Question 27

Following is the extract of the Balance Sheet of Neelkant and Mahdev 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 Apprpriation (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.

Answer: Interest on Capital
Neelkanth = 1000000 x 5/100 = 50000
Mahadev = 1000000 x 5/100 = 50000

Note: In this question as partner's capital balances are given in balance sheet, so it has been assumed that their capital is fixed.
As when capital is fixed, drawing and interest on capital does not affect their balance. Therefore, opening capital and closing capital are same.

Question 28
Rishi is a partner in a firm. He withdrew the following amounts during the year ended March 31, 2018.

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

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

Answer:

	Drawing x Period	**Product**
1 May 06 to 31 Mar 07	12000 x 11	132000
31 Jul 06 to 31 Mar 07	6000 x 8	48000
30 Sep 06 to 31 Mar 07	9000 x 6	54000
30 Nov 06 to 31 Mar 07	12000 x 4	48000
1 Jan 07 to 31 Mar 07	8000 x 3	24000
31 Mar 07 to 31 Mar 07	7000 x 0	0
	Sum of Product	306000

Here the formula will be
Interest on Drawing = Product x Rate/100 x 1/12
= 306000 x 9/100 x 1/12 = 2295

Question 29

The capital accounts of Moli and Golu showed balances of Rs 40,000 and Rs 20,000 as on April 01, 2016. 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 Rs 10,000 to the firm on August 01, 2016. During the year, Moli withdrew Rs 1,000 per month at the beginning of every month whereas Golu withdrew Rs 1,000 per month at the end of every month. Profit for the year, before the above mentioned adjustments was Rs 20,950. Calculate interest on drawings show distribution of profits and prepare partner's capital accounts.

Answer:
Interest on Moli's Drawing = Total Drawing x Rate/100 x 13/(2 x 12)
= 12000 x 12/100 x 13/(2 x 12) = 780

Interest on Golu's Drawing = Total Drawing x Rate/100 x 11/(2 x 12)
= 12000 x 12/100 x 11/(2 x 12) = 660

Profit and Loss Adjustment A/c			
Particulars	Amount	Particulars	Amount
Interest on Capital:		Profit and Loss	20950
Moli 4000		Interest on Drawinh	
Golu 2000	6000	Moli 780	
Interest on Partner's loan:		Golu 660	1440
Golu (10000 x 6/100 x 8/12)	400		
Profit trf to:			

Moli's Capital 9594			
(15990 x 3/5)			
Golu's Capital 6396	15990		
(15990 x 2/5)			
	22390		22390

Partners Capital A/c					
Particulars	Moli	Golu	Particulars	Moli	Golu
Drawings	12000	12000	Balance b/d	40000	20000
Interest on Drawing	780	660	Interest on Capital	4000	2000
Balance c/d	40814	15736	P/L Adjustment	9594	6396
	53594	28396		53594	28396

Question 30

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

Rakesh	Month	Rs
	May 31, 2016	600
	June 30, 2016	500
	August 31, 2016	1,000

	November 1, 2016 December 31, 2016 January 31, 2017 March 01, 2017	400 1,500 300 700
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, 2017, every year.

Answer:

Rakesh's Interest on Drawings

	Drawing x Period	Product
31 May 06 to 31 Mar 07	600 x 10	6000
30 Jun 06 to 31 Mar 07	500 x 9	4500
31 Aug 06 to 31 Mar 07	1000 x 7	7000
1 Nov 06 to 31 Mar 07	400 x 5	2000
31 Dec 06 to 31 Mar 07	1500 x 3	4500
31 Jan 07 to 31 Mar 07	300 x 2	600
1 Mar 07 to 31 Mar 07	700 x 1	700
	Sum of Product	25300

Interest = Sum of Product x Rate/100 x 1/12

= 25300 x 6/100 x 1/12 = 126.5

Interest on Rohan's Capital = Total drawing x Rate/100 x 13/(2 x 12)

= 4800 x 6/100 x 13/(2 x 12) = 156

Question 31

Himanshu withdrews Rs 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 31st December, 2017.

Answer: Total Drawing on Himanshu = 2500 x 12 = 30000
Interest on Drawing = Total Drawing x Rate/100 x 11/(2 x 12)
= 30000 x 12/100 x 11/(2 x 12) = 1650

Question 32

Bharam is a partner in a firm. He withdraws Rs 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: Total Drawing on Bharam = 3000 x 12 = 36000
Interest on Drawing = Total Drawing x Rate/100 x 13/(2 x 12)
= 36000 x 10/100 x 13/(2 x 12) = 1950

Question 33

Raj and Neeraj are partners in a firm. Their capitals as on April 01, 2017 were Rs 2,50,000 and Rs 1,50,000, respectively. They share profits equally. On July 01, 2017, they decided that their capitals should be Rs 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, 2018.

Answer: Interest on Capital

Raj	**Capital x Period**	**Product**
1 Apr 05 to 30 Jun 05	250000 x 3	750000
1 Jul 05 to 31 Mar 06	100000 x 9	900000
	Sum of Product	**1650000**

Interest = Sum of product x Rate/100 x 1/12
= 1650000 x 8/100 x 1/12 = 11000

Neeraj	Capital x Period	Product
1 Apr 05 to 30 Jun 05	150000 x 3	450000
1 Jul 05 to 31 Mar 06	100000 x 9	900000
	Sum of Product	1350000

Interest = 1350000 x 8/100 x 1/12 = 9000

Question 34

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 2017 were Rs 24,000 and Rs 16,000, respectively.

Calculate interest on drawings based on the assumption that the amounts were withdrawn evenly, throughout the year.

Answer: Interest on Drawing = Drawing x Rate/100 x 6/12
Amit = 24000 x 10/100 x 6/12 = 1200
Bhola = 16000 x 10/100 x 6/12 = 800

Question 35
Harish is a partner in a firm. He withdrew the following amounts during the year 2017:

	Rs
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 @ 7.5 % p.a. Calculate the amount of interest to be charged on Harish's drawings for the year ending December 31, 2017.

Answer:
Calculation of Interest on Harish's Drawings:

	Drawing x Period	Product
1 Feb 06 to 31 Dec 06	4000 x 11	44000
1 May 06 to 31 Dec 06	10000 x 8	80000
30 Jun 06 to 31 Dec 06	4000 x 6	24000
31 Oct 06 to 31 Dec 06	12000 x 2	24000

31 Dec 06 to 31 Dec 06	4000 x 0	0
	Sum of Product	172000

Interest on Drawing = 172000 x 7.5/100 x 1/12 = 1075

Question 36

Menon and Thomas are partners in a firm. They share profits equally. Their monthly drawings are Rs 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:

(i) If they withdraw money in the beginning of each month
Interest on drawing = Total Drawing x Rate x 13/(2 x 12)
Menon = 24000 x 10/100 x 13/(2 x 12) = 1300
Thomas = 24000 x 10/100 x 13/(2 x 12) = 1300

(ii) If they withdraw in the middle of every month
Interest on drawing = Total Drawing x Rate x 6/12
Menon = 24000 x 10/100 x 6/12 = 1200
Thomas = 24000 x 10/100 x 6/12 = 1200

(iii) If they withdraw at the end of every month
Interest on drawing = Total Drawing x Rate x 11/(2 x 12)
Menon = 24000 x 10/100 x 11/(2 x 12) = 1100
Thomas = 24000 x 10/100 x 11/(2 x 12) = 1100

Question 37

On March 31, 2017, after the close of books of accounts, the capital accounts of Ram, Shyam and Mohan showed balance of Rs 24,000 Rs 18,000 and Rs 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 Rs 36,000 and the partner's drawings had been Ram, Rs 3,600; Shyam, Rs 4,500 and Mohan, Rs 2,700. The profit sharing ratio of Ram, Shyam and Mohan was 3:2:1. Calculate interest on capital.

Answer:

	Ram	**Shyam**	**Mohan**
Capital on March 31	24000	18000	12000
(+) Drawings	3600	4500	2700
(-) Profit (3:2:1)	-18000	-12000	-6000
Capital on April 1, 2003	9600	10500	8700

Here, Interest on capital = Opening Capital x Rate/100

Ram = 9600 x 5/100 = 480

Shyam = 10500 x 5/100 = 525

Mohan = 8700 x 5/100 = 435

Question 38

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 Rs 8,000. Profits for the year ended March 31, 2017 was Rs 36,000. Divide profit among the partners.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	36000
Amit's Capital 18000			
(-) Samiksha's Guaramtee 1200	16800		
(2000 x 3/5)			
Sumit's Capital 12000			
(-) Samiksha's Guaramtee 800	11200		
(2000 x 2/5)			
Samiksha's Capital 6000			
(+) Def. Received from:			
Amit 1200			
Sumit 800	8000		
	36000		36000

Question 39

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 Rs 5,000. Deficiency, if any, would be borne by Pinki and Deepti equally. Profits for the year amounted to Rs 40,000. Record necessary journal entries in the books of the firm showing the distribution of profit.

Answer:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	40000
Pinki's Capital 20000			
(-) Kaku's Guarantee 500	19500		
(1000 x 1/2)			
Deepti's Capital 16000			
(-) Kaku's Guarantee 500	15500		
(1000 x 1/2)			
Kaku's Capital 4000			
(+) Def. Received from:			
Pinki 500			
Deepti 500	5000		
	40000		40000

Question 40

Abhay, Siddharth and Kusum are partners in a firm, sharing profits in the ratio of 5:3:2. Kusum is guaranteed a minimum amount of Rs 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 Rs 40,000 and 60,000 respectively. Prepare Profit and Loss Appropriation Account.

Answer:

Profit and Loss Appropriation A/c as on March 31. 2006			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	40000
Abhay's Capital	20000		
Siddhartha's Capital 12000			
(-) Guarantee to Kusum 2000	10000		
Kusum's Capital 8000			
(+) Def. Received from 2000	10000		
Siddhartha			
	40000		40000

Profit and Loss Appropriation A/c as on March 31. 2007			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	60000

Abhay's Capital	30000		
Siddhartha's Capital	18000		
Kusum's Capital	12000		
	60000		60000

Question 41

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 Rs 5,000. The profits for the year ending March 31, 2017 amounts to Rs 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:

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	35000
Radha's Capital 17500			
(-) Share of Def. 900	16600		
(1500 x 3/5)			
Mary's Capital 14000			

(-) Share of Def. 600	13400		
(1500 x 2/5)			
Fatima's Capital 3500			
(+) Def. Received from:			
Radha 900			
Mary 600	5000		
	35000		35000

Journal				
Date	Particular	L.F.	Debit	Credit
	P/L Appropriation A/c Dr To Radha's Capital A/c To Mary's Capital A/c To Fatima's Capital A/c (Profit distributed among partners)		35000	 16600 13400 5000

Question 42

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 Rs 8,000. The net profit for the year ended March 31, 2017 was Rs 30,000. Prepare Profit and Loss Appropriation Account, indicating the amount finally due to each partner.

Answer:

Profit and Loss Appropriation A/c as on March 31. 2006			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	30000
X's Capital 15000			
(-) Share of Def. 1800	13200		
(3000 x 3/5)			
Y's Capital 10000			
(-) Share of Def. 1200	8800		
(3000 x 2/5)			
Z's Capital 5000			
(+) Def. Received from:			
X 1800			
Y 1200	8000		
	30000		30000

Question 43
Arun, Boby 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 Rs 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) Rs 2,50,000; (ii) 3,60,000.

Answer: Case (i)

Profit and Loss Appropriation A/c as on March 31. 2006			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	250000
Arun's Capital 100000			
(-) Share of Def. 10000	90000		
Boby's Capital	100000		
Chintu's Capital 50000			
(+) Def. Received 10000	60000		
from Arun			
	250000		250000

Case (ii)

Profit and Loss Appropriation A/c as on March 31. 2006			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	360000
Arun's Capital	144000		
(360000 x 2/5)			
Boby's Capital	144000		
(360000 x 2/5)			
Chintu's Capital	72000		
(360000 x 1/5)			
	360000		360000

Question 44

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 less than Rs 20,000. The net profit for the year ended March 31, 2017 amounted to Rs 70,000. Prepare Profit and Loss Appropriation Account.

Answer:

Profit and Loss Appropriation A/c as on March 31. 2006			
Particulars	Amount	Particulars	Amount
Profit trf to:		Profit and Loss	70000
Ashok's Capital 28000			

(-) Share of Def. 3000	25000		
(6000 x 1/2)			
Brijesh's Capital 28000			
(-) Share of Def. 3000	25000		
(6000 x 1/2)			
Cheena's Capital 14000			
(+) Def. Received from:			
Ashok 3000			
Brijesh 3000	20000		
	70000		70000

Question 45

Ram, Mohan and Sohan are partners with capitals of Rs 5,00,000, Rs 2,50,000 and 2,00,000 respectively. After providing interest on capital @ 10% p.a. the profits are divisible as follows:

Ram 1/2 , Mohan 1/3 Sohan 1/6 . But Ram and Mohan have guaranteed that Sohan's share in the profit shall not be less than Rs 25,000, in any year. The net profit for the year ended March 31, 2017 is Rs 2,00,000, before charging interest on capital. You are required to show distribution of profit.

Answer:

Profit and Loss Appropriation A/c as on March 31. 2007			
Particulars	Amount	Particulars	Amount
Interest on Capital		Profit and Loss	200000
Ram 50000			
Mohan 25000			
Sohan 20000	95000		
Profit trf to:			
Ram's Capital 52500			
(-) Share of Def. 4500	48000		
(7500 x 3/5)			
Mohan's Capital 35000			
(-) Share of Def. 3000	32000		
(7500 x 2/5)			
Sohan's Capital 17500			
(+) Def. Received from:			
Ram 4500			
Mohan 3000	25000		
	200000		200000

Question 46

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

(i) Sona's share in the profits, guaranteed to be not less than Rs 15,000 in any year.

(ii) 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 Rs 25,000). The net profit for the year ended March 31, 2017 is Rs 75,000. The gross fee earned by Babita for the firm was Rs 16,000.

You are required to show Profit and Loss Appropriation Account (after giving effect to the alone).

Answer:

Profit and Loss Appropriation A/c as on March 31. 2007			
Particulars	Amount	Particulars	Amount
Profit trf to:		profit and Loss	75000
Amit's Capital A/c 42000		Babita's Capital	9000
(84000 x 3/6)		(Deficiency of Fees	
(-) Sona's Share of 600	41400	25000 - 16000)	

Deficiency (1000 x 3/5)			
Babita's Capital A/c 28000			
(84000 x 2/6)			
(-) Sona's Share of 400	27600		
Deficiency (1000 x 2/5)			
Sona's Capital A/c 14000			
(84000 x 1/6)			
(+) Deficiency received			
from:			
Amit 600			
Babita 400	15000		
	84000		84000

Question 47

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

(i) Sona's share in the profits, guaranteed to be not less than Rs 15,000 in any year.

(ii) 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 Rs 25,000). The net profit for the year ended March 31, 2017 is Rs 75,000. The gross fee earned by Babita for the firm was Rs 16,000.

You are required to show Profit and Loss Appropriation Account (after giving effect to the alone).

Answer:

	X	Y	Z	=	Total
Interest on Capital	5000	4000	3000	=	12000
(-) Interest on Drawing	-700	-500	-300	=	-1500
(+) Partner's Salaries	1000	1500	0	=	2500
Right Distribution	5300	5000	2700	=	13000
(-) Wrong Distribution of Rs.13000 (3:1:1)	-7800	-2600	-2600	=	-13000
	-2500	2400	100		13000

Journal				
Date	Particular	L.F.	Debit	Credit
	X's Capital A/c Dr		5000	
	To Y's Capital A/c		5000	
	To Z's Capital A/c			10000

	(Profit adjusted among partners)				

Question 48
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:

	Rs
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: Distribution of Profit

Old Ratio (2:2:1) Year	Harry	Porter	Ali	=	Total
2003-04 2004-05 2005-06	-8800 -9600 -11600	-8800 -9600 -11600	-4400 -4800 -5800	= = =	-22000 -24000 -29000
Total Profit of 3 years in old ratio	-30000	-30000	-15000	=	-75000

Distribution of 3 years profit in new ratio (1:1:1)	25000	25000	25000	=	75000
Adjusted profit	-5000	-5000	10000		0

Journal				
Date	Particular	L.F.	Debit	Credit
	Harry's Capital A/c Dr Porter's Capital A/c Dr To Ali's Capital A/c (Profit adjusted due to change in profit sharing ratio)		5000 5000	 10000

Question 49

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.

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

	40,000		40,000

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

Answer:

Adjustment of Profit

	Mannu	Shrishti	=	Total
Interest on Capital	1500	500	=	2000
(-) Interest on Drawing	-120	-60	=	-180
(-) Wrong Distribution of Rs.1820 (3:2)	-1092	-728	=	-1820
	288	-288		0

Journal				
Date	Particular	L.F.	Debit	Credit
	Shrishti's Capital A/c Dr To Mannu's Capital A/c (Adjustment of profit made)		288	288

Question 50

On March 31, 2017 the balance in the capital accounts of Eluin, Monu and Ahmed, after making adjustments for profits, drawing, etc; were Rs 80,000, Rs 60,000 and Rs 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 Rs 20,000; Monu, Rs 15,000 and Ahmed, Rs 9,000. Interest on drawings chargeable to partners were Eluin Rs 500, Monu Rs 360 and Ahmed Rs 200. The net profit during the year amounted to Rs 1,20,000. The profit sharing ratio was 3 : 2 : 1. Pass necessary adjustment entries.

Answer:

Interest on Capital shall be calculated on opening capital:

	Eluin	Monu	Ahmed
Closing Capital	80000	60000	40000
(+) Drawings	20000	15000	9000
(-) Profit Rs.120000 (3:2:1)	- 60000	- 40000	-20000
Opening Capital	40000	35000	29000

Adjustment of Profit

	Eluin	Monu	Ahmed	=	Total
Interest on Capital	2000	1750	1450	=	5200

(-) Interest on Drawing	-500	-360	-200	=	-1060
(-) Wrong Distribution of Rs.4140 (3:2:1)	-2070	-1380	-690	=	-4140
	-570	10	560		0

Journal				
Date	Particular	L.F.	Debit	Credit
	Eluin's Capital A/c Dr		570	
	To Monu's Capital A/c			10
	To Ahmed's Capital A/c			560
	(Adjustment of profit made)			

Question 51

Azad and Benny are equal partners. Their capitals are Rs 40,000 and Rs 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:

Interest on Capital

Azad = 40000 x 5/100 = 2000

Benny = 80000 x 5/100 = 4000

Adjustment of Profit

	Azad	Benny	=	Total
Interest on Capital	2000	4000	=	6000
(-) Wrong Distribution of Profit Rs.6000 (1:1)	-3000	-3000	=	-6000
Adjusted Profit	-1000	1000	=	0

Journal				
Date	Particular	L.F.	Debit	Credit
	Azad's Current A/c Dr To Benny's Current A/c (Adjustment of profit made)		1000	1000

Question 52

Kavita and Pradeep are partners, sharing profits in the ratio of 3 : 2. They employed Chandan as their manager, to whom they paid a salary of Rs 750 p.m. Chandan deposited Rs

20,000 on which interest is payable @ 9% p.a. At the end of 2017 (after the division of profit), it was decided that Chandan should be treated as partner w.e.f. Jan. 1, 2014 with 1/6 th share in profits. His deposit being considered as capital carrying interest @ 6% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

		Rs
2014	Profit	59,000
2015	Profit	62,000
2016	Loss	(4,000)
2017	Profit	78,000

Record the necessary journal entries to give effect to the above.

Answer:

			Interest on Loan	+	Salary	=	Total
2001	59000	+	1800	+	9000	=	69800
2002	62000	+	1800	+	9000	=	72800
2003	-4000	+	1800	+	9000	=	6800
2004	78000	+	1800	+	9000	=	88800
	195000	+	7200	+	36000	=	238200

Chandan received as Manager = Interest on Loan + Salary = 7200 + 36000 = 43200

Total Profit of 4 years before interest on Chandan's Loan and Salary =238200

Interst on Chandan's Capital for 4 years (20000 x 6/100 = 1200) = 1200 x 4 = 4800

Profit after interest on all partners capital = Total profit of 4 years before interest on Chandan's loan and salary – Interest on Chandan's capital for 4 years = 238200 – 4800 = 233400

Wrong distribution – Distribution of 4 years
Profit when Chandan is a Manager
Kavita (195000 x 3/5) = 117000
Pradeep (195000 x 2/5) = 78000
Chandan received as Manager (Interest on Loan + Salary = 7200 + 36000) = . 43200
238200

Right Distribution – Distribution of Profit when Chandan as Partner

Chandan Share of Profit (233400 x 1/6) Interest on Capital	38900 4800 43700
Kavita's Share of Profit [(233400 - 38900) x 3/5]	116700
Pradeep's Share of Profit [(233400 - 38900) x 2/5]	77800

