

3. Accounts of Partnership Firms- Fundamentals

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TEXTBOOK SELF-EXAMINATION QUESTIONS SOLVED

I. Choose the correct answer.

1. In the absence of a partnership deed, profits of the firm will be shared by the partners in
(a) Equal ratio (b) Capital ratio
(c) Both (a) and (b) (d) None of these

Ans. (a) Equal ratio

2. In the absence of an agreement among the partners, interest on capital is
(a) Not allowed (b) Allowed at bank rate
(c) Allowed @ 5% per annum (d) Allowed @ 6% per annum

Ans. (a) Not allowed

3. As per the Indian Partnership Act, 1932, the rate of interest allowed on loans advanced by partners is
(a) 8% per annum (b) 12% per annum
(c) 5% per annum (d) 6% per annum

Ans. (d) 6% per annum

4. Which of the following is shown in Profit and loss appropriation account?
(a) Office expenses (b) Salary of staff
(c) Partners' salary (d) Interest on bank loan

Ans. (c) Partners' salary

5. When fixed capital method is adopted by a partnership firm, which of the following items will appear in capital account?
(a) Additional capital introduced (b) Interest on capital
(c) Interest on drawings (d) Share of profit

Ans. (a) Additional capital introduced

6. When a partner withdraws regularly a fixed sum of money at the middle of every month, period for which interest is to be calculated on the drawings on an average is
(a) 5.5 months (b) 6 months
(c) 12 months (d) 6.5 months

Ans. (b) 6 months

7. Which of the following is the incorrect pair?
(a) Interest on drawings – Debited to capital account
(b) Interest on capital – Credited to capital account
(c) Interest on loan – Debited to capital account
(d) Share of profit – Credited to capital account

Ans. (c) Interest on loan – Debited to capital account

8. In the absence of an agreement, partners are entitled to
(a) Salary (b) Commission
(c) Interest on loan (d) Interest on capital

Ans. (c) Interest on loan

9. Pick the odd one out

- (a) Partners share profits and losses equally
- (b) Interest on partners' capital is allowed at 7% per annum
- (c) No salary or remuneration is allowed
- (d) Interest on loan from partners is allowed at 6% per annum.

Ans. (b) Interest on partners' capital is allowed at 7% per annum

10. Profit after interest on drawings, interest on capital and remuneration is ₹ 10,500. Geetha, a partner, is entitled to receive commission @ 5% on profits after charging such commission. Find out commission.

- (a) ₹ 50
- (b) ₹ 150
- (c) ₹ 550
- (d) ₹ 500

Ans. (d) ₹ 500

II Very short answer questions:

1. Define partnership.

Ans. According to Section 4 of the Indian Partnership Act, 1932, partnership is defined as, "the relation between person who have agreed to share the profits of a business carried on by all or any of them acting for all.

2. What is a partnership deed?

Ans. Partnership deed is a document in writing that contains the terms of the agreement among the partners. It is not compulsory for a partnership to have a partnership deed as per the Indian Partnership Act, 1932. But, it is desirable to have a partnership deed as it serves as an evidence of the terms of the agreement among the partners.

3. What is meant by fixed capital method?

Ans. Under fixed capital method, the capital of the partners is not altered and it remains generally fixed. Two accounts are maintained for each partner namely:

- (a) Capital account and
- (b) Current account

The transactions relating to initial capital introduced, additional capital introduced and capital permanently withdrawn are entered in the capital account and all other transactions are recorded in the current account.

4. What is the journal entry to be passed for providing interest on capital to a partner?

Ans. (a) For providing interest on capital

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Interest on Capital A/c Dr. To Partner's Capital current A/c		xxx	xxx

(b) For closing interest on capital account

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit and Loss appropriation A/c Dr. To Interest on Capital A/c		xxx	xxx

5. Why is Profit and loss appropriation account prepared?

Ans. The profit and loss appropriation account is an extension of profit and loss account prepared for the purpose of adjusting the transactions relating to amounts due to and amounts due from partners. It is nominal account in nature. The balance being the profit or loss is transferred to the partners' capital or current account in the profit sharing ratio.

III Short answer questions:**1. State the features of partnership.**

1. Partnership is an association of two or more persons. The maximum number of partners is limited to 50.
2. There should be an agreement among the persons to share the profit or loss of the business. The agreement may be oral or written or implied.
3. The agreement must be to carry on a business and to share the profits of the business.
4. The business may be carried on by all the partners or any of them acting for all.

2. State any six contents of a partnership deed.

The contents of partnership deed are:

1. The name of the firm and nature and place of business.
2. Date of commencement and duration of business.
3. Names and address of all partners.
4. Capital contributed by each partner.
5. Profit sharing ratio.
6. Amount of drawings allowed to each partner.

3. State the differences between fixed capital method and fluctuating capital method.

S. No.	Basis of distinction	Fixed capital method	Fluctuating capital method
1.	Number of accounts	Two accounts are maintained for each partner, that is, capital account and current account.	Only one account, that is, capital account is maintained for each partner.
2.	Change in capital	The amount of capital normally remains unchanged except when additional capital is introduced or capital is withdrawn permanently.	The amount of capital changes from period to period.
3.	Closing balance	Capital account always shows a credit balance. But, current account may show either debit or credit balance.	Capital account generally shows credit balance. It may also show a debit balance.

4.	Adjustments	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in current account.	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in the capital account.
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4. Write a brief note on the applications of the provisions of the Indian Partnership Act, 1932 in the absence of partnership deed.

i. Remuneration to partners:

No salary or remuneration is allowed to any partner. [Section 13(a)]

ii. Profit sharing ratio:

Profit and losses are to be shared by the partners equally. [Section 13(b)]

iii. Interest on capital:

No interest is allowed on the capital. When a partner is entitled to interest on capital contributed as per partnership deed, such interest on capital will be payable only out of profits [Section 13(c)]

iv. Interest on loans advanced by partners to the firm:

Interest on loan is to be allowed at the rate of 6 percent per annum. [Section 13(d)]

v. Interest on drawings:

No interest is charged on the drawings of the partners.

5. Jayaraman is a partner who withdrew ₹ 10,000 regularly in the middle of every month. Interest is charged on the drawings at 6% per annum. Calculate interest on drawings for the year ended 31st December, 2018.

Jayaraman:

$$\text{Interest on drawings: } 10,000 \times \frac{12}{24} \times \frac{6}{100} \times 12 = ₹ 3600$$

IV Exercises:

1. Akash, Bala, Chandru and Daniel are partners in a firm. There is no partnership deed. How will you deal with the following?

- Akash has contributed maximum capital. He demands interest on capital at 10% per annum.
- Bala has withdrawn ₹ 3,000 per month. Other partners ask Bala to pay interest on drawings @ 8% per annum to the firm. But, Bala did not agree to it.
- Akash demands the profit to be shared in the capital ratio. But, others do not agree.
- Daniel demands salary at the rate of ₹ 10,000 per month as he spends full time for the business.
- Loan advanced by Chandru to the firm is ₹ 50,000. He demands interest on loan @ 12% per annum.

(i) No interest on capital is payable to any partner

(ii) No interest is charged on drawing made by the partner

- (iii) Profit should be distributed equally
- (iv) No remuneration is payable to any partner
- (v) Interest on loan is payable at 6% per annum.

2. From the following information, prepare capital accounts of partners Rooban and Deri, when their capitals are fixed.

Particulars	Rooban ₹	Deri ₹
Capital on 1st April, 2018	70,000	50,000
Current account on 1st April, 2018 (Cr.)	25,000	15,000
Additional capital introduced	18,000	16,000
Drawings during 2018 – 2019	10,000	6,000
Interest on drawings	500	300
Share of profit for 2018 – 2019	35,000	25,800
Interest on capital	3,500	2,500
Salary	Nil	18,000
Commission	12,000	Nil

Dr CAPITAL ACCOUNT Cr

Particulars	Rooban	Deri	Particulars	Rooban	Deri
To balance c/d	88,000	66,000	By balance b/d	70,000	50,000
			By bank A/c	18,000	16,000
			By Balance b/d	88,000	66,000

Dr CURRENT ACCOUNT Cr.

Particulars	Rooban	Deri	Particulars	Rooban	Deri
To Drawing	10,000	6,000	By balance b/d	25,000	15,000
To Interest on Drawing	500	300	By share of profit	35,000	25,800
To Balance c/d	65,000	55,000	By Interest on capital	3,500	2,500
			By Salary	-	18,000
			By Commission	12,000	-
	75,500	61,300		75,500	61,300
			By Balance b/d	65,000	55,000

3. Arun and Selvam are partners who maintain their capital accounts under fixed capital method. From the following particulars, prepare capital accounts of partners.

Particulars	Arun (₹)	Selvam (₹)
Capital on 1st January, 2018	2,20,000	1,50,000
Current account on 1st January, 2018	4,250(Dr.)	10,000(Cr.)
Additional capital introduced during the year	Nil	70,000
Withdrew for personal use	10,000	20,000
Interest on drawings	750	600
Share of profit for 2018	22,000	15,000
Interest on capital	1,100	750
Commission	6,900	Nil
Salary	Nil	6,850

Dr CAPITAL ACCOUNT			Cr.		
	Arun	Selvam		Arun	Selvam
To balance c/d	2,20,000	2,20,000	By balance c/d	2,20,000	1,50,000
			By bank	—	70,000
	2,20,000	2,20,000		2,20,000	2,20,000

Dr CURRENT ACCOUNT			Cr.		
	Arun	Selvam		Arun	Selvam
To balance b/d	4,250	—	By balance b/d	—	10,000
To Drawings	10,000	20,000	By share of profit	22,000	15,000
To Interest on Drawings	750	600	By Interest on capital	1,100	750
To balance c/d	15,000	12,000	By Commission	6,900	—
			By Salary	—	6,850
	30,000	32,600		30,000	32,600
			By Balance b/d	15,000	12,000

4. From the following information, prepare capital accounts of partners Padmini and Padma, when their capitals are fluctuating.

Particulars	Padmini ₹	Padma ₹
Capital on 1st January 2018 (Cr. balance)	5,00,000	4,00,000
Drawings during 2018	70,000	40,000
Interest on drawings	2,000	1,000
Share of profit for 2018	52,000	40,000

Interest on capital	30,000	24,000
Salary	45,000	Nil
Commission	Nil	21,000

Dr		CAPITAL ACCOUNT		Cr.	
	Padmini	Padma		Padmini	Padma
To Drawings	70,000	40,000	By bal. b/d	5,00,000	4,00,000
To Interest on Drawings	2,000	1,000	By share of profit	52,000	40,000
			By Interest on capital	30,000	24,000
To balance c/d	5,55,000	4,44,000	By salary	45,000	-
			By commission	-	21,000
	6,27,000	4,85,000		6,27,000	4,85,000
			By balance b/d	5,55,000	4,44,000

5. Mannan and Ramesh share profits and losses in the ratio of 3:2 and their capital on 1st April, 2018 was Mannan ₹ 1,50,000 and Ramesh ₹ 1,00,000 respectively and their current accounts show a credit balance of ₹ 25,000 and ₹ 20,000 respectively. Calculate interest on capital at 6% p.a. for the year ending 31st March, 2019 and show the journal entries.

<u>Mannan:</u>	<u>Ramesh:</u>
$1,50,000 \times \frac{6}{100} = 9000$	$1,00,000 \times \frac{6}{100} = 6000$
Interest on Capital: Mannan's Capital = 9,000 Ramesh's Capital = 6,000	Journal Entries: Interest on Capital A/c 15,000 To Mannan's Capital A/c 9,000 To Ramesh's Capital A/c 6,000 (Interest on Capital entered)

6. Prakash and Supria were partners who share profits and losses in the ratio of 5:3. Balance in their capital account on 1st April, 2018 was Prakash ₹ 3,00,000 and Supria ₹ 2,00,000. On 1st July, 2018 Prakash introduced additional capital of ₹ 60,000. Supria introduced additional capital of ₹ 30,000 during the year. Calculate interest on capital at 6% p.a. for the year ending 31st March, 2019 and show the journal entries.

<u>Prakash:</u>	<u>Supria:</u>
$3,00,000 \times \frac{6}{100} = 18,000$	$2,00,000 \times \frac{6}{100} = 12,000$
Additional capital: (on 1 st July)	Supria's Total Interest:
$60,000 \times \frac{6}{100} \times \frac{9}{12} = 2700$	$30,000 \times \frac{6}{100} \times \frac{6}{12} = 900$
Total Prakash's Interest: 20,700	Supria's total Interest: 12,900

Journal Entries

Particulars	L.F.	Debit	Credit
Interest on capital A/c Dr		33,600	
To Prakash's Capital			20,700
To Supria's Capital			12,900
(Interest on capital entered)			

7. The capital account of Begum and Fatima on 1st January, 2018 showed a balance of ₹ 50,000 and ₹ 40,000 respectively. On 1st October, 2018, Begum introduced an additional capital of ₹ 10,000 and on 1st May, 2018 Fatima introduced an additional capital of ₹ 9,000.

Calculate interest on capital at 4% p.a. for the year ending 31st December, 2018.

Begum:	Fatima:
$50,000 \times \frac{4}{100} = 2,000$	$40,000 \times \frac{4}{100} = 1,600$
Additional capital:	
$10,000 \times \frac{4}{100} \times \frac{3}{12} = 100$	$9,000 \times \frac{4}{100} \times \frac{8}{12} = 240$
Begum's Total Interest: 2,100	Fatima's Total Interest: 1,840

8. From the following balance sheets of Subha and Sudha who share profits and losses in 2:3, calculate interest on capital at 5% p.a. for the year ending 31st December, 2018.

Balance sheet as on 31st December, 2018

Liabilities	₹	₹	Assets	₹
Capital accounts:			Fixed assets	70,000
Subha	40,000		Current assets	50,000
Sudha	60,000	1,00,000		
Current liabilities		20,000		
		1,20,000		1,20,000

Drawings of Subha and Sudha during the year were ₹ 8,000 and ₹ 10,000, respectively. Profit earned during the year was ₹ 30,000.

Capital	Subha	Sudha
(+) Drawings	40,000	60,000
	8,000	10,000
	48,000	70,000
(-) Profit	12,000	18,000
	36,000	52,000

<u>Subha:</u>	<u>Sudha:</u>
$36,000 \times \frac{5}{100} = 1,800$	$52,000 \times \frac{5}{100} = 2,600$
Interest on Capital:	
Sudha's Capital : 2,600	
Subha's Capital : 1,800	

9. From the following balance sheets of Rajan and Devan who share profits and losses 2:1, calculate interest on capital at 6% p.a. for the year ending 31st December, 2018.

Balance sheet as on 31st December 2018

Liabilities	₹	₹	Assets	₹
Capital accounts:			Sundry assets	2,20,000
Rajan	1,00,000			
Devan	80,000	1,80,000		
Profit and loss appropriation A/c		40,000		
		2,20,000		2,20,000

On 1st April, 2018, Rajan introduced an additional capital of ₹ 40,000 and on 1st September, 2018, Devan introduced ₹ 30,000. Drawings of Rajan and Devan during the year were ₹ 20,000 and ₹ 10,000 respectively. Profit earned during the year was ₹ 70,000.

	Rajan	Devan
Capital	1,00,000	80,000
(+) Drawings	20,000	10,000
	1,20,000	90,000
(-) