INTEREST ON PARTNER'S LOAN

Meaning

When a partnership firm is in need of additional funds, it may borrow money from partners. This is in addition to the capital contributed by the partners. Such a money borrowed is distinguished from partner's capital account and is therefore, recorded separately in 'Partner Loan Account'.

Rate of Interest

Interest on such loan is allowed @ **6% p.a.,** unless otherwise agreed. Interest on loan is a charge against profits (i.e. expense of business) therefore, it is always debited to Profit & Loss Account.

Balance Sheet Treatment

The partner's loan is a liability of the business, therefore, it appears on the liabilities side of balance sheet, along with the interest due on loan, if any.

Accounting Treatment		
(1) When Loan is Taken :		
Cash/Bank A/c	Dr.	
To Partner's Loan A/c		
(2) When Interest is due on Loan :		
Interest on Partner's Loan A/c	Dr.	
To Partner's Loan A/c		
(3) When Interest on Loan is transferred to Profit & Loss Account :		
Profit & Loss A/c	Dr.	
To Interest on Partner's Loan A/c		

Remembering (Knowledge Based)

1. **It is significant to highlight here that interest due on partner's loan is not recorded in partner current/capital account. It is always credited to 'Partner's Loan Account'.**
2. **Interest on partner's loan is treated as a charge on profit hence it is debited to Profit & Loss Account. It should not be treated as an appropriation of profit, for the simple reason that it has to be paid even if there is no profit.**

HOTS

Q. **Do you differentiate in (a) Interest on Partner's loan (b) Interest on Mrs. Partner's loan and (c) Interest on Loan from Bank ? State with reason.**

Ans. Interest on partner's loan, Interest on Mrs. Partner's loan and Interest on bank loan all are expense (charge) of the firm. These are not appropriations, therefore these are not debited to Profit and Loss Appropriation Account. Being expense, all types of interest mentioned above are debited to Profit and Loss Account.

ILLUSTRATION 35. **(Interest on Loan/Different Cases)** P and Q are partners in the ratio of 2 : 1. On 1st April., 2016 they gave loan of ₹ 1,00,000 and ₹ 80,000 to the firm. Show distribution of profits in the following cases for the year ended 31-3-17.

Case (a)	Profits before interest	₹ 13,800
Case (b)	Profits before interest	₹ 9,000
Case (c)	Loss before interest	₹ 1,200

Solution

Case (a)

DR. **PROFIT & LOSS ACCOUNT** **CR.**
FOR THE YEAR ENDING 31ST MARCH, 2017

Particulars		₹	Particulars		₹
To Interest on loan @ 6% :			By Profit before Interest		13,800
P (1,00,000 × 6/100)	6,000				
Q (80,000 × 6/100)	4,800	10,800			
To Profit Transferred to :					
P's Capital A/c (2/3)	2,000				
Q's Capital A/c (1/3)	1,000	3,000			
		13,800			13,800

Case (b)

DR. **PROFIT & LOSS ACCOUNT** **CR.**
FOR THE YEAR ENDING 31ST MARCH, 2017

Particulars		₹	Particulars		₹
To Interest on loan @ 6% :			By Profit before Interest		9,000
P (1,00,000 × 6/100)	6,000		By Loss Transferred to :		
Q (80,000 × 6/100)	4,800	10,800	P's Capital A/c (2/3)	1,200	
			Q's Capital A/c (1/3)	600	1,800
		10,800			10,800

Case (c)

DR. **PROFIT & LOSS ACCOUNT** **CR.**
FOR THE YEAR ENDING 31ST MARCH, 2017

Particulars		₹	Particulars		₹
To Loss (before interest)		1,200	By Loss Transferred to :		
To Interest on loan @ 6% p.a. :			P's Capital A/c (2/3)	8,000	
P (1,00,000 × 6/100)	6,000		Q's Capital A/c (1/3)	4,000	12,000
Q (80,000 × 6/100)	4,800	10,800			
		12,000			12,000

Note : In the absence of any information about the Interest on Loss from partners, we will assume it as 6% p.a. according to the Indian Partnership Act, 1932 in all cases.

ILLUSTRATION 36. **(Interest on Loan)** M/s Bharat Chemicals has taken a loan from Partner B of ₹ 50,000, on 1st April, 2016 interest 10% p.a. Interest is payable in cash at the end of accounting year. The books are closed on 31st March. Pass journal entries for the year 2016-17 in the books of firm.

Solution

BOOKS OF M/S BHARAT CHEMICALS
JOURNAL

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2016					
April 1	Bank A/c	Dr.		50,000	
	To B's Loan A/c				50,000
	(Being loan taken from B)				
2017	Interest on B's Loan A/c	Dr.		5,000	
Mar. 31	To Bank A/c				5,000
	(Being interest paid for one year @ 10%)				
	Profit & Loss A/c	Dr.		5,000	
	To Interest on B's Loan A/c				5,000
	(Being interest on loan transferred to P & L A/c)				

VALUES IDENTIFIED

Following are the values shown by Partner B :

(A) Friendship (b) Co-operation

ILLUSTRATION 37. **(Interest on Loan)** Rahim and Karim are partners in Delhi sharing profits in 2 : 1 ratio. On 1 July, 2016 Rahim advanced ₹ 30,000 to the firm @ 12% p.a. Firm returned back ₹ 10,000 to Rahim on 31st December, 2016. Karim also advanced ₹ 50,000 to the firm on 30 September, 2016. He received back ₹ 20,000 on 28th February 2017 out of ₹ 50,000. Books are closed on 31st March, 2017. Interest was paid on March 31. Pass entries in Journal.

Solution

JOURNAL

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
2016	Bank A/c	Dr.		30,000	
July 1	To Rahim's Loan A/c				30,000
	(Being loan taken from Rahim)				
Sep. 30	Bank A/c	Dr.		50,000	
	To Karim's Loan A/c				50,000
	(Being loan taken from Karim)				
Dec. 31	Rahim's Loan A/c	Dr.		10,000	
	To Bank A/c				10,000
	(Being Loan ₹ 10,000 refunded)				

2017 Feb. 28	Karim's Loan A/c Dr. To Bank A/c (Being loan ₹ 20,000 refunded)		20,000	20,000
Mar. 31	Interest on Rahim's Loan A/c **(WN1)** Dr. Interest on Karim's Loan A/c **(WN1)** Dr. To Bank A/c (Being interest on loan paid)		2,400 2,800	5,200
	Profit and Loss A/c Dr. To Interest on Rahim's Loan A/c To Interest on Karim's Loan A/c (Being interest transferred to P and L A/c)		5,200	2,400 2,800

1. Calculation of Interest on Loan

Rahim's Interest on loan =

On ₹ 30,000 @ 12% p.a. for 6 months (July –Dec.) $30{,}000 \times \frac{12}{100} \times \frac{6}{12}$	1,800
On ₹ 20,000 @ 12% p.a. for 3 months (Jan.-Mar.) $20{,}000 \times \frac{12}{100} \times \frac{3}{12}$	600
	2,400

Karim's Interest on Loan

On ₹ 50,000 @ 12% p.a. for 5 months (Oct.–Feb.) $50{,}000 \times \frac{12}{100} \times \frac{5}{12}$	2,500
On ₹ 30,000 @ 12% p.a. for one month (Mar.) $30{,}000 \times \frac{12}{100} \times \frac{1}{12}$	300
	2,800

PARTNER'S SALARY, COMMISSION, FEES, ETC.

No partner is entitled to get salary, commission or fees from the firm for the work done by him, because it is his duty to work honestly for the profits of the firm. However, the partnership deed may provide for the payment of salary etc., to partners for any extra work done by them. The salary, fees, commission etc., payable to the partners are generally not paid in cash. It is first credited to the concerned partner's capital account or current account and then the partner is allowed to withdraw the amount from business. The amount payable to partner as salary, etc., is treated as an **appropriation of profits,** however, salary, commission etc., payable to employees is treated as a charge (expense) on profits. The former is **debited to profit & loss appropriation account,** where as the latter is debited to profit & loss account.

Understanding

Q. Why a firm should give salary, commission, fee etc. to a partner when he is himself the co-owner of business ?

Ans. A firm gives salary, commission, fee etc. to a partner because of following reasons :

(i) To compensate the partner who devotes more time for the business.

(ii) To compensate the partners who possesses more skill.

(iii) To compensate the partner who has small share in profits.

ACCOUNTING TREATMENT

(i) For Salaries/Commission etc., Payable to Partners : Partner's Salaries/Commission A/c Dr. To Partner's Capital A/c Or To Partner's Current A/c	 (In case of fluctuating capital) (In case of fixed capital)
(ii) For Transfer of Salaries, Commission to Profit & Loss Appropriation A/c : Profit & Loss Appropriation A/c Dr. To Partner's Salaries/Commission A/c.	

CALCULATION OF COMMISSION TO PARTNER

Commission to the partner may be calculated on the net profits before charging commission or after charging commission. The commission is given with the objective to get best of his services.

Amount of commission under the two situations may be calculated as follows :

1. **Commission on Net Profit before Charging Commission :**

$$\text{Net Profit before Commission} \times \frac{\text{Rate of Commission}}{100}$$

2. **Commission on Net Profit after Charging Commission :**

$$\text{Net Profit before Commission} \times \frac{\text{Rate of Commission}}{100+\text{Rate of Commission}}$$

ILLUSTRATION 38. (Calculation of Commission to a Partner/Various Cases)

A, B and C were sharing Profits in the ratio of 2:2:1. Calculate the commission payable to B in the following cases :

(i) B was entitled to receive a commission of 10% on net Profit before charging such commission. Net profit before charging the commission payable to B was ₹ 1,00,000

(ii) B was entitled to receive a commission of 10% on net profits after (charging commission to B). Profit before charging the commission payable to B was ₹ 1,00,000.

(iii) B was entitled to receive a commission of 10% on net Profits after charging the commission payable to B. Net Profit after charging the commission payable to B was ₹ 1,00,000.

Solution

(i) Commission before Charging

Net Profit before charging commission = ₹ 1,00,000

Commission Payable to B = ₹1,00,000 × 10/100

= ₹ 10,000

(ii) Commission after Charging

Net Profit before charging Commission = ₹ 1,00,000

Commission Payable to B = ₹ 1,00,000 × 10/110

= ₹ 9,091

(iii) After charging commission/Profit after charging given

Net Profit After charging commission = ₹ 1,00,000

Commission payable to B = ₹ 1,00,000 × 10/100 = ₹ 10,000

Note : Profits are already after charging Commission is given, therefore commission has been calculated as : (10/100× ₹ 1,00,000)

ILLUSTRATION 39. **(Commission and Salary to Partners)** Geeta and Meeta were partners in a firm sharing profit in the ratio of 5 : 3. Their fixed capital were ₹ 3,00,000 and ₹ 2,00,000 respectively. The Partnership Deed provided that :

(i) Interest on capital should be allowed @ 12%.
(ii) Geeta should be allowed a salary of ₹ 40,000.
(iii) A commission of 5% of the net profit should be allowed to Meeta.
(iv) The net profit for the year ended 31.3.2017 was ₹ 2,00,000.

Prepare the Profit and Loss Appropriation account.

Solution

DR. **PROFIT & LOSS APPROPRIATION A/C** CR.

Particulars		₹	Particulars	₹
To Interest on Capital :			By Net Profit b/d	2,00,000
Geeta (3,00,000 × 12/100)		36,000		
Meeta (2,00,000 × 12/100)		24,000		
To Salary to Geeta		40,000		
To Commission to Meeta		10,000		
(5% on ₹ 2,00,000)				
To Profit Transferred to :				
Geeta's Capital A/c (5/8)	56,250			
Meeta's Capital A/c (3/8)	33,750	90,000		
		2,00,000		2,00,000

ILLUSTRATION 40. **(Commission and Salary to Partners)**

Sharma and Verma were partner in a firm sharing profits in the ratio of 4:1. Their capitals on 1.4.2008 were : Sharma ₹ 5,00,000 and Verma ₹ 1,00,000. The partnership deed provided that Sharma will get a commission of 10% on the net profit after allowing a salary of ₹ 5,000 per month to Verma. The profit of the firm for the year ended 31st March, 2009 was ₹ 2,80,000. Prepare Profit and Loss Appropriation Account for the year ended 31.3.2009. **(CBSE 2009C)**

Solution

PROFIT AND LOSS APPROPRIATION ACCOUNT

Particulars	₹	Particulars	₹
To Salary to Verma (5,000 × 12)	60,000	By Net Profit b/d	2,80,000
To Commission to Sharma (2,80,000-60,000)	22,000		
(2,20,000 × 10%)			

To Profit transferred to :				
–Sharma's Capital (1,98,000 × 4/5)	1,58,400			
–Verma's Capital (1,98,000 × 1/5)	39,600	1,98,000		
		2,80,000		2,80,000

ILLUSTRATION 41. **(Salary and Commission payable to partners)** X and Y are partners in a retail business in 3 : 2 ratio. The agreement provides that X is to get salary ₹ 3,000 p.m. along with travelling expenses ₹ 1,000 p.m. for touring to get business for firm. He is also to get commission @ 3% on the sales exceeding ₹ 2,00,000. During the year, firm earned profits ₹ 1,80,000. The sales executed through X was ₹ 4,00,000 Y who looks after the over all business is entitled to get 5% commission on profits after charging Salary and Commission to X and his own.

Required : Profit & Loss Appropriation Account.

Solution

DR. **PROFIT & LOSS APPROPRIATION ACCOUNT** **CR.**

Particulars		₹	Particulars	₹
To Salary to X (3,000 + 1,000) × 12		48,000	By Profit b/d	1,80,000
To Commission to X				
3% (4,00,000 – 2,00,000)		6,000		
To Commission to Y ***(WN1)***		6,000		
To Profit Transferred to :				
X's Capital A/c (3/5)	72,000			
Y's Capital A/c (2/5)	48,000	1,20,000		
		1,80,000		1,80,000

Working Notes :

1. **Commission Payable to Y**

   Profit left after salary and commission to X :

   1,80,000 – 48,000 – 6,000 = 1,26,000

   Commission to Y = $\frac{5}{105} \times 1,26,000 = 6,000$

   (after changing his own)

TREATMENT OF RENT PAYABLE TO PARTNER

If the business of the firm is being carried on in the building owned by partner and the building has been let out by the partner to the firm. In such a case the *rent paid by the firm to the partner will be treated as a charge on profits, hence debited to profit & loss account. The rent in such a case should not be treated as appropriation of profits.*

ILLUSTRATION 42. **(Salaries/Bonus/Commission/General Reserve)** A and B are partners sharing profit 70% and 30% respectively. It is the practice in the firm to transfer 20% of the net distributable profits to general reserve. Partner A is to get salary ₹ 3000 p.m. which was increased by 40% from January, 2017. B gets commission @ 2% on sales of ₹ 10,00,000 plus 10% on net profits after making all appropriations including his 2% commission but before creating general reserve.

B is to get bonus @ 10% on the profits which exceeds ₹ 1,50,000. The profits for the year 31-3-17 were ₹ 4,00,000. Prepare Profit & Loss Appropriation Account.

Solution

DR. **PROFIT & LOSS APPROPRIATION ACCOUNT** **CR.**

Particulars		₹	Particulars	₹
To A's Salary (3000 × 9) + (4200 × 3) **(WN1)**		39,600	By Profit & Loss A/c (Profit for the year)	4,00,000
To B's Bonus (10% on 2,50,000) **(WN2)**		25,000		
To B's Commission **(WN3)**		51,540		
To General Reserve **(WN4)**		56,772		
To Profit Transferred to :				
A's Capital A/c (70%)	1,58,962			
B's Capital A/c (30%)	68,126	2,27,088		
		4,00,000		4,00,000

Note. Instead of writing "Profit & Loss A/c (Profit for Current Year)" we can also write "Net Profit".

Working Notes :

1. **A's Salary**
   - April to December 3000 × 9 = 27,000
   - January to March (3000 + 40% of 3000) × 3 = 12,600
   - = 39,600
2. **B's Bonus (on Profits exceeding ₹ 1,50,000) :**
   - 10% (4,00,000 – 1,50,000) = 25,000
3. **B's Commission**
   - 2% on ₹ 10,00,000 = 20,000
   - Plus 10% (4,00,000 – 39,600 – 25,000 – 20,000) = 31,540
   - Total B's Commission 51,540
4. **General Reserve**
   - 20% (4,00,000 – 39,600 – 25,000 – 20,000 – 31,540) 56,772
   - 20% of (NP – A's Salary – B's Bonus – B's Commission)

ILLUSTRATION 43. **(P & L Appropriation)** X and Y are partners in a firm in 2 : 3 ratio. X and Y had capital of ₹ 5,00,000 and 9,00,000 respectively.

Due to expansion of business, there was urgent need to introduce additional capital of ₹ 2,00,000 on 30-9-2016, Y agreed to lend ₹ 1,00,000 to X with out interest so that X contributes the capital of his share. Both X and Y are entitled to get interest on capital @ 9% pa. During the year ended 31-3-2017 they earned a profit of ₹ 4,00,000.

Additional information is :

1. Drawings ₹ 30,000 of Y and that of X, ₹ 2,000 p.m. for three months and ₹ 4,000 p.m. for nine months.

2. Salary of Y is ₹ 20,000 and that of X ₹ 1,000 p.m. for first three months and ₹ 4,000 pm for nine months.

Prepare Profit and Loss Appropriation Account.

Solution

DR. PROFIT AND LOSS APPROPRIATION ACCOUNT CR.

Particulars		₹	Particulars	₹
To Interest on Capital :			By Profit & Loss A/c (Profit for the year)	4,00,000
X 9% of ₹5,00,000	45,000			
9% of ₹1,00,000 for 6 months	4,500	49,500		
Y 9% of ₹8,00,000	81,000			
9% of ₹1,00,000 for 6 months	4,500	85,500		
To Salary :				
X (1,000 × 3) + (4,000 × 9)		39,000		
Y		20,000		
To Profit transferred to :				
X's Capital A/c (2/5)	82,400			
Y's Capital A/c (3/5)	1,23,600	2,06,000		
		4,00,000		4,00,000

ILLUSTRATION 44. **(Rent payable to partner & Municipal taxes)** P, Q and R are partners in a firm sharing profit in 2:1:3 ratio. The firm earned ₹ 70,000 profit during the year before allowing rent of building to P amounting to ₹ 8,000 and municipal taxes on the building ₹ 2,000 which as per agreement are payable by the firm.

R's salary is fixed ₹ 15,000. Q is to get 10% commission on net profits after making all appropriations.

P is to get bonus ₹ 5,000. Amount transferred to general reserve is ₹ 7,000.

Prepare Profit & Loss Appropriation Account.

Solution

DR. PROFIT & LOSS APPROPRIATION ACCOUNT CR.

Particulars		₹	Particulars		₹
To R's Salary		15,000	By Profit b/d **(WN1)**	70,000	
To P's Bonus		5,000	Less : Rent	8,000	
To General Reserve		7,000	M.Taxes	2,000	60,000
To Q's Commission 10/110×(60000–27000)**(WN2)**		3,000			
To Profit Transferred to :					
P's Capital A/c (2/6)	10,000				
Q's Capital A/c (1/6)	5,000				
R's Capital A/c (3/6)	15,000	30,000			
		60,000			60,000

Working Notes

1. Rent payable to partner P & M.T. are charge against profits i.e. expense, therefore rent and M.T. are to be deducted from profit in Profit & Loss A/c. Hence, the balance of profit ₹ 60,000 is left for appropriations.

2. Q's Commission

Profits available = ₹ (60,000 – 15,000 – 5,000 – 7,000) = ₹ 33,000

Commission = $\frac{10}{110} \times 33{,}000$ = ₹ 3,000

ILLUSTRATION 45. **(P & L App. A/c/Partners' Capital A/c)** A and B are partners sharing profits in the ratio of 3 : 2 with capitals of ₹ 50,000 and ₹ 30,000 respectively. Interest on capital is agreed @ 6% p.a. B is allowed an annual salary of ₹ 2,500 and rent of building to B ₹ 3,000. During 2017–18, the profits of the firm prior to salary and rent of B and calculation of interest on capital but after charging B's salary amounted to ₹ 12,500. A provision of 5% of the profits is to be maintained in respect of manager's commission. Prepare an account showing allocation of profits and partner's capital accounts.

Solution

PROFIT & LOSS APPROPRIATION ACCOUNT
DR. FOR THE YEAR ENDING 31ST MARCH 2018 CR.

Particulars		₹	Particulars		₹
To B's Capital A/c— Salary		2,500	By Profit	12,500	
To Interest on Capital :-			Less : Rent to B	3,000	
—A (50,000 × 6/100)	3,000		Manager's Commission 5% on 12,000	600	
—B (30,000 × 6/100)	1,800	4,800	(12,500–3,000 + 2,500 = 12,000)		
To Net Profit			Add : B's salary	2,500	11,400
—A's Capital A/c (3/5)	2,460		**(See Note)**		
—B's Capital A/c (2/5)	1,640	4,100			
		11,400			11,400

DR. PARTNER'S CAPITAL ACCOUNTS CR.

Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
To balance c/d	55,460	35,940	By Balance b/d	50,000	30,000
			By P & L Appropriation A/c		
			— Salary	—	2,500
			— Interest on Capital	3,000	1,800
			— Share of profit	2,460	1,640
	55,460	35,940		55,460	35,940

Note. Manager's commission and rent to partner are items of profit and loss account. Hence deducted from profits as they were not deducted earlier but B's salary has been added back because that is an item of Profit & Loss Appropriation A/c and not of Profit & Loss A/c.

ILLUSTRATION 46. **(P & L App. A/c/Partners' Capital A/c)** D, E and F are partners in a firm. As per their agreement they are entitled to get the following :

(a) F is to get salary ₹ 21,000

(b) D, E and F are to get interest @ 6% p.a. on their capital of ₹ 8,75,000, ₹ 5,25,000 and ₹ 3,50,000.

(c) F is to get extra benefit of 10% of profit in excess of ₹ 1,75,000 after providing for (a) and (b) above.

(d) E is entitled to 1/4 of profits after providing for all the amounts in para (a) (b) and (c) and the balance of profit will be shared by D and F in 4 : 1 ratio. The profit for the year before providing for the above was ₹ 7,70,000.

Prepare Profit and Loss Appropriation Account and Capital Account

Solution

DR. **PROFIT AND LOSS APPROPRIATION A/C** CR.

Particulars		₹	Particulars	₹
To Interest on Capital :			By Balance b/d	7,70,000
D (8,75,000 × 6/100)	52,500			
E (5,25,000 × 6/100)	31,500			
F (3,50,000 × 6/100)	21,000	1,05,000		
To Salary to F		21,000		
To Profit to F **(WN1)**				
10% on ₹ 4,69,000		46,900		
To Profit to E **(WN2)**				
1/4 of 5,97,100		1,49,275		
To Profit Transferred to :				
D's Capital A/c (4/5)	3,58,260			
F's Capital A/c (1/5)	89,565	4,47,825		
		7,70,000		7,70,000

DR. **PARTNER'S CAPITAL ACCOUNT** CR.

Particulars	D	E	F	Particulars	D	E	F
To Balance c/d	12,85,760	7,05,775	5,28,465	By Balance b/d	8,75,000	5,25,000	3,50,000
				By Interest on Capital A/c	52,500	31,500	21,000
				By Salary A/c	–	–	21,000
				By Profit		1,49,275	46,900
				By Profit and Loss App. A/c	3,58,260	–	89,565
	12,85,760	7,05,775	5,28,465		12,85,760	7,05,775	5,28,465

Working Notes :

1. Profit to F $= \frac{10}{100}$ (7,70,000–52,500–31,500–21,000–21,000–1,75,000 i.e. 4,69,000) = 46,900

2. Profit to E $= \frac{1}{4}$ (7,70,000–52,500–31,500–21,000–21,000–46,900 i.e. 5,97,100) = 1,49,275

ILLUSTRATION 47. **(P & L A/c/P & L Appropriation A/c)** R and S are partners in cloth business, sharing profits in 2 : 1 ratio. As per the understanding between partners, R is to travel across Haryana State to obtain orders for the firm. S is required to lookafter the local office and Godown at Chandigarh. Loss due to deliberate negligence on the part of any partner is to be met by the concerned partner.

The following are the details for the year ended 31st March 2017 :

Profit earned ₹ 3,60,000 before office rent and godown rent of ₹ 5,000 p.m. and Rs. 4,000 p.m. respectively and also before the following adjustments :

1. Salary to R is ₹ 30,000 and of S ₹ 22,000.
2. Expenses met by partners on behalf of firm are to be reimbursed.
3. S paid both the rent at Chandigarh and local office.
4. R incurred ₹ 18,000 on travelling and ₹ 5,000 on hotel expenses in Haryana.
5. It was reported that due to theft in godown, the firm suffered loss of ₹ 18,000 due to the negligence of S. R agreed to waive off 50% loss.

You are required to prepare Profit and Loss Account.

Solution

DR. **PROFIT AND LOSS ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Office Rent (₹ 5,000 × 12 Months)	60,000	By Profit b/d	3,60,000
To Godown Rent (₹ 4,000 × 12 Months)	48,000	Add : Amount of loss recovered from S	
To Travelling Expenses (by R)	18,000	(50% of 18,000)	9,000
To Hotel Expenses (by R)	5,000		
To Profit c/d	2,38,000		
	3,69,000		3,69,000

DR. **PROFIT AND LOSS APPROPRIATION ACCOUNT** CR.

Particulars		₹	Particulars	₹
To Salary :			By Profit b/d	2,38,000
S		22,000		
R		30,000		
To Profit transferred to :				
R's Capital A/c (2/3)	1,24,000			
S's Capital A/c (2/3)	62,000	1,86,000		
		2,38,000		2,38,000

ILLUSTRATION 48. **(P & L App. A/c/Partners' Capital A/c)** X, Y and Z were partners in a firm. Their capitals on 1.4.2011 were :

X : ₹ 2,00,000, Y : ₹ 2,50,000 and Z : ₹ 3,00,000

The partnership deed provided for the following :

(i) They will share profits in the ratio of 2:3:3

(ii) X will be allowed a salary of ₹ 12,000 p.a.

(iii) Interest on Capital will be allowed @ 12% p.a.

During the year, X withdrew ₹ 28,000, Y ₹ 30,000 and Z ₹ 18,000. For the year ended 31.3.2012 the firm earned a profit of ₹ 5,00,000

Prepare Profit and Loss Appropriation Account and Partners Capital Accounts.

(CBSE Sample Paper 2014)

Solution

PROFIT AND LOSS APPROPRIATION ACCOUNTS
FOR THE YEAR ENDED 31-3-2012

Particulars		₹	*Particulars*	₹
To Salary X's Capital A/c		12,000	By Net Profit	5,00,000
To Interest on Capital :				
X's Capital A/c (2,00,000×12%)	24,000			
Y's Capital A/c (2,50,000×12%)	30,000			
Z's Capital A/c (3,00,000×12%)	36,000	90,000		
To Profit Transferred to :				
X's Capital A/c(3,98,000×2/8)	99,500			
Y's Capital A/c (3,98,000×3/8)	1,49,250			
Z's Capital A/c (3,98,000×3/8)	1,49,250	3,98,000		
		5,00,000		5,00,000

PARTNER'S CAPITAL ACCOUNTS

Date	*Particular*	*X*	*Y*	*Z*	Date	*Particular*	*X*	*Y*	*Z*
31.3.12	To Drawings	28,000	30,000	18,000	1.4.11	By Balance b/d	2,00,000	2,50,000	3,00,000
					31.3.12	By Salary	12,000	–	–
31.3.12	To Balance c/d	3,07,500	3,99,250	4,67,250	,,	By Interest on Capital	24,000	30,000	36,000
					,,	By P and L App. A/c	99,500	1,49,250	1,49,250
		3,35,500	4,29,250	4,85,250			3,35,500	4,29,250	4,85,250

ILLUSTRATION 49. **(Comprehensive Illustration with Fixed and Fluctuating Capital)** A, B and C are partners sharing profits and losses in the proportions of 3 : 2 : 1 with capitals of ₹ 10,000, ₹ 10,000 and ₹ 5,000 respectivley. Each partner is entitled to 5% interest on his capital, B and C are entitled to a salary of ₹ 150 and ₹ 100 per month respectivley. During the year 2017, the drawings of the partners in anticipation of their shares of profit and salary are A—₹ 1,000 ; B—₹ 1,000 and C—₹ 1,200. The profits for the year prior to calculation of interest on capital but after charging salary of partners amounted to ₹ 8,000. The above figure of profit is before charging depreciation at $7\frac{1}{2}$ per cent on furniture valued at ₹ 5,000 and writing off a bad debt of ₹ 150.

You are requested to prepare partners capital accounts

(i) where capitals are fixed and

(ii) where capitals are fluctuating.

Solution

DR. **PROFIT AND LOSS APPROPRIATION ACCOUNT** CR.
FOR THE YEAR ENDING 31ST MARCH, 2017

Particulars		₹	Particulars	₹
To Salary B (₹ 150 × 12 Months)		1,800	By Balance b/d	10,475
To Salary C (₹ 100 × 12 Months)		1,200	(8,000 + Salary B ₹ 1,800 + Salary C ₹ 1,200	
To Interest on Capitals :			—Dep. ₹ 375— Bad Debts ₹ 150)	
A (5% of ₹ 10,000)	500		**(See Note)**	
B (5% of ₹ 10,000)	500			
C (5% of ₹ 5,000)	250	1,250		
To Net profit transferred to				
Capital A/c				
A (3/6)	3,112.50			
B (2/6)	2,075.00			
C (1/6)	1,037.50	6,225		
		10,475		10,475

Note. Salary to partners is an item of appropriation, hence added back in profits because it is already deducted. Salary : B – ₹ 150 × 12 = ₹1,800, C – ₹ 100 × 12 = ₹ 1,200.

Depreciation and bad debts are items of Profit & Loss A/c which were not deducted, hence deducted now to arrive at correct profits for appropriation purpose. Depreciation = 5,000 × 7.5/100 = ₹ 375.

Where the capitals are fixed.

DR. **A'S CAPITAL ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Balance c/d	10,000	By Balance b/d	10,000
		By Balance b/d	10,000

DR. **B'S CAPITAL ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Balance c/d	10,000	By Balance b/d	10,000
		By Balance b/d	10,000

DR. **C'S CAPITAL ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Balance c/d	5,000	By Balance b/d	5,000
		By Balance b/d	5,000

DR. **A'S CURRENT ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Cash-drawings	1,000.00	By Profit and Loss Appropriation A/c	
To Balance c/d	2,612.50	—Net Profit	3,112.50
		—Interest on Capital	500.00
	3,612.50		3,612.50

DR. **B'S CURRENT ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Cash—drawings	1,000.00	By Profit and Loss Appropriation A/c	
To Balance c/d	3,375.00	—Net Profit	2,075.00
		—Interest on Capital	500.00
		—Salary	1,800.00
	4,375.00		4,375.00

DR. **C'S CURRENT ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Cash—drawings	1,200.00	By Profit and Loss Appropriation A/c	
To Balance c/d	1,287.50	—Net Profit	1,037.50
		—Interest on Capital	250.00
		—Salary	1,200.00
	2,487.50		2,487.50

Where the capitals are fluctuating

DR. **A'S CAPITAL ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Cash—drawings	1,000.00	By Balance b/d	10,000.00
To Balance c/d	12,612.50	By Profit and Loss App. A/c	
		—Net Profit	3,112.50
		—Interest on Capital	500.00
	13,612.50		13,612.50

DR. **B'S CAPITAL ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Cash—drawings	1,000.00	By Balance b/d	10,000.00
To Balance c/d	13,375.00	By Profit and Loss App. A/c	
		—Net Profit	2,075.00
		—Interest on Capital	500.00
		—Salary	1,800.00
	14,375.00		14,375.00

DR. C'S CAPITAL ACCOUNT CR.

Particulars	₹	Particulars	₹
To Cash—drawings	1,200.00	By Balance b/d	5,000.00
To Balance c/d	6,287.50	By Profit & Loss App. A/c	
		—Net Profit	1,037.50
		—Interest on Capital	250.00
		—Salary	1,200.00
	7,487.50		7,487.50

DISTRIBUTION OF PROFIT IN CAPITAL RATIO

The partners usually share profits/losses in profit ratio. However, in some cases the profit sharing ratio is based on the capital contribution and drawings made by the partners during the accounting period. If capital account of partners are fixed and there has not been any additions to the capital during the year, then fixed capitals of the partners become the basis of calculation of capital ratio. In case the capital accounts are fluctuating and there has been addition to and withdrawl from capital on different dates, the capital ratio is calculated with reference to time.

Calculation of Capital Ratio

Nature of Capital Accounts	Capital Ratio
1. When Capital A/cs are fixed (and no addition to capital during the year)	Ratio of fixed capital
2. When Capital A/cs are fluctuating (Also additions to and withdrawal from Capital A/cs on different dates.)	Capital ratio will be calculated with reference to time.

It can be understood by the students with the help of following illustration.

ILLUSTRATION 50. **(Profit distributed in Capital Ratio)** Bat and Ball entered in to a partnership on 1st April, 2016 contributing ₹ 20,000 and ₹ 15,000 respectively. Bat made an addition of ₹ 8,000 to the capital on 1st October, 2016, while Ball invested ₹ 10,000 on 1st December 2016. The business earned ₹ 20,320 during the year ended 31st March, 2017. Distribute the profits in capital ratio and pass journal entry for the distribution of profit and show it in Profit & Loss Appropriation A/c.

Solution

Particulars	Amount	Period	Product
Bat's contribution :			
1-4-2016	₹ 20,000	12 Months	₹ 2,40,000
1-9-2016	₹ 8,000	6 Months	₹ 48,000
			₹ 2,88,000
Ball's contribution :			
1-4-2016	₹ 15,000	12 Months	₹ 1,80,000
1-12-2016	₹ 10,000	4 Months	₹ 40,000
			₹ 2,20,000

Capital Ratio between Bat and Ball is 2,88,000 : 2,20,000 or 288 : 220 or 72 : 55

Bat's share of Profit = $\frac{72}{127} \times 20,320$ = ₹ 11,520

Ball's share of profit = $\frac{55}{127} \times 20,320$ = ₹ 8,800

JOURNAL

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2017				
Mar. 31	Profit & Loss Appropriation A/c Dr.		20,320	
	To Bat's Capital A/c			11,520
	To Ball's Capital A/c			8,800
	(Being profit distributed in capital ratio and credited to partners capital account)			

PROFIT & LOSS APPROPRIATION ACCOUNT

DR. ***FOR THE YEAR ENDED 31-3-2017*** ***CR.***

Particulars		₹	Particulars	₹
To Share of Profit :			By Net Profit b/d	20,320
Bat's Capital A/c	11,520			
Ball's Capital A/c	8,800	20,320		
		20,320		20,320

PAST ADJUSTMENTS

Meaning

Sometimes profits or losses of the firm are distributed among the partners for a particular period without giving due consideration to the terms and conditions contained in the partnership deed. Such ignored or omitted terms and conditions may be required to be adjusted after the close of the accounting period. **The accounting treatment which is required to correct the past errors, or omissions, is called Past Adjustments.**

Examples of Past Adjustments

Some of the examples of past adjustments are given below :

1. Interest on capital has been completely omitted or provided in the books more or less than what is mentioned in the partnership deed.
2. Interest on drawings has not been recorded in the books or charged more or less than what is written in the deed.
3. Salary, fees and commission to partners have been omitted to be provided.
4. Profits have been distribted in wrong ratio.
5. Profit sharing ratio has been changed with retrospective effect i.e. with effect from back date.
6. Interest on partner's loan has been omitted.

HOW TO CORRECT PAST ERRORS/OMISSIONS ?

In the above cases, it is not possible to reopen the books of accounts nor it is advisable to reopen the books of accounts which have already been closed. Such errors of omission, commission or otherwise comitted in the past are to be corrected without reopening the Profit and Loss Account.

For this purpose, adjustments are made in the following manner.

1. Past Adjustment through Profit & Loss Adjustment Account

According to this method, Profit and Loss Adjustment account is opened to correct the errors and omissions. It is debited with the omissions relating to interest on capital, partners' salary, commission, fees etc. Similarly it is credited with the omissions relating to interest on drawings, excess interest on capital etc. This account is finally closed with the help of partners' capital account or current account.

The following journal entries are passed.

1.	**For Omission (or less allowing) of interest on capital, partners salary, fees, commission etc.** Profit & Loss Adjustment A/c Dr. To Partners' Capital/Current A/c	
2.	**For Omission of interest on drawings, excess allowing of interest on capital or charging fine from partners.** Partners' Capital/Current A/c Dr. To Profit & Loss Adjustment A/c	
3. (a)	**The net effect of the above two entries will be either profit or loss.** **If Profit i.e. credit balance.** Profit & Loss Adjustment A/c Dr. To Partners' Capital/Current A/c	
(b)	**If Loss i.e. debit balance.** Partners' Capital/Current A/c Dr. To Profit & Loss Adjustment A/c	

ILLUSTRATION 51. **(Past Adjustments/Profit & Loss Adjustment A/c).**

A firm of partner A, B and C has prepared its Profit and Loss Account for the year ended 31.3.2017.

Subsequently the following omissions were discovered :

(a) Salary to Partner A ₹ 1000

(b) Interest accrued on Investments ₹ 2,000

(c) Commission to partner C ₹ 7,000

Pass necessary Journal entries.

Solution

JOURNAL

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Profit & Loss Adjustment A/c Dr.		8,000	
	To A's Capital A/c			1,000
	To C's Capital A/c			7,000
	(Being adjustment for A's salary and C's commission)			

	Accrued Interest A/c Dr.		2,000	
	To Profit & Loss Adjustment A/c			2,000
	(Being adjustment for interest accrued)			
	A's Capital A/c Dr.		2,000	
	B's Capital A/c Dr.		2,000	
	C's Capital A/c Dr.		2,000	
	To Profit & Loss Adjustment A/c (8,000—2,000)			6,000
	(Being net loss adjusted)			

Note. Since, Profit Sharing ratio is not given, we can adjust the amount in equal ratio i.e. 1 : 1 : 1.

2. Past Adjustment By passing single entry

Under this system, single adjustment entry is passed to set right, the wrong done.

The amount required to pass single entry is calculated by taking the following steps.

Step 1. Calculate the amount already given (credited) by way of interest on capital, salary, fees, commission, bonus, share of profit/loss etc.

Step 2. Calculate the amount which should have been credited by way of interest on capital, salary, fees, commission, bonus, share of profit/loss etc.

Step 3. Find out the difference between the above two steps. This will disclose who has received more or less.

Step 4. Pass adjustment entry. The partner who has received more is debited and the partner who has received less is credited.

Accounting Entry.

Partner Received More Dr.
To Partner Received Less.

ILLUSTRATION 52. **(Past Adjustments/Interest on capital omitted)** A, B, C and D are partners sharing profits and losses in the ratio of 4 : 3 : 3 : 2 and their respective capitals on 1st April, 2015 were ₹ 3,000 ; ₹ 4,500 ; ₹ 6,000 and ₹ 4,500. After closing and finalising the accounts, it was found that interest on capital @ 6% p.a. was omitted. Instead of altering the signed accounts, it was decided to pass a single adjusting entry on 1st April, 2016 crediting or debiting the respective partner's current account.

Show journal entry and working.

Solution

In this question interest on capital @ 6% p.a. has been omitted on the total capital of partners. The total capital of all the partners is ₹ 18,000 (*i.e.* 3,000 + 4,500 + 6,000 + 4,500) and interest thereon @ 6% is ₹ 1,080. It means that the omission of total interest on capital of 1,080, resulted in excess distribution of profit among A, B, C and D in the 4 : 3 : 3 : 2 ratio. It has to be corrected and the interest on capital which has been omitted, has to be allowed to partners. The following statement shows the net effect on capital accounts :

STATEMENT SHOWING ADJUSTMENT TO BE MADE IN CAPITAL ACCOUNT

	A ₹	*B* ₹	*C* ₹	*D* ₹	*Total* ₹
Profit already credited to be debited now ₹ 1,080 in 4 : 3 : 3 : 2	360 (Dr.)	270 (Dr.)	270 (Dr.)	180 (Dr.)	1,080 (Dr.)
Interest on Capital that should have been credited now	180 (Cr.)	270 (Cr.)	360 (Cr.)	270 (Cr.)	1,080 (Cr.)
Net Effect	**180 (Dr.)**	**Nil**	**90 (Cr.)**	**90 (Cr.)**	**Nil**

To rectify the error relating to omission of interest on capital, the following adjustment entry is required :

A's Current A/c	Dr.	180	
To C's Current A/c			90
To D's Current A/c			90

ILLUSTRATION 53. **(Past Adjustments/Interest on capital is allowed in excess)**

Malti, Paro and Arti are partners in a firm having fixed capitals of ₹ 80,000 ₹ 40,000 and ₹ 50,000 respectively sharing profits as 7:6:4. The rate of interest on capital was agreed at 10% p.a. but was wrongly credited to them at 12% p.a.

Give the necessary adjustment entry to adjust the balances of partner's capital accounts.

Solution

STATEMENT SHOWING ADJUSTMENT TO BE MADE IN CAPITAL ACCOUNT

	Particulars	Malti ₹	Paro ₹	Arti ₹	Total ₹
A	Interest Already Credited @ 12% p.a. (to be debited now)	9,600 (Dr.)	4,800 (Dr.)	6,000 (Dr.)	20,400 (Dr.)
B	**Amount that should have been Credited/Debited** Interest that should have been credited @ 10%	8,000 (Cr.)	4,000 (Cr.)	5,000 (Cr.)	17,000 (Cr.)
	The above adjustment has effect of increasing net profit by 3,400 which is divided in the ratio of 7:6:4 (to be credited)	1,400 (Cr.)	1,200 (Cr.)	800 (Cr.)	3,400 (Cr.)
	Total (B)	9,400 (Cr.)	5,200 (Cr.)	5,800 (Cr.)	20,400 (Cr.)
	Net effect (A & B)	**200 Dr.**	**400 Cr.**	**200 Dr.**	**NIL**

ADJUSTEMENT ENTRY IN JOURNAL

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Malti's Current A/c	Dr.		200	
	Arti's Current A/c	Dr.		200	
	To Paro's Current A/c				400
	(Being the excess Interest Charged now rectified)				

ILLUSTRATION 54. **(Past Adjustments/Interest on capital allowed less)** A, B and C are partners in a firm sharing profit and losses in the ratio of 2:2:1. Their capital are ₹ 1,00,000, ₹ 80,000 and ₹ 70,000 respectively. For the year 2017, interest on capital was credited to them @ 9% instead of 10%.

The profits for the year were ₹ 50,000

Pass adjustment entry

Solution

STATEMENT SHOWING ADJUSTMENT TO BE MADE IN CAPITAL ACCOUNT

	Particulars	A	B	C	Total
A	Interest already credited @ 9% (to be debited now)	9,000 (Dr.)	7,200 (Dr.)	6,300 (Dr.)	22,500 (Dr.)
B	**Amount that should have been credited/debited** Interest that should have been credited @ 10%	10,000 (Cr.)	8,000 (Cr.)	7,000 (Cr.)	25,000 (Cr.)
	(to be credited now)	1,000 (Cr.)	800 (Cr.)	700 (Cr.)	2,500 (Cr.)

	The above adjustment has effect of decreasing net profits which is distributed in 2:2:1 (to be debited)	Dr. 1,000	Dr. 1,000	Dr. 500	Dr. 2500
	Total (B)	9,000 (Cr.)	7,000 (Cr.)	6,500 (Cr.)	22,500 (Cr.)
	Net Effect (A & B)	**NIL**	**200 (Dr.)**	**200 (Cr.)**	**NIL**

Adjustment Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	B's Capital A/c Dr.		200	
	To C's Capital A/c			200
	(Being adjustment made for interest)			

Working Note

There is no treatment of profit of ₹ 50,000 in the SOLUTION, because profits have been correctly distributed although in wrong proportion.

ILLUSTRATION 55. **(Past Adjustments/Interest on capital omitted and profits distributed in wrong ratio)** X, Y and Z are partners in 3 : 2: 1 ratio. Their capitals were ₹ 40,000, ₹ 30,000 and ₹ 20,000. As per deed they are to get interest on capital @10% p.a.

The interest on capital could not be provided and the profits for the year ₹ 45,000 were distributed to them equally.

Show by means of one adjustment entry how the corrections will be made.

Solution

STATEMENT SHOWING THE ADJUSTMENT TO BE MADE IN CAPITAL ACCOUNTS

	Particulars	X	Y	Z	Total
I.	Profits already credited (to be debited now)	15,000 (Dr.)	15,000 (Dr.)	15,000 (Dr.)	45,000 (Dr.)
II.	**Amount that should have been credited :**				
	Interest on Capital @10%	4,000 (Cr.)	3,000 (Cr.)	2,000 (Cr.)	9,000 (Cr.)
	Profits (45,000–9,000) = 36,000 in 3:2:1 ratio	18,000 (Cr.)	12,000 (Cr.)	6,000 (Cr.)	36,000 (Cr.)
	Total II	22,000 (Cr.)	15,000 (Cr.)	8,000 (Cr.)	45,000 (Cr.)
	Net Effect I & II	**7,000 (Cr.)**	**NIL**	**7,000 (Dr.)**	**Nil**

ADJUSTMENT JOURNAL ENTRY

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Z's Capital A/c Dr.		7,000	
	To X's Capital A/c			7,000
	(Being adjustment made)			

Working Note.

In this illustration the profit ratio is 3 : 2 : 1 but profits ₹ 45,000 have been wrongly distributed equally among partners, now the wrong distribution of profits has been corrected.

ILLUSTRATION 56. **(Past Adjustments/Profit ratio changed from retrospective date.)** Mona, Nisha and Priyanka are partners in a firm. They contributed ₹ 50,000 each as capital three years ago. At that time Priyanka agreed to look after the business as Mona and Nisha were busy. The profits for the past three years were ₹ 15,000, ₹ 25,000 and ₹ 50,000 respectively. While going through the books of accounts, Mona noticed that profit had been distributed in the ratio of 1 : 1 : 2. When she enquired from Priyanka about this, Priyanka answered that since she looked after the business she should get more profit. Mona disagreed and it was decided to distribute profits equally retrospectively for the last three years.

You are required to make necessary corrections in the books of accounts of Mona, Nisha and Priyanka by passing an adjustment entry. **(Delhi 2013)**

Solution

STATEMENT SHOWING ADJUSTMENT TO BE MADE IN CAPITAL ACCOUNTS

	Mona	*Nisha*	*Priyanka*
	₹	₹	₹
Profit for last three years which have already been credited in 1 : 1 : 2 now to be debited	22,500 (Dr.)	22,500 (Dr.)	45,000 (Dr.)
Profit for last three years which should have been credited as per new ratio 1 : 1 : 1	30,000 (Cr.)	30,000 (Cr.)	30,000 (Dr.)
Net Effect	7,500 (Cr.)	7,500 (Cr.)	15,000 (Dr.)

ADJUSTEMENT ENTRY

Date	*Particulars*	*L.F.*	*Dr. (₹)*	*Cr. (₹)*
	Priyanka's Capital A/c Dr.		*15,000*	
	To Mona's Capital A/c			7,500
	To Nisha's Capital A/c			7,500
	(Being adjustment entry passed to make necessary corrections)			

ILLUSTRATION 57. **(Past Adjustment/Interest on Drawings Omitted)** Seema, Tanuja and Tripti were partners in a firm trading in garments. They were sharing profits in the ratio of 5 : 3 : 2. Their capitals on 1st April, 2012 were ₹ 3,00,000, ₹ 4,00,000 and ₹ 8,00,000 respectively.

Seema withdrew ₹ 20,000 from the firm on 15th September, 2012.

Tanuja took garments worth ₹ 24,000 from the firm.

Tripti withdrew ₹ 2,00,000 from the firm on 1st January, 2013.

The partnership deed provides for charging interest on drawings @ 6% p.a. After the final accounts for the year 2012-13 were prepared, it was discovered that interest on drawings had not been charged. Give the necessary adjusting journal entry and show the working notes clearly.

(CBSE 2014, Set 1 – Modified)

Solution

ADJUSTMENT ENTRY

Date	*Particulars*	*L.F.*	*Dr. (₹)*	*Cr. (₹)*
	Tripti's Capital A/c Dr.		2,126	
	To Seema's Capital A/c			1,535
	To Tanuja's Capital A/c			591
	(Being interest on drawings previously omitted now rectified)			

Working Notes :

Calculation of Interest on Drawings :

Seema	*Tanuja*	*Tripti*
Interest on Drawings = ₹ 20,000 × 6% × 6.5/12 = ₹ 650	Interest on Drawings = ₹ 24,000 × 6% × 6/12 = ₹ 720 **Note :** As the date of drawings is not given, interest has been charged for 6 months)	Interest on Drawings = ₹ 2,00,000 × 6% × 3/12 = ₹ 3,000

STATEMENT SHOWING ADJUSTMENT TO BE MADE IN CAPITAL ACCOUNTS

	Seema ₹	*Tanuja* ₹	*Tripti* ₹	*Firm* ₹
Interest on drawings not charged earlier (to be debited now)	650 (Dr.)	720 (Dr.)	3,000(Dr.)	4,370 (Dr.)
More Profits that should have been credited in 5 : 3 : 2	2,185 (Cr.)	1,311 (Cr.)	874 (Cr.)	4,370 (Cr.)
Net Effect	1,535 (Cr.)	591 (Cr.)	2,126 (Cr.)	–

ILLUSTRATION 58. **(Past Adjustment/Opening capital missing and interest on capital and drawings omitted)** Mohan, Vijay and Anil are equal partners, the balances in 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, ₹ 24,000 had already been credited to partners in the proportion in which they share profits. Their drawings were Mohan ₹ 5,000, Vijay ₹ 4,000 and Anil ₹ 3,000. Subsequently, the following omissions were noticed and it was decided to bring them into account :

(i) Interest on Capital at 10% per annum.

(ii) Interest on Drawings was : Mohan ₹ 250, Vijay ₹ 200 and Anil ₹ 150.

Make the necessary corrections through a journal entry and show your working clearly.

Solution

JOURNAL ENTRY

Date	*Particulars*	*L.F.*	*Dr. (₹)*	*Cr. (₹)*
	Anil's Capital A/c Dr.		550	
	To Mohan's Capital A/c			550
	(Being the adjustment entry to correct the amounts of profit transferred to Capital Accounts)			

Working Notes : (i) Calculation of Opening Capital

Particulars	*Mohan*	*Vijay*	*Anil*
Closing Capital	30,000	25,000	20,000
Add : Drawings	5,000	4,000	3,000
Less : Profits	8,000	8,000	8,000
Opening Capital	27,000	21,000	15,000
Interest on Capital @ 10%	2,700	2,100	1,500

(*ii*) Statement Showing Adjustment to be made in Capital Accounts :

	Particulars	Mohan	Vijay	Anil	Total
A	Amount that should have been credited/debited Interest on Capital (to be credited now)	2,700 (Cr.)	2,100 (Cr.)	1,500 (Cr.)	6,300 (Cr.)
	Interest on Drawings (to be debited now)	250 (Dr.)	200 (Dr.)	150 (Dr.)	600 (Dr.)
	Total (A)	2,450 (Cr.)	1,900 (Cr.)	1,350 (Cr.)	5,700 (Cr.)
B	Already credited in past due to omission now to be debited (Dr.)	1,900 (Dr.)	1,900 (Dr.)	1,900 (Dr.)	5,700 (Dr.)
	Net Effect (A & B)	**Cr. 550**	**NIL**	**Dr. 550**	**NIL**

ILLUSTRATION 59. (Past Adjustment/Interest on Capital allowed for two years whereas it is not provided in deed). D, E and F are partners in a firm sharing profits and losses in 2:1:2 ratio. Their fixed capital accounts were ₹ 40,000, ₹ 30,000 and ₹ 50,000. Interest on capital @ 6% p.a. has been provided for the year 31-3-16 and 31-3-17, though it was not provided in the agreement.

The profit sharing ratio for the two years were :

31-3-16 3:2:1

31-3-17 2:1:2

Correct the above error by passing one adjustment entry.

Solution

STATEMENT SHOWING ADJUSTMENT

Particulars	31-3-16				31-3-17			
	D	E	F	**Total**	D	E	F	**Total**
Interest on Capital credited wrongly	2,400	1,800	3,000	**7,200**	2,400	1,800	3,000	**7,200**
Profit ₹ 7,200 distributed less due to interest to be credited now	3,600	2,400	1,200	**7,200**	2,880	1,440	2,880	**7,200**
Net Effect	Cr. 1200	Cr. 600	Dr. 1800	**NIL**	Cr. 480	Dr. 360	Dr. 120	**NIL**

ADJUSTMENT ENTRY IN JOURNAL

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	F's Current A/c (1,800 + 120) Dr.		1,920	
	To D's Current A/c (1200 + 480)			1,680
	To E's Current A/c (600 – 360)			240
	(Being adjustment made)			

Note. Adjustment entry is made through current account as capital accounts are fixed.

ILLUSTRATION 60. (Omission of interest on capital, salary and commission) A, B and C were partners. There capitals were ₹ 30,000, ₹ 20,000 and ₹ 10,000 respectively. According to the Partnership Deed, they were entitled to an interest on capital @ 5% p.a. In addition, B was also entitled to draw a salary of ₹ 500 per month. C was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to B. The net profits for the year were ₹ 30,000, distributed in the ratio of their capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 2 : 2 : 1. Pass the necessary adjustment entry showing the workings clearly. **(Delhi 2010)**

Solution

STATEMENT SHOWING ADJUSTMENT

Particulars	A	B	C	Total
(A) Profit ₹ 30,000 already Credited in Capital ratio 3 : 2 : 1 (to be debited now)	15,000 (Dr.)	10,000 (Dr.)	5,000 (Dr.)	30,000 (Dr.)
(B) Amount that should have been credited/debited Interest on Capital @ 5% p.a.	1500 (Cr.)	1000 (Cr.)	500 (Cr.)	3,000 (Cr.)
Salary to B	—	Cr. 6,000	—	6,000 (Cr.)
Commission to B 5/100 (30,000 – 3,000)			1350 (Cr.)	1,350 (Cr.)
Balance of Profit in 2 : 2 : 1 (₹ 30,000 – 3,000 – 6,000 – 1,350) = 19,650	7,860 (Cr.)	7,860 (Cr.)	3,930 (Cr.)	19,650 (Cr.)
Total (B)	9,360 (Cr.)	14,860 (Cr.)	5,780 (Cr.)	30,000 (Cr.)
Net Effect (A & B)	5,640 (Dr.)	4,860 (Cr.)	780 (Cr.)	Nil

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Date	Particulars		Debit ₹	Credit ₹
	A's Capital A/c	Dr.	5,640	
	To B's Capital A/c			4,860
	To C's Capital A/c			780
	(Being adjustment made)			

ILLUSTRATION 61. **(Past Adjustments/Omission of expenses and incomes).** Atma Ram and Parmatma Ram are two partners in a firm. Their respective capitals are ₹ 45,000 and ₹ 30,000 and they share profits in capital ratio. Immediately after the allocation of profit of ₹ 13,500 for the year ended 31-3-2017 it was discovered that in arriving at the profits, the following items have been ignored:

(a) Outstanding salary ₹ 1,050 and (b) Accrued commission ₹ 600.

Pass adjusting entry for the above. Profit are to be shared in capital Ratio i.e. 45,000 : 35,000 or 3 : 2.

Solution

STATEMENT SHOWING ADJUSTMENT IN CAPITAL ACCOUNT

Particulars	Atma Ram ₹	Parmatma Ram ₹
Outstanding Expenses (Debit Capital A/c in 3 : 2) (Profits reduced now to be increased)	630 (Dr.)	420 (Dr.)
Accrued Commission (Credit Capital A/c in 3 : 2) (Profits increased now to be reduced)	360 (Cr.)	240 (Cr.)
Net Effect	**270 (Dr.)**	**180 (Dr.)**

Adjusting Entry in Journal :

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Atma Ram's Capital A/c	Dr.		270	
	Parmatma Ram's Capital A/c	Dr.		180	
	To Profit & Loss Adjustment A/c				450
	(Being adjustment made)				

ADMISSION OF MANAGER AS PARTNER

The partners for the benefit of the firm may decide to admit the manager (or any other employee) of the firm as partner with retrospective effect. Quite obvious when the manager is admitted as partner, the old partners are bound to lose their share of profits in favour of new partner.

ACCOUNTING TREATMENT

The following points may be noted to record the adjustment entry :

Step 1.	Calculate the share of manager which has already been given to him on account of interest on loan, salary, commission etc.
Step 2.	Calculate the share of manager now to be given to him as partner with retrospective effect.
Step 3.	Find out the difference between Step 1 and Step 2. (a) **If Step 1 is more than Step 2,** this implies that he has already been paid more in the capacity of Manager. The difference is recorded with the following adjustment entry : New Partner's Capital A/c Dr. To Old Partners' Capital A/c (in profit ratio) (b) **If Step 2 is more than Step 1,** this implies that he has been paid less in the past, therefore, he should be credited with the difference : Old Partners' Capital A/c Dr. To New Partner's Capital A/c

The following illustration will clear this topic.

ILLUSTRATION 62. **(Admission of Manager as Partner)** A and B are partners sharing profits and losses in the ratio of 3 : 2. They employed C as their manager to whom they paid salary of ₹ 750 p.m. C has deposited ₹ 20,000 on which interest is paid @ 9% p.a. At the end of 2017 (after the division of the year's profit), it was decided that C should be treated as a partner with effect from 1st Jan., 2014 with 1/6th share of profits, his deposit being considered as capital carrying interest @ 6% p.a. like the capital of the other partners. The firm's profits or losses after allowing interest on capital were as follows :

2014–Profit : ₹ 59,000 ; 2015 Profit ₹ 62,600 ; 2016–Losses : ₹ 4,000 and 2017–Profit : ₹ 78,000.

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

Solution

AMOUNT RECEIVED BY C AS MANAGER

Salary 750 pm × 12 months = ₹ 9,000 p.a. ₹ 9000 × 4 years = ₹ 36,000	36,000	
Interest on loan 9% on 20,000 = ₹ 1800 p.a. × 4 years	7,200	43,200

C AS PARTNER ENTITLED TO GET IN FOUR YEAR

Interest on Capital :			
6% on 20,000 = ₹ 1200 p.a. × 4 years		4,800	
1/6 shares in profits :			
Profits for this purpose is as follows :			
Last four years profits :			
(59,000 + 62,600–4,000 + 78,000)	1,95,600		
Add : What C got as manager	43,200		
Less : Interest on Capital	(4,800)		
Profit	2,34,000		
Share of C in Profits 1/6 × 2,34,000		39,000	43,800
Share of C as a partner is ₹ 43,800 which is more than ₹ 43,200 as his share as Manager Difference : ₹ 43,800 – ₹ 43,200 = 600			600
C will be credited with ₹ 600 A & B will be debited in 3 : 2 ratio with ₹ 600.			

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Date	*Particulars*		*L.F.*	*Dr. ₹*	*Cr. ₹*
	A's Capital A/c	Dr.		360	
	B's Capital A/c	Dr.		240	
	To C's Capital A/c				600
	(Being amount adjusted on the admission of C)				

GUARANTEE OF MINIMUM PROFIT

A new partner may be admitted in to the firm for the promotion and expansion of business. The new partner may be the employee of the firm or he may be an outsider. Normally, to induce the new partner, guarantee of minimum share of profit is given.

The guarantee for minimum share of profits may be given by :

(*a*) one of the partner to new partner.

(*b*) two or more partners to the new partner in their profit ratio,

(*c*) two or more partners to the new partner in the ratio other than profit ratio.

(*d*) all the partners (*i.e., firm) in profit ratio.*

When the new partner is given guarantee for the minimum share of profits, it means he is entitled to receive that minimum amount, irrespective of the actual profits earned by the business. However, when the share of profit of new partner as per the agreed ratio is more than the minimim guaranteed amount, then he is given profit according to the agreed ratio. In contrary to this, if his share of profit as per the agreed ratio is less than the minimum guaranteed amount, then the difference is borne by the partner(s) who has/have given guarantee to new partner. Since it is a loss to the partner who has given guarantee, therefore, his capital account is given debit and the new partner's capital is given credit.

Journal Entry :

Other Partner's Capital A/c	Dr.	(Loss shared by old partner(s) in agreed ratio)
To New Partner's Capital A/c		(With difference between guaranteed amount over his share of profit)

Steps to Solve the Questions :

Step 1.	Calculate the minimum guaranteed share of profit of new partner OR Calculate the old share of new partner (It happens only in case, where employee of the firm is taken as partner).
Step 2.	Calculate the share of new partner as per new terms of agreement.
Step 3.	Find out the difference between Step No. 1 and Step No. 2. If the amount of Step No. 2 is less than the amount of Step No. 1, then the subsequent step is taken. If it is *vice versa then the following step becomes irrelevant.*
Step 4.	Find out the name(s) of partner(s) who has/have guaranteed the minimum share of profit and debit him/them with the difference as ascertained in Step 3 in agreed ratio and credit is given to new partner.

ILLUSTRATION 63. **(Guarantee by one partner only)** A, B and C are partners in a firm. Their profit sharing ratio is 3 : 2 : 1. However C is guaranteed a minimum amount of ₹ 10,000 as share of profits every year. Any deficiency arising on that account will be met by A. The profits for two years ending on 31st March 2016 and 2017 were ₹ 30,000 and ₹ 90,000 respectively. Prepare profit and loss appropriation account for two years.

Solution

PROFIT AND LOSS APPROPRIATION ACCOUNT
DR. FOR THE YEAR ENDING 31ST MARCH 2016 CR.

Particulars		₹	*Particulars*	₹
To Net profit transferred to Capital A/c			By Net profit	30,000
A's Capital A/c $\left(30,000 \times \frac{3}{6}\right)$	15,000			
Less : Transferred to C	5,000	10,000		
B's Capital A/c $\left(30,000 \times \frac{2}{6}\right)$		10,000		
C's Capital A/c $\left(30,000 \times \frac{1}{6}\right)$	5,000			
Add : From A	5,000	10,000		
		30,000		30,000

Working note.

1. C's share of ₹ 10,000 is guaranted by A only. C's share as per profit ratio is 1/6 of 30,000 = ₹ 5,000. It means that ₹ 5,000 (10,000–5,000) shall be met by A only.

PROFIT AND LOSS APPROPRIATION ACCOUNT
DR. FOR THE YEAR ENDING 31ST MARCH 2017 CR.

Particulars	₹	*Particulars*	₹
To Net profit transferred to capital accounts		By Net profit	90,000
A's Capital A/c (90,000 × 3/6)	45,000		

B's Capital A/c (90,000 × 2/6)	30,000		
C's Capital A/c (90,000 × 1/6)	15,000		
	90,000		90,000

2. C's share is already more than ₹10,000 which is more than guaranteed amount. Hence no need of any transfer from A.

ILLUSTRATION 64. **(Guarantee by all partners in specific ratio)** A, B and C were partners in the firm sharing profits in the ratio of 2 : 2 : 1. C was guaranteed to be given a profit of ₹ 50,000 per year. Deficiency, if any, on that account shall be borne by A and B in the ratio of 3 : 2. The net profit of the firm for the year ended 31st March, 2017 was ₹ 2,00,000.

Prepare the Profit and Loss Appropriation Account of A, B and C.

Solution

PROFIT AND LOSS APPROPRIATION ACCOUNT
DR. **FOR THE YEAR ENDED 31ST MARCH, 2017** **CR.**

Particulars		₹	Particulars	₹
To A's Capital A/c :			By Profit and Loss A/c (Net Profit)	2,00,000
Share of Profit (2/5) (Before Deficiency)	80,000			
Less : Deficiency borne (₹ 10,000 × 3/5)	6,000	74,000		
To B's Capital A/c :				
Share of Profit (2/5) (Before Deficiency)	80,000			
Less : Deficiency borne (₹ 10,000 × 2/5)	4,000	76,000		
To C's Capital A/c :				
Share of Profit (1/5) (Before Deficiency)	40,000			
Add : Deficiency recovered from :				
A	6,000			
B	4,000	50,000		
		2,00,000		2,00,000

ILLUSTRATION 65. **(Guarantee by all partners)** Mukesh and Ramesh are partners sharing profits and losses in the ratio of 2 : 1 respectively. They admit Rupesh as partner with 1/4 share in profits with guarantee that his share of profit shall be at least ₹ 55,000. The net profit of the firm for the year ending 31st March, 2014 was ₹ 1,60,000.

Prepare Profit and Loss Appropriation Account. **(CBSE 2014 C)**

Solution

PROFIT AND LOSS APPROPRIATION ACCOUNT
DR. **FOR THE YEAR ENDED 31ST MARCH 2014** **CR.**

Particulars	Amount ₹	Particulars	Amount ₹
To Profit transferred to :		By Profit & Loss A/c (Profit for current year)	1,60,000
Mukesh's Capital A/c (1,60,000 × $\frac{2}{4}$) 80,000			

Less : Deficiency borne (*WN2*)	10,000	70,000		
Ramesh's Capital A/c (1,60,000 × $\frac{1}{4}$)	40,000			
Less : Deficiency borne (*WN2*)	5,000	35,000		
Rupesh's Capital A/c (1,60,000 × $\frac{1}{4}$)	40,000			
Add : Definiency received from :				
Mukesh	10,000			
Ramesh	5,000	55,000		
		1,60,000		1,60,000

Working Notes :

(1) Calculation of New Profit Sharing Ratio of Mukesh, Ramesh and Rupesh :

Let, the total share = 1; Rupesh's Share = $\frac{1}{4}$

Remaining share = $1 - \frac{1}{4} = \frac{3}{4}$, is to be divided among Mukesh and Ramesh in the ratio of 2 : 1

Mukesh's new share = $\frac{3}{4} \times \frac{2}{3} = \frac{2}{4}$; Ramesh's new share = $\frac{3}{4} \times \frac{1}{3} = \frac{1}{4}$

Thus, New Profit Sharing Ratio of Mukesh, Ramesh and Rupesh = $\frac{2}{4} : \frac{1}{4} : \frac{1}{4}$ = 2 : 1 : 1

(2) Calculation of amount of deficiency to be borne by Mukesh and Ramesh :

Ramesh's actual share of profit = ₹ 1,60,000 × $\frac{1}{4}$ = ₹ 40,000

Amount of Deficiency = Guaranteed Amount – Actual Share of Profit
= ₹ 55,000 – ₹ 40,000 = ₹ 15,000

This amount of deficiency will be borne by Mukesh and Ramesh in the ratio of 2 : 1 as shown below :

Amount of Deficiency to be borne by Mukesh = ₹ 15,000 × $\frac{2}{3}$ = ₹ 10,000

Amount of Deficiency to be borne by Ramesh = ₹ 15,000 × $\frac{1}{3}$ = ₹ 5,000

ILLUSTRATION 66. **(Guarantee by one Partner/Six Months Result)** A, B and C entered into a partnership on 1st October, 2017 to share profits and losses in the ratio of 3 : 2 : 1. A, however, personally guaranteed that C's share of profit after charging interest on capital @ 5% p.a. would not be less than ₹ 30,000 in any year. The capital contributions were A—₹ 3,00,000; B—₹ 2,00,000 and C—₹ 1,00,000. The profits for the period ended 31st March, 2018 were ₹ 1,20,000. Show the distribution of profits.

Solution

PROFIT AND LOSS APPROPRIATION ACCOUNT
DR. **FOR THE PERIOD ENDED 31ST MARCH, 2018** **CR.**

Particulars	₹	Particulars	₹
To Interest on Capital :		By Profit and Loss A/c	1,20,000
A(₹ 3,00,000 × 6/12 × 5/100)	7,500	(Net Profit)	
B(₹ 2,00,000 × 6/12 × 5/100)	5,000		
C(₹ 1,00,000 × 6/12 × 5/100)	2,500		
To Profit transferred to :			
A's Capital A/c (₹ 1,05,000 × 3/6)	52,500		
B's Capital A/c (₹ 1,05,000 × 2/6)	35,000		
C's Capital A/c (₹ 1,05,000 × 1/6)	17,500		
	1,20,000		1,20,000

Note. In this case, guaranteed amount will be calculated for 6 months (*i.e.* from 1st October, 2017 to 31st March, 2018) which comes out to ₹ 15,000 (*i.e.*, ₹ 30,000 × 6/12). C's actual share of profit is ₹ 17,500; which is more than the guaranteed amount, *i.e.*, ₹ 15,000, so there is no deficiency.

ILLUSTRATION 67. **(Guarantee by all Partners/Current A/c)** A, B and C are partners with capital of ₹ 10,000, ₹ 5,000 and ₹ 2,000 respectively. After providing interest on capital at 6% per annum, the profits are divisible as follows :

A $\frac{1}{2}$, B $\frac{1}{3}$, C $\frac{1}{6}$. But A and B have guaranteed that C's share shall not amount to less than ₹ 500 in any one year.

During the year 2017, A and B have each withdrawn ₹ 1,000 and C ₹ 500. Net profit for the year before providing interest on partner's capital was ₹ 2,400. You are required to show the profit and loss appropriation account and the current accounts of partners.

Solution

DR. **PROFIT AND LOSS APPROPRIATION ACCOUNT** **CR.**

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit and Loss A/c (Net Profit for the year)	2,400
A's Current A/c (10,000 × 6/10)	600			
B's Current A/c (5,000 × 6/10)	300			
C's Current A/c (2,000 × 6/10)	120	1,020		
To Profit Transferred to :				
A's Current A/c $\left(880 \times \frac{3}{5}\right)$	528			
B's Current A/c $\left(880 \times \frac{2}{5}\right)$	352			
C (Guaranteed Share)	500	1,380		
		2,400		2,400

DR. **A'S CURRENT ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Drawings	1,000	By Profit and loss appropriation A/c	
To Balance c/d	128	—Interest on Capital	600
		By Profit and loss app. A/c—Net profit	528
	1,128		1,128

DR. **B'S CURRENT ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Drawings	1,000	By Profit and loss appropriation A/c	
		—Interest on capital	300
		By Profit and loss appropriation A/c–Net Profit	352
		By Balance c/d	348
	1,000		1,000

DR. **C'S CURRENT ACCOUNT** CR.

Particulars	₹	Particulars	₹
To Drawings	500	By Profit & loss appropriation A/c	
To Balance c/d	120	—Interest on Capital	120
		By Profit and loss appropriation A/c	500
	620		620

Note. Distribution of profit in Profit & Loss App. A/c done in this Illustration is shown differently as compared to previous Illustration. We may also adopt the method adopted in previous Illustration.

ILLUSTRATION 68. **(Admission of Manager as Partner)** A and B were in partnership sharing profits in the ratio of 3 : 2. On 1st April 2016 they agreed to admit their manager C as a partner with one-third share of profits. It is agreed that C's share shall not be less than his present salary of ₹ 6,000 p.a. together with a commission of 5% of the net profits after charging such salary and commission. The profits for the year ended 31st March 2017 before charging commission and salary were ₹ 90,000. Give the necessary journal entries if excess of C's 1/3rd share in the profit over his remuneration is to be borne by (i) A alone (ii) A and B (iii) A and B in the ratio of 2 : 3.

Solution

Remuneration of C as manager

Salary = ₹ 6,000

Commission (90,000–6,000) = 84,000 × 5/105 = ₹ 4,000

10,000

Share of C as partner = 90,000 × 1/3 = ₹ 30,000

Excess of share as partner over remuneration as manager = ₹ 30,000—₹ 10,000 = ₹ 20,000.

JOURNAL

	Particulars		L.F.	Dr. ₹	Cr. ₹
(a)	**If A alone is guaranteeing partner**				
	Profit and Loss A/c	Dr.		80,000	
	To A's Capital A/c				48,000
	To B's Capital A/c				32,000
	(Being distribution of profit if C is a manager)				
	A's Capital A/c	Dr.		20,000	
	To C's Capital A/c				20,000
	(Being the excess payment to C met out of share of A)				
(b)	**A and B are the guaranteeing partners and they guarantee in the existing profit sharing ratio i.e. 3 : 2**				
	Profit and Loss A/c	Dr.		80,000	
	To A's Capital A/c				48,000
	To B's Capital A/c				32,000
	(Being the distribution of profits if C is a manager)				
	A's Capital A/c	Dr.		12,000	
	B's Capital A/c	Dr.		8,000	
	To C's Capital A/c				20,000
	(Being the excess payment met from A and B in the ratio of 3 : 2)				
(c)	**If A and B are guaranteeing partners in the ratio of 2 : 3**				
	Profit and Loss A/c	Dr.		80,000	
	To A's Capital A/c				48,000
	To B's Capital A/c				32,000
	(Being the distribution of profit if C is a manager)				
	A's Capital A/c	Dr.		8,000	
	B's Capital A/c	Dr.		12,000	
	To C's Capital A/c				20,000
	(Being the excess payment met from A and B in the ratio of 2 : 3)				

ILLUSTRATION 69. **(Admission of Manager as Partner)** Z, the manager was admitted by X and Y with a 1/3rd share in the profits and a salary of ₹ 3,000 per annum. X and Y were sharing profits in the ratio of 3 : 2. Z as manager was getting a salary of ₹ 9,000 per annum and commission at 5% on net profits after charging such commission and salary.

The excess of Z's 1/3rd share in the profits over his remuneration (drawn in the capacity of manager) to be borne by X and Y in the ratio 2 : 3. Profits for the year before charging commission, but after charging salary were ₹ 42,000. Distribute profits.

Solution

Z's remuneration in his capacity as manager :

Salary	9,000
Commission $42,000 \times \frac{5}{105}$	2,000
	₹11,000

Z's share in profits on his admission as partner :

	₹
Profits after charging salary	42,000
Add : Salary already paid	9,000
Profit before charging salary & commission	51,000
Z's salary as per new arrangement	3,000
Share in profits : 1/3 (51,000—3,000)	16,000
	19,000

Excess profit which Z would be entitled to on becoming a partner ₹ 19,000—₹ 11,000 = ₹ 8,000

Excess to be borne by X and Y in the ratio of 2 : 3.

DR. **PROFIT AND LOSS ADJUSTMENT ACCOUNT** **CR.**

Particulars	₹	Particulars	₹
To Z	19,000	By Net profit	51,000
To Balance c/d	32,000		
	51,000		51,000
To X 3/5	24,000	By Balance b/d	32,000
To Y 2/5	16,000	By X (2/5 8,000)	3,200
		By Y (3/5 8,000)	4,800
	40,000		40,000

Net position

		₹
X will get ₹ 24,000—₹ 3,200 =		20,800
Y will get ₹ 16,000—₹ 4,800 =		11,200
Z will get		19,000
	Total	51,000

Accounting Treatment at a Glance

Recording of Partnership Transactions

Accounting Treatment

(i) For interest on capital **(a) For Allowing Interest on Capital** Interest on Capital A/c Dr. To Partners Capital A/c	(Gain for Partner Hence Capital A/c credited)
(b) On transfer of interest on capital to Profit & Loss Appropriation A/c Profit and Loss Appropriation A/c Dr. To Interest on Capital A/c	(Expense for business Hence Profit and Loss App. A/c debited)

(ii) For interest on drawings **(a) For Charging Interest on drawings** Partner's Capital A/c Dr. To Interest on Drawings A/c	(Reduces Capital)
(b) On transfer of interest on drawings to Profit and Loss Appropriation A/c Interest on Drawings A/c Dr. To Profit and Loss Appropriation A/c	(Income of the business)
(iii) For Salary and Commission to Partners **(a) For allowing salary and commission to partner.** The following entry will be made for the same :- Partner's salary/commission A/c Dr. To Partner's Capital A/c	(Gain for Partner)
(b) On transferring salary/commission to Profit and Loss Appropriation A/c Profit and Loss Appropriation A/c Dr. To Partner's salary/commission A/c	(Expense for business)
(iv) For Transfer to Reserve Profit and Loss Appropriation A/c Dr. To Reserve A/c	
(v) For Distribution of Profits Profit and Loss Appropriation A/c Dr. To Partners' Capital A/c	(to be divided in agreed ratio as per deed)
Note. Whenever partners' capital accounts are fixed, then instead of debiting or crediting parnter's capital account, Partner's current account will be debited or credited as the case may be.	

DR. **SPECIMEN OF PROFIT & LOSS APPROPRIATION ACCOUNT** **CR.**

Particulars	₹	Particulars	₹
To Interest on Capital	—	By Net Profit as per P & L A/c	—
To Salaries to Partners	—	By Interest on Drawings	—
To Fees to Partners	—		
To Commission to Partners	—		
To Bonus to Partners	—		
To Transfer to Reserves	—		
To Profits Transferred to :			
Partner's Capital/Current A/c	—		

Capital Account

↓

Fixed Capital Account	Fluctuating Capital Account
(Current account is opened)	(Current account is not opened)

DR. **SPECIMEN OF FIXED CAPITAL ACCOUNT** **CR.**

Particulars	₹	Particulars	₹
To Cash/Bank A/c	...	By Balance b/d (In case of old firms)	...
(Permanent withdrawl of capital)	...	By Cash/Bank A/c (Additional capital)	...
To Balance c/d	...		
(Closing balance, appear on liabilities side)			
	...		...

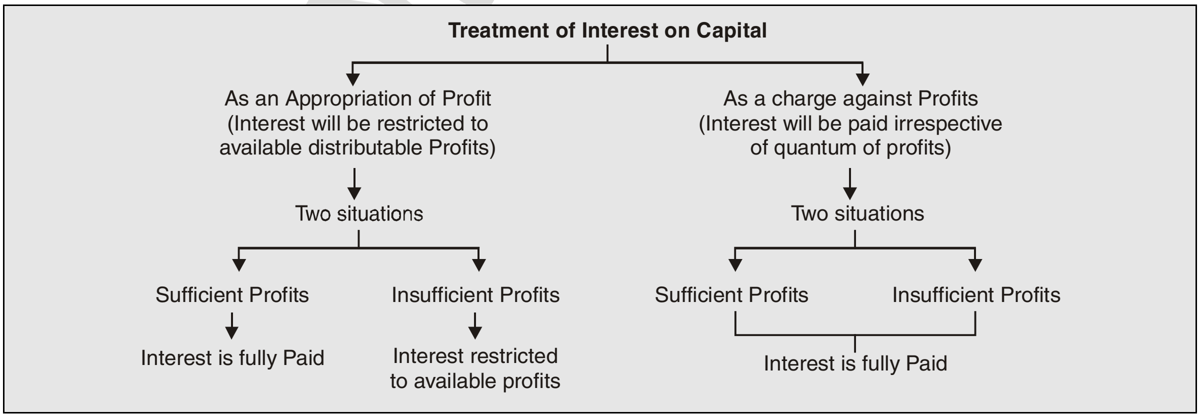
DR. **SPECIMEN OF CURRENT ACCOUNT** **CR.**

Particulars	₹	Particulars	₹
To Balance b/d (if debit balance)		By Balance b/d (if credit balance)	
To Drawings A/c	...	By Salaries A/c	...
To Interest on Drawings A/c	...	By Interest on Capital A/c	...
To Profit & Loss A/c (Loss)	...	By Fees A/c	...
To Balance c/d (It is a credit balance, it will	...	By Commission A/c	...
appear on liabilities side)		By Bonus A/c	...
		By Profit & Loss Appropriaton A/c (Profit)	...
		By Balance c/d (It is a debit balance, it will	...
		appear on asset side)	

DR. **SPECIMEN OF FLUCTUATING CAPITAL ACCOUNT** **CR.**

Particulars	₹	Particulars	₹
To Balance b/d (debit opening balance)	...	By Balance b/d (Credit opening balance)	...
To Drawings A/c	...	By Cash/Bank A/c (Additional capital)	...
To Interest on Drawings A/c	...	By Salaries A/c	...
To Profit & Loss A/c (Loss)	...	By Fees A/c	...
To Balance c/d (It is a credit balance, it will		By Commission A/c	...
appear on liabilities side)	...	By Bonus A/c	...
		By Interest on Capital A/c	...
		By Profit & Loss Appropriation A/c (Profit)	...
		By Balance c/d (It is a debit balance,	
		it will appear on assets side)	
	...		...

Interest on Capital is an Appropriation or a Charge



Interest on Capital when Opening Balance of Capital is Missing

Procedure to Calculate Opening Capital	₹
Closing balance of capital	....
Add : Drawings made during the year................................	....
Add : Interest on Drawings................................	....
Add : Losses debited to capital................................	....
Less : Profits credited to capital................................	....
Less : Additional capital introduced during the year................................	....
Opening capital	....

	Procedure of Calculating Closing Capital	₹
	Opening Capital	
Add :	Additional Capital introduced	
Add :	Profit credited to capital	
Less :	Losses debited to capital	
Less :	Interest on drawings	
Less :	Drawings made during the year	
	Closing Capital	

Drawings Account

(i) For Drawings :

Partner's Drawings A/c Dr.

To Cash/Purchases A/c

Note. Students should note that 'Drawings Account' is a personal account.

(ii) For Interest on Drawings :

Partner's Drawings/Current A/c Dr.

To Interest on Drawings A/c

(iii) For transfer of interest on drawings to Profit & Loss Appropriation Account :

Interest on Drawings A/c Dr.

To Profit & Loss Appropriation A/c

INTEREST ON DRAWINGS AT A GLANCE

	Situation	*Period of Interest*
Case 1	When Fixed amount is withdrawn on the first day of every month.	$6\frac{1}{2}$ months on total drawings.
Case 2	When fixed amount is withdrawn on the last day of every month.	$5\frac{1}{2}$ months on total drawings.
Case 3	When different amount is withdrawn on different dates.	One month interest on total of product.
Case 4	When dates of withdrawls are not given.	Six months interest on total drawings.
Case 5	Fixed amount is withdrawn in the beginning of each quarter.	$7\frac{1}{2}$ months on total drawings.
Case 6	Fixed amount is withdrawn at the end of each quarter.	$4\frac{1}{2}$ months on total drawings.

Case 7	When fixed amount is withdrawn in the middle of each month.	Six months interest on total drawings.
Case 8	When fixed amount is withdrawn for six months on the first day of every month and interest is calculated for six months.	$3\frac{1}{2}$ months on total drawings.
Case 9	When fixed amount is withdrawn for six months on the last day of every month and interest is calculated for six months	$2\frac{1}{2}$ months on total drawings.

Interest on Partner's Loan

Accounting Treatment

(1) When Loan is Taken :

Cash/Bank A/c	Dr.
To Partner's Loan A/c	

(2) When Interest is due on Loan :

Interest on Partner's Loan A/c	Dr.
To Partner's Loan A/c	

(3) When Interest on Loan is transferred to Profit & Loss Account :

Profit & Loss A/c	Dr.
To Interest on Partner's Loan A/c	

Partner's Salary, Commission, Fees, Etc.

(i) For Salaries/Commission etc., Payable to Partners :

Partner's Salaries/Commission A/c	Dr.	
To Partner's Capital A/c		(In case of fluctuating capital)
Or To Partner's Current A/c		(In case of fixed capital)

(ii) For Transfer of Salaries, Commission to Profit & Loss Appropriation A/c :

Profit & Loss Appropriation A/c	Dr.
To Partner's Salaries/Commission A/c.	

Calculation of Commission to Partner

Amount of commission under the two situations may be calculated as follows :

1. **Commission on Net Profit before Charging Commission :**

$$\text{Net Profit before Commission} \times \frac{\text{Rate of Commission}}{100}$$

2. **Commission on Net Profit after Charging Commission :**

$$\text{Net Profit before Commission} \times \frac{\text{Rate of Commission}}{100+\text{Rate of Commission}}$$

Treatment of Rent Payable to Partner

If the business of the firm is being carried on in the building owned by partner and the building has been let out by the partner to the firm. In such a case the *rent paid by the firm to the partner will be treated as a charge on profits, hence debited to profit & loss account. The rent in such a case should not be treated as appropriation of profits.*

Calculation of Capital Ratio

Nature of Capital Accounts	Capital Ratio
1. When Capital A/cs are fixed (and no addition to capital during the year)	Ratio of fixed capital
2. When Capital A/cs are fluctuating (Also additions to and withdrawal from Capital A/cs on different dates.)	Capital ratio will be calculated with reference to time.

Past Adjustment By passing single entry

The amount required to pass single entry is calculated by taking the following steps.

Step 1. Calculate the amount already given (credited) by way of interest on capital, salary, fees, commission, bonus, share of profit/loss etc.

Step 2. Calculate the amount which should have been credited by way of interest on capital, salary, fees, commission, bonus, share of profit/loss etc.

Step 3. Find out the difference between the above two steps. This will disclose who has received more or less.

Step 4. Pass adjustment entry. The partner who has received more is debited and the partner who has received less is credited.

Accounting Entry.

Partner Received More Dr.
 To Partner Received Less.

Admission of Manager as Partner

The following points may be noted to record the adjustment entry :

Step 1.	Calculate the share of manager which has already been given to him on account of interest on loan, salary, commission etc.
Step 2.	Calculate the share of manager now to be given to him as partner with retrospective effect.
Step 3.	Find out the difference between Step 1 and Step 2. (a) **If Step 1 is more than Step 2,** this implies that he has already been paid more in the capacity of Manager. The difference is recorded with the following adjustment entry : New Partner's Capital A/c Dr. To Old Partners' Capital A/c (in profit ratio) (b) **If Step 2 is more than Step 1,** this implies that he has been paid less in the past, therefore, he should be credited with the difference : Old Partners' Capital A/c Dr. To New Partner's Capital A/c

Guarantee of Minimum Profit

Other Partner's Capital A/c Dr. (Loss shared by old partner(s) in agreed ratio)
 To New Partner's Capital A/c (With difference between guaranteed amount over his share of profit)

Step 1.	Calculate the minimum guaranteed share of profit of new partner OR Calculate the old share of new partner (It happens only in case, where employee of the firm is taken as partner).
Step 2.	Calculate the share of new partner as per new terms of agreement.
Step 3.	Find out the difference between Step No. 1 and Step No. 2. If the amount of Step No. 2 is less than the amount of Step No. 1, then the subsequent step is taken. If it is *vice versa then the following step becomes irrelevant.*
Step 4.	Find out the name(s) of partner(s) who has/have guaranteed the minimum share of profit and debit him/them with the difference as ascertained in Step 3 in agreed ratio and credit is given to new partner.

Practical Problems

NO PARTNERSHIP DEED EXIST

1. (Absence of Partnership Deed) Partners A and B have contacted you to solve their dispute. They do not have any deed.

(i) A and B have invested ₹ 70,000 and ₹ 1,00,000 as capital respectively and they claim interest on capital @ 10% p.a.

(ii) B gave ₹ 12,000 as loan to the firm. He claims interest on loan @ 8% p.a.

(iii) A withdrew ₹ 15,000 during the year and B asked to charge interest on drawings at 6% p.a.

(iv) A's son C is MBA. He wants his son to be partner in the firm, B objects to this.

(v) B is incharge of sales. He wants commission at 9% on sales.

2. (No Partnership Deed) X and Y have no agreement to run their business. They have following problems. You are asked to help them and give comment to solve their problems.

(i) They earned profits ₹ 2,40,000 which they want to share in capital ratio of 3 : 2.

(ii) X spent extra time to run the business. He demanded salary ₹ 10,000 p.m. for doing extra work.

(iii) Y has incurred ₹ 7,000 on travelling for the firm. He wants this amount to be reimbursed to him.

(iv) Y's son is helping in the affairs of the firm. He wants salary ₹ 25,000 p.m. for his son.

(v) X paid ₹ 5,000 for repair of firm's car. He wants the reimbursement of this amount.

(vi) X wants to purchase goods from his relative supplier, but Y objects to this.

3. (No Partnership Deed) Comment on the following assuming there is no deed among partners.

(a) Partner X and Y have invested ₹ 2,50,000 in equal proportion. They claimed interest @ 10% p.a. on capital.

(b) Partner A was sick, therefore, other partner B worked extensively. He demanded salary of ₹ 40,000.

(c) Partner Y wants to purchase goods from M/s Global Enterprises but other partners X and Z object to it.

(d) A, B and C earned profit ₹ 60,000. C wants profits to be distributed in capital ratio which is 2 : 1 : 3.

(e) Partner S has let out his building to the firm. He asked rent @ ₹ 6,000 p.m. which is reasonable.

(f) Firm required loan of ₹ 3,00,000. State Bank of India interest rate is 12% p.a. but partner D gave loan @ 9%.

4. **(Absence of Partnership Deed)** X, and Y are partners in a firm sharing Profits in the ratio of 3:1. They had advanced to the firm a sum of ₹ 20,000 as loan in their profit sharing ratio on 1.10.2016. The Partnership deed is silent upon the question of Interest on partners loan. Compute the amount the interest payable by the firm to the partners assuming the firm's books are closed on 31st March each year.

   [**Ans.** X ₹ 450, Y ₹ 150]

5. **(Absence of Partnership Deed)** Mahesh and Ramesh are partners with capitals of ₹ 50,000 and ₹ 60,000 respectively. On 1st January 2016, Mahesh gives a loan of ₹ 10,000 and Ramesh introduced ₹ 20,000 as additional capital. Profit for the year ending 31st March 2016 was ₹ 15,200. There is no partnership deed. Both Mahesh and Ramesh expect interest @10% p.a. on the loan and additional capital advanced by them. Show how the profits would be divided ? Give reasons.

   [**Ans.** Interest on loan Mahesh ₹ 150; No interest on capital ; profit ₹ 7,525 each].

PROFIT AND LOSS APPROPRIATION ACCOUNT

6. **(P & L Appropriation A/c)** Raju and Lalli are partners in equal ratio. Raju's capital is ₹ 25,000 and Lalli's capital is ₹ 15,000. Interest is payable at 6% p.a. Raju is to get salary ₹ 750 p.m. Profits are ₹ 20,000 before appropriations. Transfer 10% of profits (before any appropriation) to general reserve. Prepare Profit and Loss Appropriation Account

   [**Ans.** Profits ₹ 6,600 shared by Raju and Lalli equally]

7. **(P & L Appropriation A/c)** Amit and Vijay started a partnership business on 1st April, 2016. Their capital contributions were ₹ 2,00,000 and ₹ 1,50,000 respectively. The partnership deed provided inter alia that

   (a) Interest on capitals at 10% p.a.

   (b) Amit to get a salary of ₹ 2,000 p.m. and Vijay ₹ 3,000 p.m.

   (c) Profits are to be shared in the ratio of 3 : 2.

   The profits for the year ended 31st March, 2017 before making above appropriations were ₹ 2,16,000.

   Prepare profit and loss appropriation account.

   [**Ans.** Share of profit Amit ₹ 72,600 ; Vijay ₹ 48,400]

8. **(Redrafting P & L Appropriation A/c)** P, Q and R are partners in a business. They do not have any partnership deed. The Profit and Loss Appropriation Account for the year is as follows :

DR. **PROFIT AND LOSS APPROPRIATION ACCOUNT** CR.

Particulars	₹	Particulars		₹
To Interest on Capital :		By Profit b/d		90,000
P	5,000	By Interest on Drawings :		
Q	7,000	P	300	
R	4,000	Q	200	
To Q's Salaries	3,000	R	100	600
To R's Salaries	7,000			
To P' Salaries	4,000			
To Interest on Loan @ 10%	2,000			
To General Reserve	4,800			
To Profit :				
P	21,520			
Q	21,520			
R	10,760			
	90,600			90,600

You are required to redraft the Profit and Loss Appropriation Account.

[**Ans.** Profit ₹ 28,000 to each partner]

9. **(Journal Entries of P & L Appropriation A/c)** Pass Journal Entries in the following Cases :

(a) Profit ₹ 40,000 is distributed in 3:2 ratio between A and B.

(b) ₹ 3,000 salary given to B.

(c) ₹ 5,000 commission given to A.

(d) ₹ 8,000 transferred to General reserve.

(e) Interest on capital to A ₹ 2,000 and B ₹ 1,000.

10. **(Journal Entries of P & L Appropriation A/c)** Pass Journal entries for transfer to Profit & Loss Appropriation Account.

(i) Salaries ₹ 15,000 and ₹ 20,000 payable to partner P and Q.

(ii) ₹ 45,000 transferred to general reserve.

(iii) ₹ 7,000 interest charged on drawings.

(iv) Interest on capital @ 15% p.a. is allowed to X for six months on capital of ₹ 20,00,000.

FIXED AND FLUCTUATING CAPITAL ACCOUNTS

11. **(Fluctuating Capital A/c)** Prepare capital account of Mamta.

	₹
Opening capital	30,000
Salary to Mamta	8,000
Salary to Mamta's brother	3,000
Drawings	7,000

Commission to Mamta	6,000
Interest on Capital	4,000
Capital introduced during the year	11,000
Interest on drawings	1,000

[**Ans.** ₹ 51,000 balance in capital account]

12. **(Fixed Capital A/c)** A firm has two partners X and Y. The following details are available :

	X	Y
Capital	50,000	70,000
Drawings	7,000	9,000
Interest on Capital	5,000	7,000
Salaries	9,000	–
Commission	11,000	13,000
Penalty imposed	–	3,000
Transfer of Reserve	4,000	5,000

Prepare Current Account of partners

[**Ans.** X. ₹ 22,000; Y ₹ 13,000]

13. **(Fluctuating Capital A/c)** Prepare capital accounts of the partners Muthu and Krishnan from the following information, assuming that their capitals are fluctuating.

	Muthu	Krishnan
Capital on 1-4-2018	50,000	35,000
Drawings during 2018-19	2,400	1,200
Interest on capital	6 per cent	6 per cent
Share of profits for 2018-19	7,000	5,000
Salary	—	1,800
Commission	1,000	—

[**Ans.** Muthu's capital ₹ 58,600, Krishnan capital ₹ 42,700]

14. **(P & L Appropriation/Partners' Capital A/c)** X and Y are doing business in Auto Parts and sharing profits in 2 : 1 ratio. Their capital in the firm is ₹ 60,000 (X) and ₹ 20,000 (Y). According to partnership deed X is to get salary ₹ 3000 p.m. and Y a commission @ 5% on sales of ₹ 1,60,000. Amount to be transferred to general reserve is 1/8 of net profit before any appropriation.

Profit ₹ 1,80,000 is earned by the firm during the year. Prepare Profit and Loss Appropriation Account and capital account.

[**Ans.** Profit X ₹ 75,667; Y ₹ 37,833
Capital X ₹ 1,71,667, Y ₹ 65,833]

INTEREST ON CAPITAL

15. **(Interest on Capital)** A and B have capitals of ₹ 50,000 and ₹ 40,000 on 1st April, 2016. Interest on capital is allowed @ 12% p.a. Find out the interest on capital for the year ended 31st March, 2017 and pass journal entry for the interest on capital.

[**Ans.** Interest on capital A ₹ 6,000 ; B ₹ 4,800]

16. **(Additions to Capital on different dates)** X and Y are in partnership in the ratio of 3 : 2. They are allowed interest on capital @ 12% p.a. on the opening capital and 10% p.a. on the additional capital contributed during the year. The opening capitals of X and Y on 1st April 2016 were ₹ 30,000 and ₹ 20,000 respectively. X, on 1st August 2016 made an addition of ₹ 9,000 to his capital, while Y contributed ₹ 27,000 on 1st October 2016 to his capital. Find out interest on capital for the year ending 31st March, 2017 and pass journal entry relating thereto.

[**Ans.** Interest on Capital : X ₹ 4,200 ; Y ₹ 3,750]

17. **(Additions to Capital and Drawings)** Tendulkar and Mukerjee are sharing profits in 2:3 ratio. On 1-4-16 their capital account showed balance of ₹ 30,000 and 50,000 respectively.

On 30-6-16 Tendulkar made contributions to his capital amounting ₹ 8,000 and on the same date, Mukerjee contributed ₹ 10,000.

On 1-10-16 Mukerjee withdrew ₹ 15,000 and he further deposited ₹ 7,000 on 28-2-17.

On 31-10-16 Tendulkar withdrew ₹ 12,000 and on 1-3-17 he deposited ₹ 6,000.

Find out interest on capital @ 12% for 2016-17.

[**Ans.** Tendulkar ₹ 3,780 ; Mukerjee ₹ 6,070]

18. **(Interest on Capital is a charge and there is profit)** P and Q are partners. They share profits in 2:1 ratio. As per partnership, they are to get interest on capital @10% p.a. Their capitals were P ₹ 50,000; Q ₹ 30,000. Their profits before interest were ₹ 10,100. Interest is allowed as a charge. What difference will it make if profits are ₹ 7100 only.

[**Ans.** Interest on capital; P ₹ 5,000 and Q ₹ 3,000; share of profits P ₹ 1,400 and Q ₹ 700. In the second case, there is a loss of ₹ 900 which is divided between P and Q in 2:1 ratio].

19. **(Interest on capital as a charge and there is loss).** Arun and Arora were partners in a firm sharing profits in the ratio of 5:3. Their fixed capitals on 1.4.2016 were Arun ₹ 60,000 and Arora ₹ 80,000. They agreed to allow interest on capital @ 12% per annum. The profit of the firm for the year ended 31.3.2017 before adjustment were ₹ 12,600. The drawings made by Arun were ₹ 2,000 and by Arora ₹ 4,000 during the year. Prepare Profit and Loss Account of Arun and Arora. The Interest on capital will be allowed even if the firm incurs a loss.

[**Ans.** Loss Arun ₹ 2,625, Arora ₹ 1,575].

20. **(Comprehensive Question on interest on capital)**

Money and Rupee are partners sharing profit in ratio of 2 : 1. Their capital were ₹ 1,20,000 and ₹ 90,000 respectively.

Show distribution of profit in each of the following cases :

Case A : Profit are ₹ 45,000 and deed is silent as regards interest on capital.

Case B : Profits are ₹ 45,000 and deed provides for interest on Capital @ 10% p.a.

Case C : Profits are ₹ 16,800 and deed provides for interest on Capital @ 10% p.a.

Case D : Profits are ₹ 16,800 and deed provides for interest on capital @ 10% p.a. even if there is loss.

Case E : Loss is ₹ 6,000 and the deed provides for interest on capital @ 10% p.a. even if there is a loss.

[**Ans.** Case A : Profit Money ₹ 30,000; Rupee ₹ 15000; Case B : Profit Money ₹ 16,000 rupee ₹ 8,000; Case C : Interest on capital Money ₹ 9,600; Rupee ₹ 7,200, Case D : Money Loss ₹ 2,800; Rupee ₹ 1,400; Case E : Loss Money 18,000 Rupee ₹ 9,000]

21. **(Interest on Capital/Opening Capital missing)** Capitals of A and B at the end of year 31.3.17 were ₹ 70,000 and ₹ 1,00,000 respectively. Their drawings were ₹ 30,000 and ₹ 20,000 during the year. They had shared profits ₹ 50,000 in 1:4 ratio. Interest on capital @ 10% has been omitted. Find out the interest.

[**Ans.** A ₹ 9,000; B ₹ 8,000].

22. **(Interest on Capital/Opening Capital Missing)** Ajay and Vijay are partners in 2 : 3 ratio. During the year ended 31^{st} March, 2017 they earned profit ₹ 1,60,000. Their capitals as on 31st March, 2017 were ₹ 2,80,000 and ₹ 4,00,000 respectively. Ajay withdrew ₹ 6,000 p.m. during first three months and for the next six months he withdrew ₹ 8,000 p.m. Vijay with drew ₹ 4,000 p.m. from 1-9-2016. During the year salary ₹ 80,000 was credited to Vijay. Ajay made additions to capital ₹ 40,000 on 1st June, 2016 while Vijay contributed ₹ 60,000 on 1st January, 2017 as his capital. Calculate interest on capital @12%.

[**Ans.** Interest on capital Ajay ₹ 33,040; Vijay 24,840]

23. (Interest on Capital/Gain to Partners) X, Y and Z are partners with capital of ₹ 1,00,000, ₹ 50,000 and ₹ 30,000 respectively and share profits and loss equally. Profits were ₹ 54,000 before interest on capital. Show the amount of gain to each partner :

(a) If no interest on capital is allowed.

(b) If 5% interest on capital is allowed before distribution of profit.

[**Ans.** (a) ₹ 18,000 each (b) X ₹ 20,000 Y ₹ 17,500 : Z ₹ 16,500]

24. (Interest on Capital/Opening Capital Missing/Preparation of Revised Capital Account) Chaterjee and Banerjee are partners in firm 7 7:3 ratio. Their capital on 31st March, 2017 were ₹ 7,50,000 of which Chaterjee share was 50% more than the share of Banerjee. The firm earned profit of ₹ 1,20,000 before interest on capital @ 10% but after allowing salary ₹ 24,000 to Chaterjee and ₹ 36,000 to Banerjee. Drawings of partners were ₹ 39,000 and ₹ 21,000 respectively. Interest on drawings: Charterjee ₹ 900 and Banerjee ₹ 600.

You are required to calculate interest on capital and prepare revised capital account.

[**Ans.** Interest on capital, Chaterjee ₹ 38,190; Banerjee 24,960; Capital account balance Chaterjee ₹ 4,43,985; Banerjee ₹ 3,06,015]

25. (Interest on Capital/Profits not fully distributed and drawings appearing in Balance Sheet) From the following Balance Sheet of Rich and Poor, calculate interest on capital @ 10% p.a. for the year ended 31-3-2017.

BALANCE SHEET

Liabilities	₹	*Assets*	₹
Rich's Capital	20,000	Sundry Assets	42,000
Poor's Capital	16,000	Drawings (Rich)	2,000
Profit & Loss Appropriation A/c (2016-2017)	8,000		
	44,000		44,000

During the year ended 31-3-17 Rich's drawings were ₹ 3,000 and Poor's Drawings were ₹ 5,000. Profits during the year were ₹ 12,000.

[**Ans.** Rich ₹ 1,900 ; Poor ₹ 1,900]

26. (Interest on Capital/Opening capital missing/Partners given salary, commission) X and Y are partners in a firm. They share profit in 2:3 and losses in 1:2 ratio. During the year ended 31-3-17, they earned profits ₹ 25,000. On 31-3-17, their capitals were: X ₹ 90,000 and Y ₹ 70,000 respectively.

X withdrew ₹ 2,000 pm from April to August, 2016 and there after drawing were increased by 50% pm. till January, 2017.

Y withdrew ₹ 3,000 p.m. with effect from November, 2016.

Commission ₹ 5,000 was credited to X and Salary ₹ 8,000 was given to Y.

X contributed ₹ 15,000 to the capital on 31-10-16 and Y contributed ₹ 8,000 on 1-12-16.

Interest @ 12% p.a. was omitted on opening capital during the year.

Calculate interest on capital.

[**Ans.** Interest on Capital X ₹ 10,950 : Y ₹ 6,800]

[**Hint:** Opening Capital X ₹ 85,000 and Y ₹ 54,000]

INTEREST ON DRAWINGS

27. **(VALUE BASED/Fixed drawings on first day of each month)** Sudhir withdraws ₹ 8,000 p.m. on first day of every month to help the family of his deceased friend month during the year ended 31-3-2017. Calculate interest on drawings @ 9% p.a.

[**Ans.** Interest ₹ 4,680]

28. **(Fixed drawings on last day of each month)** Rehman withdraws ₹ 12,000 p.m. on the last day of every month during the year ended 31-3-2017. Calculate interest on drawings @ 12%.

[**Ans.** Interest ₹ 7,920]

29. **(Drawings on different dates)** During the year ended 31-3-17, a partner made the following drawings.

April 30	—	₹ 2,000
July 1	—	₹ 5,000
Oct. 31	—	₹ 4,000
March 1	—	₹ 3,000
March 31	—	₹ 2,000

Calculate interest on drawings when it is charged @ 10% p.a.

[**Ans.** ₹ 750]

30. **(When total drawings are given without dates)** A and B are partners in a firm. They share profits and losses in the ratio of 3 : 2. As per their partnership agreement, interest on drawings is to be charged @ 10% p.a. Their drawings during 2016-17 were ₹ 24,000 and ₹ 16,000 respectively.

Calculate interest on drawings based on the assumption that the amounts were withdrawn evenly through out the year.

[**Ans.** A ₹ 1200 ; B. ₹ 800]

31. **(Drawings in each quarter)**

(*i*) Partner X withdraws ₹ 1,000 at the end of each quarter during the year ended 31-3-2017. Interest is charged @ 12% p.a. Find out interest on drawings and show journal entry.

[**Ans.** ₹ 180]

(*ii*) Y withdraws ₹ 3,000 at the beginning of each quarter in the year ended on 31-3-2017. Interest is charged @ 12% p.a. Find out interest and pass entry.

[**Ans.** ₹ 900]

32. **(Drawings on different dates)** A and B are partners in a firm. Their monthly drawings are ₹ 2,000 each. Interest on drawings is to be charged @ 10% each.

Calculate interest on A's drawings for the year 2016-17 assuming drawings are made (*i*) in the beginning of every month (*ii*) in the middle of every month (*iii*) at the end of every month.

[**Ans.** (*i*) ₹ 1,300 (*ii*) ₹ 1,200 (*iii*) ₹ 1,100]

33. **(One partner's interest is calculated for one year and other partner's for half year)** A, B and C are partners in 3:2:1 ratio. They made the drawings as follows :

A. ₹ 2,000 pm in the middle of each month during the year.

B. ₹ 3,000 pm on the first day of every month for only six months.

C. ₹ 4,000 pm on the last of each month for only six months. Interest in case of B and C is to be calculated for six months.

The rate of interest is 6% p.a.

[**Ans.** A ₹ 720 ; B ₹ 315 ; C ₹ 300].

34. (Withdrawals on different dates) X has made the following drawings during 2016-17. Calculate interest on drawings @ 9% p.a.

(*i*) ₹ 4,000 withdrawn by X on the first day of every month with effect from 1-5-16 for four months.

(*ii*) From September, 2016 he withdrew ₹ 6,000 pm in the middle of each month till December.

(*iii*) On 1-2-17 he withdrew ₹ 10,000.

(*iv*) On 31-3-17 he withdrew ₹ 5,000.

[**Ans.** ₹ 2,190]

INTEREST ON LOAN

35. (Interest on Loan) Partner Raman has advanced loan ₹ 70,000 to the firm on 1st July 2016. Interest is payable to him @12% p.a. Pass Journal entries for the year ended 31.3.2017 in the books of firm.

[**Ans.** ₹ 6,300]

36. (Interest on loan various cases) Sad and Happy are partners in 2:1 ratio. On 1st April 2016, they gave loan of ₹ 50,000 and ₹ 40,000 to the firm. Show distribution of profits in the following cases for the year ended 31.3.2017.

Case (a) Profit before interest ₹ 6,900.

Case (b) Profit before interest ₹ 4,500.

Case (c) Loss before interest ₹ 600.

[**Ans.** Profit (a) Sad ₹ 1000 ; Happy ₹ 500

Loss (b) Sad ₹ 600; Happy ₹ 300

Loss (c) Sad ₹ 4,000; Happy ₹ 2,000]

37. (P & L Appropriation A/c/Interest on Loan) Partner X gave loan ₹ 50,000 @ 10% p.a. to the firm in the beginning of the year for nine months. Partner Y also gave loan ₹ 20,000 in the middle of the year for six months at the same rate.

They share profits in 2:1 ratio. Their profits for the year before interest on loan and capital were ₹ 90,000. X's capital was ₹ 1,50,000 and Y's capital was ₹ 2,00,000. Interest on Capital is charged @ 10% pa. Prepare Profit & Loss Appropriation Account.

[**Ans.** Share in profits X ₹ 33,500; Y ₹ 16,750]

[**Hint :** Interest on loan is not an item of P & L Appropriation A/c.]

38. (Loan taken/Returned/Interest on Loan) Honey and Pardeep are partners in Delhi Sharing profits in 2 :1 ratio. On 1st July, 2016 Honey advanced ₹ 1,20,000 to the firm @ 12% p.a. Firm returned back ₹ 40,000 to Honey on 31st Dec. 2016. Pardeep also advanced ₹ 2,00,000 to the firm on 30 Sept. 2016. He received back ₹ 80,000 on 28th Feb, 2017 out of ₹ 2,00,000. Books are closed on 31st March 2017. Pass entries in Journal.

[**Ans.** Interest on Loan Honey ₹ 9,600; Pardeep ₹ 11,200]

SALARY, COMMISSION, FEES TO PARTNERS

39. (Journal Entries for Commission/Fee) Pass journal entries for the following

(*a*) Commission @5% payable to partner Mohan on profits before charging his commission. Profits are ₹ 50,000

(*b*) Commission @7% payable to partner Geeta on profits after charging his commission. Profits before commission are ₹ 2,14,000.

(*c*) Fees ₹ 2,500 pm payable to partner Kanika.

Also show relevant entries of transfers to Profit and Loss Appropriation A/c.

40. (Commission/Bonus) Pass Journal entries in respect of following :

(i) Commission @ 5% p.a. is payable to partner A on sales of ₹ 8,00,000

(ii) Profit ₹ 3,00,000 distributed to partners X and Y in 2 : 1 ratio.

(iii) Bonus ₹ 6,000 is payable to Partner B.

(iv) Commission @ 5% is payable to partners D on the profit ₹ 1,00,000.

41. (Salary/Commission/P & L Appropriation A/c) Fat and Thin are partners in a firm in 3:2 ratio. Fat gets salary of ₹ 5,000 pm and 10% commission on net profit before charging any commission. Thin is to get 8% commission after charging all commission and salary. Net profit before charging salary and commission was ₹ 1,80,000.

Show distribution of Profits.

[**Ans.** Commission Fat ₹ 12,000, Thin ₹ 8,000].

COMMISSION TO MANAGER

42. (P & L Appropriation A/c) Green and Red are partners sharing profit in 3 : 2 ratio. Their capital account shows balance of ₹ 60,000 and ₹ 45,000 respectively. Interest on capital is to be allowed @ 5% p.a. Red is to be allowed an annual salary of ₹ 4,500. During the year the profit before interest on capital but after Red's salary amounted ₹ 18,000. Manager is to be given Commission @ 5% on ₹ 18,000. Draft Profit and Loss Appropriation account.

[**Ans.** Profit Green ₹ 7,110; Red ₹ 4,740]

43. (Commission to Manager) X and Y are brothers sharing profits in 3 : 2 ratio in the business of photography. Their profits were ₹ 1,70,000. X gets salary ₹ 42,000 for six months and Y gets 2% commission on sales of ₹ 1,00,000. Their manager Ajay is to get 5% commission on net profit.

Prepare Profit and Loss Appropriation Account.

[**Ans.** Manager's Commission ₹ 8,500]

RENT PAYABLE TO PARTNER

44. (Rent Payable to Partner/P & L Appropriation) Raman, Gagan and Sanjay are partners in a firm sharing profit in 2 : 1: 3 ratio. The firm earned ₹ 2,80,000 profit during the year before allowing rent of building to Raman amounting ₹ 32,000 and municipal taxes on the building ₹ 8,000 which as per agreement are payable by the firm. Sanjay's Salary is fixed ₹ 60,000. Gagan is to get 10% Commission on net profits after making all appropriations. Raman is to get bonus ₹ 20,000. Amount transferred to general reserve is ₹ 28,000.

Prepare Profit and loss Appropriation Account.

[**Ans.** Profit ₹ 1,20,000]

45. (P & L Appropriation A/c) A firm of partner Rahul and Gobind earned ₹ 2,40,000 during the year ending 31-3-2017. Rahul advanced ₹ 1,50,000 to the firm on 1st July 2016 @ 12% p.a. Gobind is to get salary ₹ 6,000 p.m. from 1st May 2016 and ₹ 9,000 p.m. from 1st January 2017. A fine of ₹ 15,000 was charged from Gobind.

Prepare Profit & Loss Appropriation Account

[**Ans.** Profit Rahul ₹ 83,250 : Gobind ₹ 83,250]

46. (P & L Appropriation A/c) X and Y are partners in a firm sharing profits in the ratio of 7 : 3. According to the partnership deed, X was to be paid salary of ₹ 5,000 per month and Y was to get a bonus of ₹ 40,000 per year. Interest on capital was to be allowed @ 10% p.a. and Interest on drawings was to be charged @ 8% p.a. Interest on X's drawings was ₹ 3,000 and on Y's drawings was ₹ 2,000. Their fixed capital were ₹ 4,00,000 and ₹ 1,50,000 respectively. The firm earned a profit of ₹ 2,50,000 for the year ended 31.3.2017. Prepare Profit and Loss Appropriation Account of the firm.

[**Ans.** Profit X ₹ 70,000, Y ₹ 30,000]

47. (P & L Appropriation A/c) L, M and N were partners in a firm sharing profits in the ratio of 3:4:5 Their fixed capital were L ₹ 4,00,000 M ₹ 5,00,000 and N ₹ 6,00,000 respectively. The partnership deed provided for the following :

(i) Interest on capital @ 6% p.a.

(ii) Salary of ₹ 30,000 p.a. to N.

(iii) Interest on partner's drawings will be charged @ 12% p.a.

During the year ended 31.3.2017 the firm earned a profit of ₹ 2,70,000. L withdrew ₹ 10,000 on 1.4.2016. M withdrew ₹ 12,000 on 30.9.2016. and N withdrew ₹ 15,000 on 31.12.2016. Prepare Profit and Loss Appropriation Account for the year ended 31-3-2017.

[**Ans.** Profit ₹ 1,52,370]

48. (P & L Appropriation A/c) X and Y are partners in 7 : 3 ratio. X is to get salary ₹ 7,500 p.m. which was increased by 40% from January, 2017. Y gets commission @2% on sales of ₹ 25,00,000 plus 10% on net profits after all appropriations including his 2% commission but before creating general reserve. General reserve is to created @20% on net distributable profits.

Y is to get bonus @ 10% on the profits which exceeds ₹ 3,75,000 before any appropriation. The profits for the year ended 31.3.17 were ₹ 10,00,000. Prepare Profit and Loss Appropriation Account.

[Ans. Profits A 3,97,404; B ₹ 1,70,316]

Hint. General Reserve ₹ 1,41,930

49. (P & L Appropriation A/c) Singh and Gupta decided to start a partnership firm. They contributed capitals of ₹ 1,00,000 and ₹ 50,000 on 1st April, 2012 for this. Singh expresses his willingness to admit Shakti as a partner. But Gupta agreed to this. The terms of partnership were as follows :

(i) Singh, Gupta and Shakti will share profits in the ratio of 2 : 2 : 1.

(ii) Interest on capital will be provide @ 6% p.a.

Due to shortage of capital, Singh contributed ₹ 25,000 on 30th September, 2012 and Gupta contributed ₹ 10,000 on 1st January, 2013 as additional capital. The profit of the firm for the year ended 31st March, 2013 was ₹ 1,68,900.

(a) Prepare Profit and Loss Appropriation Account for the year ending 31st March, 2013.

(CBSE 2014)

[**Ans.** Profit of Singh ₹ 63,600, Gupta ₹ 63,600, Shakti ₹ 31,800]

DISTRIBUTION OF PROFITS

50. (P & L Appropriation A/c/Partners Fixed & Fluctuating Capital A/c) On 1st April, 2016 A and B entered into a partnership contributing ₹ 24,000 and ₹ 10,000 respectively. According to the deed, the interest on capital and on drawings is @ 15% p.a. A and B shall receive a monthly salary of ₹ 2,000 each. A is entitled to 3/5th and B is entitled to 2/5 of profits. During the year the following transactions took place.

(*i*) On 1st October, 2016 A withdrew (on permanent basis) ₹ 8,000 from his capital and B introduced ₹ 4,000 as additional capital.

(*ii*) The drawings of A and B were ₹ 12,000 each drawn at different intervals of time and the interest corresponding to these drawings were ₹ 675 and ₹ 450 respectively.

(*iii*) The profit for the year before any adjustment is made was ₹ 60,000.

Prepare the profit and loss appropriation account and the necessary accounts assuming that (*i*) the capitals are fluctuating (*ii*) the capitals are fixed.

[**Ans.** Profits A ₹ 4,995 ; B ₹ 3,330 ; Fluctuating capitals—Balances A ₹ 35,320; B ₹ 30,680 ; Current accounts. Balances A ₹ 19,320 (Cr.), B ₹ 16,680 (Cr.)]

51. (P & L Appropriation A/c/Partners' Current A/c) A, B and C are in partnership with respective fixed capital of ₹ 40,000 ; ₹ 30,000 and ₹ 20,000. B and C are entitled to annual salaries of ₹ 2,000 and ₹ 1,500 respectively payable before division of profits. Interest on capital is allowed at 5 per cent per annum, but interest is not charged on drawings. Of the first ₹ 12,000 divisible as profits in any year, A is entitled to 50 per cent, B to 30 per cent and C to 20 per cent. Annual profits in excess of ₹ 12,000 are divisible equally. The profits for the year ended 31st March, 2018 was ₹ 20,100 after debiting partners' salaries but before charging interest on capital. The partners' drawings for the year were : A ₹ 8,000, B ₹ 7,500 and C ₹ 4,000. The balance on the partners' current account on 1st April, 2017 were A–₹ 3,000 credit ; B–₹ 500 credit ; C–₹ 1,000 debit.

Prepare profit and loss appropriation account and the partners' current accounts.

[**Ans.** Current account balances A ₹ 4,200 (Cr.) B ₹ 1,300 (Cr.) and C ₹ 1,100 (Cr.)]

52. (P & L Appropriation A/c/Partners' Fixed Capital A/c) Thread, Needle and Button are in partnership and during the year ended 31-3-2017, they earned a profit of ₹ 83,000. Thread and Needle are entitled to 10% p.a. interest on capital of ₹ 60,000 and ₹ 1,00,000 respectively. Button who has no capital in the firm is entitled to a salary of ₹ 12,000 p.a. Button is also entitled to a commission of 10% on the profits after charging interest, salary and commission.

It is further agreed that the balance of profits should be appropriated as to 20% for charity fund and balance is shared equally by Thread and Needle.

Prepare Profit & Loss Appropriation Account and partners capital and current account for the year ended 31st March, 2017, if the drawings of the partners during the year were Thread ₹ 8,000 ; Needle ₹ 6,000 and Button ₹ 9,000.

[**Ans.** Share of Profit : Thread and Needle ₹ 20,000 each. Current Account : Thread ₹ 18,000 ; Needle ₹ 24,000 ; Button ₹ 8,000]

53. (P & L Appropriation A/c/Partners Fixed Capital A/c) Black and White have capital of ₹ 75,000 and ₹ 50,000 respectively on 1st April 2016. They share profits in the ratio of 2 : 1.

Firm has to transfer 5% of net divisible profits for the cost of pending law suit. Manager of the firm is to get salaries ₹ 25,000. The position of current accounts is as follows :

Black	₹ 12,000 (Dr.)
White	₹ 5,000 (Cr.)

Interest on opening capital account is allowed @ 10% p.a. Black withdraws ₹ 20,000 during the year, while White withdraws ₹ 1,000 p.m. on the first day of every month. Interest on drawings is calculated @ 12% p.a. Business earned profits of ₹ 1,10,000 during the year before manager's salary. Black is to be paid salary @ ₹ 1,500 p.m.

Distribute the profit between Black and White and show partners capital account and current account.

[**Ans.** Share of Profits : Black ₹ 35,860 ; White ₹ 17,930 ; Amount transferred to contingency Reserve ₹ 2,690 (Approx. Current Account : Black ₹ 28,160, White ₹ 15,150)]

54. (P & L Appropriation A/c/Partner's Capital A/c) A and B are partners sharing profits in the ratio of 3 :2 with capitals of ₹ 50,000 and ₹ 30,000 respectively. Interest on capital is agreed @ 6% p.a. B is to be allowed an annual salary of ₹ 2500. During 2017, the profits of the year prior to calculation of interest on capital but after charging B's salary amounted to ₹ 12,500. A provision of 5% of the profits (before charging interest on capital and partner's salary) is to be made in respect of manager's commission.

Prepare an account showing the allocation of profits and partners' capital account.

[**Ans.** Profit ₹ 6,950, Capital A/c balance : A–₹ 57,170 (Cr.), B–₹ 37,080 (Cr.)]

55. (P & L Appropriation A/c/Partners Fixed Capital A/c) X and Y were partners in a firm sharing profits in the ratio of 3 : 2. On 1.4.2016, their fixed capitals were ₹ 3,00,000 and ₹ 2,50,000 respectively. On 1.10.2016, they decided that their total capital (fixed) should be ₹ 6,00,000 in their profit sharing ratio. Accordingly, they introduced extra capital or withdrew excess capital. The partnership deed provided for the following :

(*i*) Interest on capital @ 12% p.a.

(*ii*) Interest on drawings @ 18% p.a.

(*iii*) A monthly salary of ₹ 2,000 to X and a monthly salary of ₹ 1,500 to Y. The drawings of X and Y during the year were as follows :

Year 2016-17	X	Y
	(₹)	(₹)
September 30	20,000	15,000
December 31	20,000	25,000

During the year ended 31.3.2017 the firm earned a net profit of ₹ 1,50,000. 10% of this profit was to be transferred to general reserve. You are required to prepare :

(i) Profit and Loss Appropriation Account (ii) Partner's Capital Accounts, and (iii) Partner's Current Accounts.

[**Ans.** Net profit ₹29,175; Capital Account Balances:—X—₹ 3,60,000; Y—₹2,40,000; Current Account balances X—₹38,405; Y—₹16,595]

56. (P & L Appropriation/Partners' Capital A/c) X, Y and Z were partners in a firm. Their capital on 1.4.2016 were :

X : ₹ 2,00,000 Y : 2, 50,000 Z : ₹ 3,00,000

The partnership deed provided for the following :

(i) They will share profits in the ratio of 2:3:3.

(ii) X will be allowed a salary of ₹ 12,000 p.a.

(iii) Interest on capital will be allowed @ 12% p.a.

During the year, X withdrew ₹ 28,000, Y ₹ 30,000 and Z ₹ 18,000. For the year ended 31.3.2017, the firm earned a profit of ₹ 5,00,000.

Prepare 'Profit and Loss Appropriation Account' and partners capital accounts.

[**Ans.** Profit ₹ 3,98,000, Capital Account Balance X– ₹ 3,07,500, Y –₹ 3,99,250, Z–₹ 4,67,250].

DISTRIBUTION OF PROFIT IN CAPITAL RATIO

57. **(Distribution of Profits in Capital Ratio)** A starts business on 1st April, 2018 with ₹ 20,000. B joins him on 1st July, 2018 and contributes ₹ 10,000 as his capital. Both of them further bring in ₹ 6,000 each on 1st Dec. 2018. During the year ended 31st March, 2019, they earned a profit of ₹ 56,700. Distribute the profit in capital ratio.

[**Ans.** A's Share ₹ 39,600 ; B's Share ₹ 17,100]

58. **(Distribution of Profits in Capital Ratio)** X and Y started business on 1st April 2016 with a capital of ₹ 20,000 and ₹ 10,000 respectively. They agreed to share profits and losses in the ratio of their capitals. You are required to distribute the profit for the year which was ₹ 42,200 :

	Further Capital Introduced		*Capital Withdrawn*	
	X	*Y*	*X*	*Y*
1 June	5,000	—	—	—
1 August	—	3,000	2,000	—
30 November	6,000	—	—	5,000
31 March	—	5,000	1,000	—

[**Ans.** X's Share ₹ 29,800 ; Y's Share ₹ 12,400]

PAST ADJUSTMENTS

59. **(Omission of Interest on capital)** A, B, C and D share profits in the ratio of 5 :3 :2 : 2 and their capitals are ₹ 50,000; ₹ 65,000 , ₹ 60,000 and ₹ 65,000 respectively. On 31st March 2018, after closing the books it is found that interest on capital @ 5% p.a. was omitted. Instead of altering the signed accounts, it was decided to pass a single adjustment entry at the beginning of the next year. Give the necessary Journal entry.

[**Ans.** Debit A–₹ 2,500 Credit, B– ₹250, C–₹ 1,000, D–₹ 1,250].

60. **(Omission of Interest on Capital for 3 years)** A, B and C are partners in a firm. They had omitted interest on capital @ 10% p.a. for three years ended 31st March, 2017. Their fixed capitals on which interest was to be calculated throughout were :

A –₹ 1,00,000   B–₹ 80,000   C– ₹ 70,000

Give the necessary adjusting entry with working notes.

[**Ans.** Debit B ₹ 1,000, C ₹ 4,000 Credit A ₹ 5,000]

61. **(Omission of interest on capital for three years)** X, Y and Z are partners in a firm in 3 : 2 : 1 ratio. Their capital were fixed, X ₹ 50,000 ; Y ₹ 40,000 and Z ₹ 30,000. Interest on capital @ 10% p.a. has been omitted for three years. Pass one adjustment entry to rectify the omission.

[**Ans.** Debit X ₹ 3,000 ; Credit Z ₹ 3,000]

62. **(Interest on Capital provided more than actual)** A, B and C are having capital of ₹ 2,00,000, ₹ 1,50,000 and ₹ 2,50,000 respectively. It was found that interest on capital has been allowed @ 12% instead of 10%. Pass adjustment entry.

[**Ans.** Dr. C ₹ 1,000 ; Cr. B ₹ 1,000]

63. **(Interest on Capital provided less than actual)** Ram, Shyam and Mohan are partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2. Their fixed capitals were ₹ 3,00,000, ₹ 1,00,000 and ₹ 200,000 respectively. Interest on capital for the year 2016-17 was credited to them @ 9% p.a. instead of 10% p.a. Show your working notes clearly. Pass the necessary adjustement journal entry.

[**Ans.** Debit Shyam's capital account ₹ 200 and Mohan's capital account ₹ 400 ; credit Ram's capital account ₹ 600]

64. **(Interest on Capital provided more than actual in one year and less than actual in second year)** X, Y and Z are partners in 5 : 3 : 2 ratio. Their capital were fixed X ₹ 40,000 ; Y ₹ 20,000 and Z ₹ 30,000. Interest on capital as per partnership deed is 10% p.a. However, in 2016 it was wrongly provided at 12% p.a. and in 2017 it was provided at 7% p.a. you are required to pass adjustment entry.

[**Ans.** Debit X ₹ 50 ; Y ₹ 70 ; Credit Z ₹ 120.]

65. **(Omission of Interest on Drawings)** After closing the books for the year ended 31-3-17, it was found that interest on drawings @ 9% p.a. has been omitted from the books. The partner X, Y and Z withdraw ₹ 10,000; ₹ 15,000 and ₹ 5,000 respectively during the year. You are required to pass adjusting entry for the omission of interest on drawing assuming profit ratio 2 : 2 : 1.

[**Ans.** Debit Y ₹ 135 ; Credit X ₹ 90 and Z ₹ 45]

66. **(Omission of Interest on Drawings)** Rajeev, Sanjeev and Jatin were partners in a firm manufacturing blankets. They were sharing profits in the ratio of 5 : 3 : 2. Their capitals on 1st April, 2012 were ₹ 1,00,000, ₹ 2,00,000 and ₹ 4,00,000 respectively.

Rajeev withdraw ₹ 10,000 from the firm on 1st October, 2012. Sanjeev took blankets amounting to ₹ 14,000 from the firm. On the other hand, Jatin withdrew ₹ 1,50,000 from his capital on 31st December, 2012.

The partnership deed provides for charging interest on drawings @ 6% p.a. After the final accounts were preparedon 31st March, 2013, it was discovered that interest on drawings had not been charged. Give the necessary adjusting journal entry and show the working notes clearly. **(CBSE 2013)**

[**Ans.** Debit Sanjana ₹ 204, Credit Rajeev ₹ 60 and Jatin ₹ 144)

67. **(Change in Profit Sharing Ratio)** Smart, Beautiful and Cute are partners in a firm from the last several years. They share profits and losses in 2 : 3 : 2 ratio. They distributed the profits of the year amounting to ₹ 77,000 in the said ratio. After this they decided to alter the profit ratio. As per new arrangement Smart, Beautiful and Cute would share profits and losses in 2 : 2 : 1 ratio. Show the adjustment entry in the books.

[**Ans.** Debit Beautiful ₹ 2,200 and Cute ₹ 6,600 Credit Smart ₹ 8,800]

68. **(Change in Profit Sharing Ratio and Omission of Interest)** A and B had been sharing profits and losses equally After dividing the profits for the year 2016-17 ₹ 60,000, it was agreed that they would share profits and losses from 1st April, 2016-17 in the ratio of 3 : 2. At that time it was also found that while preparing accounts for 2016-17 interest on capitals @ 5% p.a. was ignored. The fixed capitals of A and B were ₹ 1,00,000 and ₹ 80,000 respectively. Pass a single adjustment entry to adjust the accounts of the partners.

[**Ans.** B's Capital A/c to be debited with 5,600 ; A's Capital A/c to be credited with ₹ 5,600]

69. **(Omission of Salary, Interest on Capital and Change in Profit Ratio)** A, B and C were partners in a firm. On 1-4-2016 their capitals stood at ₹ 50,000, ₹ 25,000 and ₹ 25,000 respectively. As per the provisions of the partnership deed :

(a) C was entitled for a salary of ₹ 1,500 p.m.

(b) Partners were entitled to interest on capital at 5% p.a.

(c) Profits were to be shared in the ratio of capitals.

The net profit for the year 2016-17 of ₹ 45,000 was divided equally without providing for the above terms.

Pass an adjustment entry to rectify the above error.

[**Ans.** Debit A ₹ 1,500 ; B ₹ 8,250 ; Credit C ₹ 9,750]

70. **(Adjustment in Profits of Two Years)** X, Y and Z have omitted interest on capital for two years. Their fixed capital in two years were X ₹ 80,000, Y ₹ 70,000 and Z ₹ 30,000. Rate of Interest being 10% p.a. Their profit sharing ratio were in first year 4:3:2 and in second year 3:2:1.

Give necessary adjusting entry.

[**Ans.** Debit X ₹ 1,000, Z ₹ 1,000, Credit Y ₹ 2,000]

EMPLOYEE TAKEN AS PARTNER FROM BACK DATE

71. **(Employee taken as Partner from Back Date)** A and B are partners sharing profits and losses in the ratio of 3 : 2. They employed C as their manager to whom they paid a salary of ₹ 750 p.m. C had deposited ₹ 20,000 on which interest was payable @ 9% per annum. At the end of 2016-17 (after division of the year's profits) it was decided that C should be treated as partner with effect from 1-4-2016 with 1/6th share in profits, his deposit being considered as capital carrying interest at 6% per annum like capitals of other partners. The firm's profits and losses after allowing interest on capitals were as follows :

		₹
2013-14	Profit	59,000
2014-15	Profit	62,600
2015-16	Loss	4,000
2016-17	Profit	78,000

Record the necessary journal entries to give effect to the above. (All India Secondary Board)

[**Ans.** Debit A by ₹ 360, B by ₹ 240 and credit C by ₹ 600].

GUARANTEE

72. **(One partner gives guarantee)** A, B and C are partners sharing profits in the ratio of 5 : 4 : 1. C was given a guarantee that his share in any year will not be less than ₹ 5,000. The profits for the year ending 31-3-17 amounted to ₹ 40,000. Excess amount given to C will be borne by B. Pass the journal entry in the books of A, B and C.

[**Ans.** Share of profit A ₹ 20,000 ; B ₹ 15,000 ; C ₹ 5,000].

73. **(One partner gives guarantee and profits for two years are given)** X, Y and Z are partners in a firm. Their profit sharing ratio is 5 : 3 : 2. However Z is guaranteed a minimum amount of ₹ 10,000 as share of profit every year. Any deficiency arising on that account shall be met by Y. The profits for two years ending 31st March 2016 and 2017 were ₹ 40,000 and ₹ 60,000 respectively. Prepare profit and loss appropriation account for the two years.

[**Ans.** 2016 A ₹ 20,000 ; B ₹ 10,000 ; C ₹ 10,000 2017 A ₹ 30,000 ; B ₹ 18,000; C ₹ 12,000]

74. **(Two partners give guarantee)** Harish and Rakesh are partners sharing profits and losses as $\frac{2}{3}$ and $\frac{1}{3}$ respectively. On 1st April, 2017 they admit Satish who is to have a $\frac{1}{5}$th share of profits with a guaranteed minimum profits of ₹ 22,000. Harish and Rakesh continued to share profits as before but agreed to suffer any excess over $\frac{1}{5}$th going to Satish in the ratio of 3 : 1 respectively. The profits of the firm for the year 2017-18 are ₹ 90,000. Prepare profit and loss appropriation account.

[**Ans.** Share of profit : Harish ₹ 45,000 ; Rakesh ₹ 23,000 ; Satish ₹ 22,000]

75. **(Various Cases of Guarantee)** X, Y and Z are partners in 3 : 2 : 1. They earned profits ₹ 75,000. Distribute the profits if :

(*a*) Z's minimum guaranteed amount is ₹ 15,000.
(*b*) Z's minimum amount is guaranteed by X alone.
(*c*) Z's minimum profit is guaranteed by Y alone.
(*d*) Any deficiency after making payment of guaranteed ₹ 15,000 to Z will be borne by X and Y in 3 : 1 ratio.

[Ans.	X	Y	Z
(*a*)	36,000	24,000	15,000
(*b*)	35,000	25,000	15,000
(*c*)	37,500	22,500	15,000
(*d*)	35,625	24,375	15,000

76. **(Two partners given guarantee)** A, B and C are partners in a firm. Their capital accounts stood at ₹ 50,000 ; ₹ 40,000 and ₹ 30,000 respectively on 1st April, 2016. They share profits and losses in the ratio of 5 : 3 : 2. C's share of profit (excluding interest on capital) is guaranteed by the firm to be not less than ₹ 16,000 p.a., B's share of profit (including interest on capital and salary) is guaranteed by A at a minimum of ₹ 26,000 p.a.

The profits for the year ended 31st March 2017 amounted to ₹ 80,000 before interest on capital @ 5% p.a. and salary to B @ ₹ 1,000 p.m. ; which under the partnership deed are allowable.

Prepare profit & loss appropriation account for the year ended 31st March, 2017.

[**Ans.** Profit A — ₹ 28,750 ; B — ₹ 17,250 and C — ₹ 16,000. B's share including interest on capital and salary is higher than the guaranteed amount].

77. **(Two Partners given guarantee)** Anand, Bhaskar and Dinakar are partners in a firm. On 1st April 2011 the balance in therir capital accounts stood at ₹ 10,00,000, ₹ 8,00,000 and ₹ 6,00,000 respectively. They shared profits in the proportion of 5 : 4 : 3 respectively. Partners are entitled to interest on capital @ 10% per annum and salary to Bhaskar @ ₹ 4,000 per month and commission of ₹ 16,000 per quarter to Dinakar as per the provisions of the partnership deed.

Anand's share of profit (excluding interest on capital) is guaranteed at not less than 1,90,000 p.a. Bharkar's share of profit (including interest on capital but excluding salary) is guaranteed at not less than ₹ 2,45,000 p.a Any deficieny arising on that account shall be met by Dinakar. The profits of the firm for the year ended 31st March 2012 amounted to 8,32,000.

Prepare profit and Loss Apptopriation A/c for the year ended 31.3.2012. **(CBSE 2013, Set 2)**

(**Ans.** Profit Anand – ₹ 200,000 ; Bhaskar – ₹ 1,65,000; Dinakar ₹ 1,15,000)

78. **(Two partners give guarantee/Loss to be distributed)**

Anil, Sunil and Ravinder are partners having capital of ₹5,00,000, 4,00,000 & 3,00,000 resepctively. They share profits & losses in the ratio of 2:1:1. It was provided in the deed that Ravinder's share of profit will not be less than ₹ 70,000 per annum. The losses for the year ended 31st March 2017 were ₹ 2,00,000 before allowing interest ₹ 8,000 on Anil's loan which is due for the current year.

Prepare Profit and Loss account and Partners' Capital Account for the year ended 31st Mar. 2017.

[**Ans.** Loss ₹ 2,08,000 Capital : Anil – ₹ 3,14,667, Sunil – ₹ 3,07,333, Ravinder – ₹3,70,000]

Questions

(A) OBJECTIVE TYPE QUESTIONS

I. Multiple Choice Questions (MCQs) (Remembering/Understanding)

(i) **In the absence of an agreement profit and losses are divided by partners in the ratio of**

(a) capital (b) time devoted by each partner
(c) equally.

(ii) **In the absence of an agreement, interest on loan advanced by a partner to the firm is allowed at the rate of**

(a) six per cent (b) five per cent
(c) twelve per cent.

(iii) **In the absence of an agreement, partners shall**

(a) be paid salaries (b) not be paid salaries
(c) be paid salaries to those who work for the firm.

(iv) **In the absence of an agreement to the contrary, the partners**

(a) are entitled for 6% interest on their capitals only when there are profits.
(b) are entitled for 9% interest on their capitals, only when there are profits.
(c) are entitled for interest on capital at the bank rate, only when there are profits.
(d) are not entitled for any interest on their capitals.

(v) **Current accounts of the partners should be opened when the capitals are**

(a) fluctuating (b) fixed
(c) either fixed or fluctuating.

(vi) **The current account of a partner**

(a) will always have a credit balance (b) will always have a debit balance
(c) may have a debit balance or a credit balance.

(vii) **Where a partner is entitled to interest on capital subscribed by him, such interest will be payable.**

(a) only out of profits (b) only out of capital
(c) out of profits or out of capital (d) none of these.

(viii) **The interest on partners' capital account is to be credited to**

(a) partners' capital account (b) profit and loss account
(c) interest account.

(ix) **When interest is to be allowed on the capitals of the partners, it is calculated on the**

(a) capital in the beginning of the year
(b) capital at the end of the year
(c) capital at the end less drawings if any
(d) average capital.

[**Ans.** (i)—(c) ; (ii)—(a) ; (iii)—(b) ; (iv)—(d) ; (v) (b) ; (vi)—(c) ; (vii) (a) (viii)—(a); (ix)—(a)]

II. True or False (Remembering/Understanding)

(i) Partnership arises from status.
(ii) It is necessary to have a partnership agreement in writing.
(iii) The business of the firm can be conducted even by one partner.
(iv) At least three persons are necessary for forming a partnership.
(v) A partnership can be formed only for a legal business.
(vi) The right to share a profit is full proof of one being a partner.
(vii) The liability of partners is limited.
(viii) Partners are mutual agents of each other so far as the business of the firm goes.
(ix) In the absence of any agreement regarding profit sharing ratio, profit or loss must be shared equally.
(x) In the absence of profit sharing ratio profit and losses are shared in the capital ratio.
(xi) Interest on money advanced by a partner as loan to be firm shall be paid even if there are losses in the business.
(xii) Interest on drawings is always calculated for full year on total drawings.
(xiii) Change in the profit sharing ratio involves almost the same adjustments as those in case of the admission of a new partner.
(xiv) Under fixed capital method, any addition to capital will be shown in partner's capital account.
(xv) Current account of partners are maintained under fluctuating capital method.
(xvi) Interest on partner's capital is allowed @ 6%.

[**Ans.** True (*iii*) ; (*v*) ; (*viii*) ; (*ix*) ; (*xi*); (*xiii*) ; (*xiv*) ; False. (*i*) ; (*ii*) ; (*iv*) (*vi*); (*vii*); (*x*) ; (*xi*) ; (*xii*) ; (*xv*); (*xvi*)]

III. Fill in the Blanks (Remembering/Understanding)

1. In the absence of agreement, the profits are shared in .... ratio.
2. In the absence of agreement, the partner's loan will carry an interest of .... per cent.
3. The document containing the terms of an agreement of a partnership is known as ....
4. Partners are collectively called ....
5. Partners current accounts are prepared when the capital accounts are ....
6. Under the .... capital method, capital at the beginning and capital at the end will be different.
7. If the date of withdrawls are not mentioned, interest on drawings should be charged for .... months.
8. In the absence of agreement, interest .... paid on captials.
9. A partner .... entitled to salary if he works more than others.

[**Ans.** 1. equal, 2. six, 3. partnership deed, 4. firm, 5. fixed, 6. fluctuating, 7. six, 8. is not, 9. is not]

(B) MULTIPLE CHOICE QUESTIONS (NUMERICAL)

1. **P, Q and R are partners sharing profits and losses equally. Their capital balances on March 31, 2013 are ₹ 80,000, ₹ 60,000 and ₹ 40,000 respectively. Their personal assets are worth as follows: P – ₹ 20,000, – ₹ 15,000 and R – ₹ 10,000. Their extent of their liability in the firm would be:**

   (a) P – ₹ 15,000: Q – ₹ 20,000: R – ₹ 10,000

   (b) P – ₹ 20,000: Q – ₹ 15,000: R – ₹ 10,000

   (c) P – ₹ 2,00,000: Q – ₹ 65,000: R – ₹ 90,000

   (d) P – ₹ 10,000: Q – ₹ 15,000: R – ₹ 20,000 **(C.S. Foundation ;June 2013)**

   (**HINT:** The liability of the partners is unlimited and their personal assets are also a part of their liability.)

2. **Santosh is a partner in a firm. He withdraws ₹ 10,000 at the end of each month. If rate of interest is @12% p.a., the amount of interest on drawings is:**

   (a) ₹ 14,400 (b) ₹ 6,000

   (c) ₹ 12,000 (d) ₹ 6,600

   (**HINT:** When same amount is withdrawn at the end of each month, then interest on drawings is calculated for 5.5 months; 10,000 × 12 × 12/100 × 5.5/12 = 6,600)

3. **If a partner withdraws equal amount at end of each quarter, then _____________ are to be considered for interest on total drawings.**

   (a) 4.5 months (b) 6.5 months

   (c) 6 months (d) 3.5 months

   (**HINT:** Time Period = Time left after first drawings + Time Left after last drawings/2
   = 9+0/2
   = 4.5 months)

4. **A, B and C are partners in a firm. At the time of division of profit for the year, there was dispute between the partners. Profit before interest on partner's capital was ₹ 6,000 and B determined interest @24% p.a. on his loan of ₹ 80,000. There was no agreement on this point. Calculate the amount payable to A, B and C respectively.**

   (a) ₹ 2,000 to each partner.

   (b) ₹ 19,200 payable to B only. Nothing is payable to A and C.

   (c) ₹ 400 for A, ₹ 5,200 for B and ₹ 400 for C.

   (d) None of the above.

   (**HINT:** In case of no agreement or no partnership deed, then interest on loan is provided at 6% p.a.)

5. **Shayna and Raina are partners in a firm with fixed capitals of ₹ 1,00,000 and ₹ 80,000 respectively. During the year ended 31.3.2019, Shayna withdrew ₹ 19,000. Interest on Shayna's drawings was ₹ 1,200.**

   The journal entry for charging interest on A's drawings will be:

(a) Shayna's Current A/c	Dr.	1,200	
To Interest on Drawings A/c			1,200

(a) Shayna's Capital A/c Dr.		1,200	
To Interest on Drawings A/c			1,200
(a) Interest on Drawings A/c Dr.		1,200	
To Shayna's Capital A/c			1,200
(a) Interest on Drawings A/c Dr.		1,200	
To Shayna's Current A/c			1,200

(**HINT:** As capitals are fixed, current accounts are opened)

6. A, B and C are partners in a firm sharing profits in the ratio of 5:3:2. As per partnership deed, C is to get a minimum amount of ₹ 10,000 as profit. Net profit for the year is ₹ 40,000. Calculate deficiency (if any) to C.

(a) ₹ 5,000 (b) ₹ 6,000

(c) ₹ 2,000 (d) ₹ 10,000

(**HINT:** Guaranteed share of C is =10,000
(-)Share in given profit (40,000x 2/10) = (8,000)
Deficiency in C's share of profit = 2,000)

7. Varun is a partner in a firm. His drawings during the year ended 31st March,2019 were ₹ 72,000. If interest on drawings is charged @9% p.a., the interest charged will be:

(a) ₹ 6,480 (b) ₹ 7,200

(c) ₹ 3,240 (d) ₹ 3,600

(**HINT:** Interest on drawings is calculated for 6 months.)

8. On 1st January 2019, a partner advanced a loan of ₹ 1,00,000 to the firm. In the absence of agreement, interest on loan on 31st March, 2019 will be:

(a) ₹ 12,000 (b) ₹ 1,500

(c) ₹ 4,500 (d) ₹ 6,000

(**HINT:** Interest on Loan is calculated for three months.)

9. Bimal and Vimal are partners in a firm. They did not have any partnership deed. On 1st April, 2018, Bimal gave a loan of ₹ 50,000 to the firm. On 31st March, 2019, he claims interest on loan @12% p.a. The interest on loan as per rules of partnership Act, 1932 will be:

(a) ₹ 3,000 (b) ₹ 6,000

(c) ₹ 9,000 (d) ₹ 12,000

(**HINT:** In the absence of partnership deed, interest on loan is provided at 6% p.a.; 50,000 x 6% = 3,000)

10. Madhav and Madhavi are partners sharing profits in the ratio of 1:2. Reema was a manager who received the salary of ₹ 10,000 p.m. in addition to commission of 10% on net profits after charging such commission. Total remuneration to Reema amounted to ₹ 1,80,000. Profits for the year before charging salary and commission was:

(a) ₹ 7,40,000 (b) ₹ 6,60,000

(c) ₹ 7,80,000 (d) ₹ 6,00,000

(**HINT:** Profits after salary = 60,000 x 110/10 = 6,60,000.)

11. A partner withdrew ₹ 4,000 per month form 1st July, 2016, on beginning of every month, Accounts are closed at 31st March, 2017. Calculate interest on drawings while rate of interest is 10% per annum.

(a) ₹ 1,500 (b) ₹ 3,600

(c) ₹ 4,000 (d) ₹ 1,100

(**HINT:** Interest on Drawings = 4,000 x 9 x 10/100 x 5/12 = 1,500

Average Period = [Time Left after First Drawings + Time Left after Last Drawings]/2

= [9+1]/2

= 5 Months)

12. A Partner introduced additional capital of ₹ 30,000 and advanced a loan of ₹ 40,000 to the firm at the beginning of the year. Partner will receive year's interest:

(a) ₹ 4,000 (b) ₹ 2,400

(c) Nil (d) ₹ 4,800

(**HINT:** When nothing is mentioned, interest on loan is provided at 6% p.a.)

13. Sapna is a partner in a firm. On 1-4-2018 his capital account stood at ₹ 40,000. She withdrew ₹ 5,000 during the year 2018-19. Interest on drawings is to be charged @10% p.a. The amount of interest on Sapna's drawings will be:

(a) ₹ 250 (b) ₹ 4,000

(c) ₹ 500 (d) Nil

(**HINT:** When nothing is mentioned in the question, interest on drawings is calculated for 6 months; 5,000 x 10/100 x 6/12 = 250)

14. A partner withdraws ₹ 8,000 each on 1st April and 1st Oct. Interest on his drawings @6% p.a. on 31st March will be:

(a) ₹ 900 (b) ₹ 720

(c) ₹ 700 (d) ₹ 960

(**HINT:** Use Product method to calculate interest on drawings.)

15. 'Romi' has given guarantee to 'Ali', for minimum ₹ 10,000 profit. At year end, the firm suffered loss and Ali's share in the loss was ₹ 2,000. Calculate amount of deficiency to be borne by 'Romi'.

(a) ₹ 10,000 (b) ₹ 12,000

(c) ₹ 22,000 (d) None of these

(**HINT:** Amount of Deficiency to be borne by 'A' = Guaranteed Amount + Actual share of loss = 10,000 + 2,000 = ₹ 12,000)

16. According to Profit and Loss Account, the net profit for the year is ₹ 4,20,000. Salary of a partner is ₹ 5,000 per month and the commission of another partner is ₹ 10,000. The interest on drawings of partners is ₹ 4,000. The net profit as per Profit and Loss Appropriation Account will be:

(a) ₹ 3,54,000 (b) ₹ 3,56,000

(c) ₹ 4,10,000 (d) ₹ 4,20,000

(**HINT:** Prepare Profit and Loss Appropriation Account.)

17. Simpy and Rimpy are sharing profits and losses equally have fixed capitals of ₹ 1,00,000 and ₹ 50,000 respectively. For the year 2013-14, interest on capital was credited to them @12% instead of 10%. Adjusting entry will be:

(a) Simpy's Capital A/c	Dr.	500	
To Rimpy's Capital A/c			500
(b) Rimpy's Capital A/c	Dr.	500	
To Simpy's Capital A/c			500
(c) Simpy's Current A/c	Dr.	500	
To Rimpy's Current A/c			500
(d) Rimpy's Current A/c	Dr.	500	
To Simpy's Current A/c			500

(**HINT:** Adjustment Table

	SIMPY	RIMPY
Interest excess credited @2%	2,000 (Dr.)	1,000 (Dr.)
Profit to distributed equally	1,500 (Cr.)	1,500 (Cr.)
Net effect to be given	500(Dr)	500 (Cr.)

As the capital of the partners is fixed, the adjustment entry will be passed through partners' current accounts.)

18. Anupam is a partner in a firm. He withdrew ₹ 6,000 in the beginning of each quarter during the year ended 31st March, 2019. Interest on her drawings @10% p.a. will be:

(a) ₹ 600 (b) ₹ 7,200

(c) ₹ 1,500 (d) ₹ 2,400

(**HINT:** When a same amount is withdrawn on the beginning of each quarter, then interest on drawings is calculated for 7.5 months.)

19. In a firm, 10% of net profit after deducting all adjustments, including reserve is transferred to general reserve. The net profit after all adjustments but before transfer to general reserve is ₹ 44,000. Calculate the amount which is to be transferred to reserve.

(a) ₹ 4,400 (b) ₹ 4,000

(c) ₹ 4,500 (d) ₹ 5,000

(**HINT:**44,000 x 10/110 = 4,000)

20. According to Profit and Loss Account, the net profit for the year is ₹ 1,40,000. The total interest on partner's capital is ₹ 8,000 and a partner is to be allowed commission of ₹ 5,000. The total interest on partner's drawings is ₹ 1,200. The net profit as per Profit and Loss Appropriation Account will be:

(a) ₹ 1,28,200 (b) ₹ 1,40,000

(c) ₹ 1,20,200 (d) ₹ 1,40,800

(**HINT:** Prepare Profit and Loss Appropriation Account)

21. Roshni and Mohini are partners in the ratio 3:2. Their capitals are ₹ 2,00,000 and ₹ 1,00,000 respectively. Interest on capitals is allowed @8% p.a. Firm incurred a loss of ₹ 60,000 for the year ended 31st March 2019. Interest on Capital will be:

(a) Roshni ₹ 36,000; Mohini ₹ 24,000 (b) Roshni ₹ 8,000; Mohini ₹ 4,000

(c) Roshni ₹ 30,000; Mohini ₹ 30,000 (d) No Interest will be allowed

(**HINT:** Interest on capital is an appropriation, hence if there are losses, no interest on capital will be provided.)

22. Mahima and Ridhima are partners. The net divisible profits as per profit and loss appropriation account is ₹ 2,50,000. The total interest on partner's drawing is ₹ 4,000. Mahima's Salary is ₹ 4,000 per quarter and Ridhima's salary is ₹ 40,000 per annum.

The net profit earned during the year is:

(a) ₹ 3,00,000 (b) ₹ 3,12,000

(c) ₹ 2.98,000 (d) ₹ 3,02,000

(**HINT:** 2,50,000 + (4,000 x 4) + 40,000 – 4,000 = 3,02,000)

23. Mukul and Anju are partners in a firm sharing profit and losses in 2:1 ratio with capitals ₹ 10,00,000 and ₹ 8,00,000 respectively. The firm made profits during the year amounting to ₹ 3,45,000. Both partners are allowed salary of ₹ 2,500 per month. Interest on capital is allowed @ 5% on capital balance.

Calculate closing balance of capital for Mukul and Anju.

(a) Mukul = ₹ 12,35,000, Anju = ₹ 9,10,000

(b) Mukul = ₹ 12,10,000, Anju = ₹ 9,35,000

(c) Mukul = ₹ 10,00,000, Anju = ₹ 8,00,000

(d) Mukul = ₹ 10,30,000, Anju = ₹ 8,15,000

(**HINT:**

Particulars	*MUKUL (₹)*	*ANJU (₹)*
Opening Capital	10,00,000	8,00,000
(+)Salary to Partners	30,000	30,000
(+)Interest on Capital	50,000	40,000
(+)Divisible Profits (Total Profits – Salary – Interest on Capital) divided in 2:1 ratio [3,45,000-60,000-90,000]=1,95,000 divided in the ratio of 2:1	1,30,000	65,000
Closing Capital	12,10,000	9,35,000

24. Seeta and Geeta are partners in the ratio of 3:2. Before profit distribution, Seeta is entitled to 5% commission of the net profit (after charging such commission). Before charging commission, firm's profit was ₹ 42,000. Geeta's share in profit will be:

(a) ₹ 24,000 (b) ₹ 40,000

(c) ₹ 16,000 (d) ₹ 16,400

(**HINT:** profits will be calculated after deducting commission payable to Seeta, i.e., 42,000 x 5/100+5 = ₹ 2,000)

25. The partnership agreement between Manish and Suresh provides that

(i) Profits will be shared equally

(ii) Manish will be allowed a salary ₹ 400 per month

(iii) Suresh is allowed a commission @10% on net profits before adjusting any remuneration.

(iv) 10% per annum interest will be charged on drawings

(v) Their annual drawings were ₹ 14,000 and ₹ 16,000 respectively.

Net profit before above adjustments are ₹ 40,000. Calculate profits to be distributed between partners.

(a) ₹ 40,000 (b) ₹ 44,300

(c) ₹ 70,000 (d) ₹ 32,700

(**HINT:**

Particulars		Amount (₹)
Net Profit as per Profit and Loss Account		40,000
(+) Interest on Drawings		
Manish(14,000 x10/100 x 6/12)	700	
Suresh (16,000x 10/100 x 6/12)	800	1,500
(-) Salary to Manish (12 x 400)		(4,800)
(-) Commission to Suresh (40,000 x 10/100)		(4,000)
Divisible Profits		32,700

26. Loan has been given by wife of a partner to the firm. Now partner wants interest @6% p.a. as per Partnership Act, 1932 while partnership deed is silent. Solve this issue.

(a) Provide 6% p.a. interest as Partnership Act says.

(b) Provide 12% interest to solve the issue.

(c) Provision of interest on loan @6% p.a. of the Partnership Act does not apply.

(d) None of the above.

(**HINT:** Since, wife of a partner is not the owner or agent of firm. So, interest on loan given to her will not be as appropriation. So, interest will be given as per the mutual agreement between partner's wife and the firm.)

27. Aman and Suman contribute ₹ 1,00,000 and ₹ 60,000 respectively in a partnership firm by way of capital on which they agree to allow interest @8% p.a. Their profit or loss sharing ratio is 3:2. The profit at the end of the year was ₹ 2,800 before allowing interest on capital. If there is a clear agreement that interest on capital will be paid even in case of loss, then Suman's share will be:

(a) Profit ₹ 1,120 (b) Profit ₹ 4,000

(c) Loss ₹ 1,120 (d) Loss ₹ 4,000

(**HINT:** Interest on capital is to be provided in this case)

28. Ram and Shyam are partners sharing profits and losses in the ratio 4:1. Ghanshyam was manager who received the salary of ₹ 4,000 p.m. in addition to a commission of 5% on net profits after charging such commission. Profit for the year is ₹ 6,78,000 before charging salary. Find the total remuneration of Ghanshyam.

(a) ₹ 78,000 (b) ₹ 48,000

(c) ₹ 88,000 (d) ₹ 68,000 **(CPT; Dec.2011)**

(**HINT:** Total Remuneration will be salary and commission payable to Ghanshyam.)

29. In a partnership firm, a partner withdrew ₹ 5,000 per month on the first day of every month during the year for personal expenses. If interest on drawings is charged @6% p.a. the interest charged will be:

(a) ₹ 300 (b) ₹ 1,950

(c) ₹ 3,600 (d) ₹ 1,800 **(C.S. Foundation, Dec. 2012)**

(**HINT:** When a same amount is withdrawn on the beginning of every month, then interest on drawings is calculated for 6.5 months.)

30. Sohail and Amneek were partners in a firm. They share profits in 2:3 ratio. They close their accounts on 31st December every year. Sohail withdrew a fixed sum of ₹ 2,000 at the beginning of every month starting from 1st July, 2017. You have to calculate interest on drawings while rate of interest is 12%.

(a) ₹ 240 (b) ₹ 420

(c) ₹ 660 (d) ₹ 1,440

(**HINT:** Interest on Drawings = 2,000 x 6 x 10/100 x 3.5/12 = 420

Average Period = [Time Left after First Drawings + Time Left after Last Drawings]/2

= [6+1]/2

= 3.5 Months)

31. The capital balance of a partner at the end of the year (after adjusting for his drawings ₹ 3,500 and his share in the profit ₹ 2,300) is ₹ 12,000. Interest on Capital is payable to him at 5% p.a. What will be amount of interest on capital?

(a) ₹ 1,200 (b) ₹ 1,000

(c) ₹ 660 (d) ₹ 540

(**HINT:** Capital at the beginning = Capital at the end + Drawings – Profit

= 12,000+3,500-2,300= 13,200

Interest on Capital = 13,200 x 5/100 = 660)

32. On 1st April 2018, X's Capital was ₹ 2,00,000. On 1st October 2018, he introduced additional capital of ₹ 1,00,000. Interest on capital @6% p.a. on 31st March, 2019 will be:

(a) ₹ 18,000 (b) ₹ 8,000

(c) ₹ 12,000 (d) ₹ 15,000

(**HINT:** Interest on additional capital is calculated for 6 months only.)

Answer

1	(b)	2	(d)	3	(a)	4	(c)	5	(a)	6	(c)
7	(c)	8	(b)	9	(a)	10	(c)	11	(a)	12	(b)
13	(a)	14	(b)	15	(b)	16	(a)	17	(c)	18	(c)
19	(c)	20	(a)	21	(d)	22	(d)	23	(b)	24	(c)
25	(d)	26	(c)	27	(d)	28	(a)	29	(b)	30	(b)
31	(c)	32	(d)								

Test Your Understanding

Attempt this Paper in Stipulated Time

Time Allotted:1.5 hours **Maximum Marks:40**

1. **Varun is a partner in a firm. His drawings during the year ended 31st March,2019 were ₹ 72,000. If interest on drawings is charged @9% p.a., the interest charged will be:**

(a) ₹ 6,480 (b) ₹ 7,200

(c) ₹ 3,240 (d) ₹ 3,600 **1 MARK**

2. **On 1st January 2019, a partner advanced a loan of ₹ 1,00,000 to the firm. In the absence of agreement, interest on loan on 31st March, 2019 will be:**

(a) ₹ 12,000 (b) ₹ 1,500
(c) ₹ 4,500 (d) ₹ 6,000 **1 MARK**

3. **Bimal and Vimal are partners in a firm. They did not have any partnership deed. On 1st April, 2018, Bimal gave a loan of ₹ 50,000 to the firm. On 31st March, 2019, he claims interest on loan @12% p.a. The interest on loan as per rules of partnership Act, 1932 will be:**
(a) ₹ 3,000 (b) ₹ 6,000
(c) ₹ 9,000 (d) ₹ 12,000 **1 MARK**

4. **Madhav and Madhavi are partners sharing profits in the ratio of 1:2. Reema was a manager who received the salary of ₹ 10,000 p.m. in addition to commission of 10% on net profits after charging such commission. Total remuneration to Reema amounted to ₹ 1,80,000. Profits for the year before charging salary and commission was:**
(a) ₹ 7,40,000 (b) ₹ 6,60,000
(c) ₹ 7,80,000 (d) ₹ 6,00,000 **1 MARK**

5. **A partner withdrew ₹ 4,000 per month form 1st July, 2016, on beginning of every month, Accounts are closed at 31st March, 2017. Calculate interest on drawings while rate of interest is 10% per annum.**
(a) ₹ 1,500 (b) ₹ 3,600
(c) ₹ 4,000 (d) ₹ 1,100 **1 MARK**

6. **A Partner introduced additional capital of ₹ 30,000 and advanced a loan of ₹ 40,000 to the firm at the beginning of the year. Partner will receive year's interest:**
(a) ₹ 4,000 (b) ₹ 2,400
(c) Nil (d) ₹ 4,800 **1 MARK**

7. **Sapna is a partner in a firm. On 1-4-2018 his capital account stood at ₹40,000. She withdrew ₹ 5,000 during the year 2018-19. Interest on drawings is to be charged @10% p.a. The amount of interest on Sapna's drawings will be:**
(a) ₹ 250 (b) ₹ 4,000
(c) ₹ 500 (d) Nil **1 MARK**

8. **A partner withdraws ₹8,000 each on 1st April and 1st Oct. Interest on his drawings @6% p.a. on 31st March will be:**
(a) ₹ 900 (b) ₹ 720
(c) ₹ 700 (d) ₹ 960 **1 MARK**

9. **Prepare capital accounts of the partners Muthu and Krishnan from the following information, assuming that their capitals are fluctuating.**

	Muthu	**Krishnan**
Capital on 1-4-2018	50,000	35,000
Drawings during 2018-19	2,400	1,200
Interest on capital	6 per cent	6 per cent
Share of profits for 2018-19	7,000	5,000
Salary	—	1,800
Commission	1,000	—

3 MARKS

10. X, Y and Z are partners in 3:2:1 ratio. Interest on capital is allowed as charge @ 10% on capital of ₹ 50,000 (X); ₹ 40,000 (Y) and ₹ 20,000 (Z). Profits for the year ended 31-3-2019 before interest were ₹ 2,000. Show distribution profits. **3 MARKS**

11. Sonu is a partner in a firm. He withdraws the following amounts during the year 2016-17.

Date	**Amount ₹**
01.06.2016	8,000
01.08.2016	12,000
30.09.2016	15,000
31.1.2017	22,000
31.03.2017	25,000

Interest on drawings is to be charged @ 10% p.a. by using product method.

Calculate the amount of Interest to be charged on Sonu's drawings for the year 2016-17.

3 MARKS

12. Chaterjee and Banerjee are partners in firm in 7:3 ratio. Their capital on 31st March, 2017 were ₹ 7,50,000 of which Chaterjee share was 50% more than the share of Banerjee. The firm earned profit of ₹ 1,20,000 before interest on capital @ 10% but after allowing salary ₹ 24,000 to Chaterjee and ₹ 36,000 to Banerjee. Drawing of partners were ₹ 39,000 and ₹ 21,000 respectively. Interest on drawings: Charterjee ₹ 900 and Banerjee ₹ 600.

You are required to calculate interest on capital and prepare revised capital account.

4 MARKS

13. Sad and Happy are partners in 2:1 ratio. On 1st April, 2016, they gave loan of ₹ 50,000 and ₹ 40,000 to the firm. Show distribution of profits in the following cases for the year ended 31.3.2017.

Case (a) Profit before interest ₹ 6,900.

Case (b) Profit before interest ₹ 4,500.

Case (c) Loss before interest ₹ 600. **4 MARKS**

14. X and Y are partners in 7 : 3 ratio. X is to get salary ₹ 7,500 p.m. which was increased by 40% from January, 2017 Y gets commission @2% on sales of ₹ 25,00,000 plus 10% on net profits after all appropriations including his 2% commission but before creating general reserve. General reserve is to created @20% on net distributable profits.Y is to get bonus @ 10% on the profits which exceeds ₹ 3,75,000 before any appropriation.Theprofits for the year ended 31.3.17 were ₹ 10,00,000. Prepare Profit and LossAppropriation Account. **6 MARKS**

15. On 1st April, 2016 A and B entered into a partnership contributing ₹ 24,000 and ₹ 10,000 respectively. According to the deed, the interest on capital and on drawings is @ 15% p.a. A and B shall receive a monthly salary of ₹ 2,000 each. A is entitled to 3/5th and B is entitled to 2/5 of profits. During the year the following transactions took place.

(i) On 1st October, 2016 A withdrew (on permanent basis) ₹ 8,000 from his capital and B introduced ₹ 4,000 as additional capital.

(ii) The drawings of A and B were ₹ 12,000 each drawn at different intervals of time and the interest corresponding to these drawings were ₹ 675 and ₹ 450 respectively.

(iii) The profit for the year before any adjustment is made was ₹ 60,000.

Prepare the profit and loss appropriation account and the necessary accounts assuming that (*i*) the capitals are fluctuating (*ii*) the capitals are fixed. **8 MARKS**

OR

16. Thread, Needle and Button are in partnership and during the year ended 31-3-2017, they earned a profit of ₹ 83,000. Thread and Needle are entitled to 10% p.a. interest on capital of ₹ 60,000 and ₹ 1,00,000 respectively. Button who has no capital in the firm is entitled to a salary of ₹ 12,000 p.a. Button is also entitled to a commission of 10% on the profits after charging interest, salary and commission.

It is further agreed that the balance of profits should be appropriated as to 20% for charity fund and balance is shared equally by Thread and Needle.

Prepare Profit & Loss Appropriation Account and partners' capital and current account for the year ended 31st March, 2017, if the drawings of the partners during the year were Thread ₹ 8,000 ; Needle ₹ 6,000 and Button ₹ 9,000.

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