Adjustment of Profit

	Kavita	Pradeep	Chandan	=	Total
Distribution of Profit when Chandan as Partner	116700	77800	43700	=	238200
(-) Distribution of Profit when Chandan as Manager	-117000	-78000	-43200	=	-238200
Right Distribution of Rs.4140	-300	-200	500	=	0

Journal				
Date	Particular	L.F.	Debit	Credit
	Kavita's Capital A/c Dr Pradeep's Capital A/c Dr To Chandan's Capital A/c (Adjustment of profit made)		300 200	 500

Question 53

Mohan, Vijay and Anil are partners, the balance on their capital accounts being Rs 30,000, Rs 25,000 and Rs 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 tear their drawings for Mohan, Vijay and Anil were Rs 5,000, Rs 4,000 and Rs 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 Rs 250, Vijay Rs 200, Anil Rs 150 was not recorded in the books.

Record necessary corrections through journal entries.

Answer:
Interest on Capital shall be calculated on opening capital:

	Mohan		Vijay		Anil
Closing Capital	30000		25000		20000
(+) Drawings	5000		4000		3000
(-) Profit (1:1:1)	-8000		-8000		-8000
Opening Capital	27000		21000		15000

Interest on Capital
Mohan = 27000 x 10/100 = 2700
Vijay = 21000 x 10/100 = 2100
Anil = 15000 x 10/100 = 1500

Adjustment of Profit

	Mohan		Vijay		Anil	=	Total
Interest on Capital (on Opening Capital)	2700		2100		1500	=	6300
(-) Interest on Drawing	-250		-200		-150	=	-600
(-) Wrong Distribution	-1900		-1900		-1900	=	-5700
	550		0		-550		0

Adjusting Journal Entry				
Date	Particular	L.F.	Debit	Credit
	Anil's Capital A/c Dr To Vijay's Capital A/c (Adjustment of profit made)		550	 550

Question 54

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 there years remained as follows:

Year	Anju	Manju	Mamta
2014	4	3	5
2015	3	2	1
2016	1	1	1

Make necessary and adjustment entry at the beginning of the fourth year i.e. Jan. 2017.

Answer:
Interest on Capital
Anuj = 10000 x 5/100 = 500
Manju = 8000 x 5/100 = 400
Mamta = 6000 x 5/100 = 300

Adjustment of Profit
Year 2004

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300	=	1200
(-) Wrong Distribution of Rs.1200 (4:3:5)	-400		-300		-500	=	-1200
	100		100		-200		0

Year 2005

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300	=	1200

(-) Wrong Distribution of Rs.1200 (3:2:1)	-600		-400		-200	=	-1200
	-100		0		100		0

Year 2006

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300	=	1200
(-) Wrong Distribution of Rs.1200 (1:1:1)	-400		-400		-400	=	-1200
	100		0		-100		0

Final Adjustment

	Anuj		Manju		Mamta
2004	100		100		-200
2005	-100		0		100
2006	100		0		-100
	100		100		-200

Journal

Date	Particular	L.F.	Debit	Credit
2007 Jan	Mamta's Capital A/c Dr		200	

	To Anuj's Capital A/c To Manju's Capital A/c (Adjustment of profit made)			100 100

Question 55

Dinker and Ravinder were partners sharing profits and losses in the ratio of 2:1. The following balances were extracted from the books of account, for the year ended December 31, 2017.

Account Name	Debit Amount Rs	Credit Amount Rs
Capital		
Dinker		2,35,000
Ravinder		1,63,000
Drawings		
Dinker	6,000	
Ravinder	5,000	
Opening Stock	35,100	
Purchases and Sales	2,85,000	3,75,800
Carriage inward	2,200	
Returns	3,000	2,200
Stationery	1,200	
Wages	12,500	

Bills receivables and Bills payables	45,000	32,000
Discount	900	400
Salaries	12,000	
Rent and Taxes	18,000	
Insurance premium	2,400	
Postage	300	
Sundry expenses	1,100	
Commission		3,200
Debtors and creditors	95,000	40,000
Building	1,20,000	
Plant and machinery	80,000	
Investments	1,00,000	
Furniture and Fixture	26,000	
Bad Debts	2,000	
Bad debts provision		4,600
Loan		35,000
Legal Expenses	200	
Audit fee	1,800	
Cash in Hand	13,500	
Cash at Bank	23,000	
	8,91,200	8,91,200

Prepare final accounts for the year ended December 31,2017, with following adjustment:

(a) Stock on December 31,2017, was Rs 42,500.
(b) A Provision is to be made for bad debts at 5% on debtors

(c) Rent outstanding was Rs 1,600.
(d) Wages outstanding were Rs 1,200.
(e) Interest on capital to be allowed on capital @ 4% per annum and interest on drawings to be charged @ 6% per annum.
(f) Dinker and Ravinder are entitled to a Salary of Rs 2,000 per annum
(g) Ravinder is entitled to a commission Rs 1,500.
(h) Depreciation is to be charged on Building @ 4%, Plant and Machinery, 6%, and furniture and fixture, 5%.
(i) Outstanding interest on loan amounted to Rs 350.

Answer:

Trading A/c			
Particulars	Amount	Particulars	Amount
Opening Stock	35100	Sales 375800	
Purchase 285000		(-) Sales return 3000	372800
(-) Purchase return 2200	282800	Closing Stock	42500
Carriage Inward	2200		
Wages 12500			
(+) O/s 1200	13700		
Gross Profit	81500		
	415300		415300

Profit and Loss A/c			
Particulars	Amount	Particulars	Amount
Stationary	1200	Gross Profit	81500
Discount Allowed	900	Discount Received	400
Salaries	12000	Commission	3200
Rent and Taxes 18000			
(+) O/s 1600	19600		
Insurance Premium	2400		
Postage	300		
Sundry Expense	1100		
Bad Debt 2000			
(+) Provision 4750			
* 6750			
(-) Provision (old) 4600	2150		
Legal Expense	200		
Audit Fee	1800		
O/s Interest on Loan	350		
Depreciation on:			
Building	4800		
Plant and Machinery	4800		
Fixture and Fittings	1300		
P/L Appropriation	32200		

	85100		85100

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Interest on Capital:		Net Profit	32200
Dinker 9400		Interest on Drawing:	
Ravinder 6520	15920	Dinker 180	
Partner's Salary:		Ravinder 150	330
Dinker 2000			
Ravinder 2000	4000		
Commission (Ravinder)	1500		
Gross Profit:			
Dinker's Capital A/c 7407			
Ravinder's Capital A/c 3703	11110		
	32530		32530

Partners Capital A/c					
Particulars	Dinker	Ravinder	Particulars	Dinker	Ravinder
Drawings	6000	5000	Balance b/d	235000	163000
Interest on Drawing	180	150	Interest on Capital	9400	6520

Balance c/d	247627	171573	Partner's Salary	2000	2000
			P/L Appropriation	7407	3703
			Commission		1500
	253807	176723		253807	176723

Balance Sheet			
Liabilities	Amount	Assets	Amount
Bills Payable	32000	Bills Receivables	45000
Creditors	40000	Debtors 95000	
Loan 35000		(-) 5% Provision 4750	90250
(+) O/s Interest 350	35350	Building 120000	
O/s Rent	1600	(-) 45% Dep. 4800	115200
O/s Wages	1200	Plant & Machinery 80000	
Capital:		(-) 6% Dep 4800	75200
Dinker 247627		Investments	100000
Ravinder 171573	419200	Furniture & Fixture 26000	

		(-) 5% Dep 1300	24700
		Cash in hand	13500
		Cash at bank	23000
		Closing Stock	42500
	529350		529350

Question 56

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.

Account Name	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 following adjustments:

(a) Stock on March 31,2015 was Rs37,500.

(b) Bad debts Rs3,000; Provision for bad debts is to be made at 5% on debtors
(c) Rent Prepaid were Rs1,200.
(d) Wages outstanding were Rs 2,200.
(e) Interest on capital to be allowed on capital at 6% per annum and interest on drawings to be charged @ 5% per annum.
(f) Kajol is entitled to a Salary of Rs 1,500 per annum.
(g) Prepaid insurance was Rs 500.
(h) Depreciation was charged on Building, @ 4%; Plant and Machinery, @ 5%; Motor car, @ 10% and furniture and fixture, @ 5%.
(i) 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.

Account Name	Debit Amount (Rs.)	Credit Amount (Rs.)
Capital		
Kajol		1,15,000
Sunny		91,000
Current Accounts [on 01-04-2005]		
Kajol		4500
Sunny	3200	
Drawings		
Kajol	6000	
Sunny	3000	
Opening Stock	22,700	
Purchase and Sales	1,65,000	2,35,800

Freight Inward	1,200	
Returns	2,000	3,200
Printing and Stationary	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, 2006, with following adjustments:

a) Stock on March 31, 2006 was Rs. 37,500
b) Bad debts Rs. 3,000, Provision for bad debts is to be made at 5% on debtors.
c) Rent Prepaid were Rs.1,200.
d) Wages outstanding were Rs. 2,200.
e) Interest on capital to be allowed on capital at 6% per annum and interest on drawings to be charged @ 5% per annum.
f) Kajol is entitled to a Salary of Rs. 1,500 per annum.
g) Prepaid insurance was Rs.500.
h) Depreciation was charged on Building @ 4%, Plant and Machinery @ 5%, Motor car @ 10% and Furniture and fixture @ 5%.
i) Goods worth Rs. 7,000 were destroyed by fire on January 20, 2005. The Insurance company agreed to pay Rs.5000 in full settlement of the claim.

Answer:

Trading A/c			
Particulars	Amount	Particulars	Amount
Opening Stock	22700	Sales 235800	
Purchase 165000		(-) Sales return 2000	233800
(-) Purchase return 3200		Closing Stock	37500
(-) Goods lost by fire 7000	154800		
Freight Inward	1200		

Wages 5500			
(+) O/s 2200	7700		
Gross Profit	84900		
	271300		271300

Profit and Loss A/c			
Particulars	Amount	Particulars	Amount
Printing and Stationary	900	Gross Profit	84900
Discount Allowed	400	Discount Received	800
Salaries	6000	Commission	1600
Rent 7200		Insurance Co. (Claim)	5000
(-) Prepaid 1200	6000		
Insurance Premium 2000			
(-) Prepaid 500	1500		
Travelling Expense	700		
Sundry Expense	1100		
Bad Debt 1500			
(+) Further Bad Debt 3000			

(+) Provision 3550			
Total 8050			
(-) Provision (old) 2200	5850		
Legal Expense	300		
Audit Fee	900		
Goods lost by fire	7000		
Depreciation on:			
Building	3400		
Plant and Machinery	3500		
Motor Car	6000		
Furniture and Fixture	750		
Net Profit	48000		
	92300		92300

Profit and Loss Appropriation A/c			
Particulars	Amount	Particulars	Amount
Interest on Capital:		Net Profit	48000
Kajol 6900		Interest on Drawing:	
Sunny 5460	12360	Kajol 300	

Kajol Salary	1500	Sunny 150	450
Gross Profit:			
Kajol's Current A/c 20754			
Sunny's Current A/c 13836	34590		
	48450		48450

Partners Capital A/c					
Particulars	Kajol	Sunny	Particulars	Kajol	Sunny
Balance c/d	115000	91000	Balance b/d	115000	91000
	115000	91000		115000	91000

Partners Current A/c					
Particulars	Kajol	Sunny	Particulars	Kajol	Sunny
Balance b/d		3200	Balance b/d	4500	
Drawings	6000	3000	Interest on Capital	6900	5460
Interest on Drawing	300	150	Partner's Salary	1500	
Balance c/d	27354	12946	P/L Appropriation	20754	13836
	33654	19296		33654	19296

Balance Sheet			
Liabilities	Amount	Assets	Amount
Bills Payable	21000	Bills Receivables	25000

Creditors	78000	Debtors 74000	
Loan	25000	(-) Further BD 3000	
Wages O/s	2200	* 71000	
Capital:		(-) 5% Provision 3550	67450
Kajol 115000		Building 85000	
Sunny 91000	206000	(-) 5% Dep. 3400	81600
Current:		Plant & Machinery 70000	
Kajol 27354		(-) 5% Dep 3500	66500
Sunny 12946	40300	Motor Car 60000	
		(-) 10% Dep 6000	54000
		Furniture & Fixture 15000	
		(-) 5% Dep 750	14250
		Cash in hand	7500
		Cash at bank	12000
		Closing Stock	37500
		Prepaid Rent	1200

		Prepaid Insurance	500
		Insurance Co. (Claim)	5000
	372500		372500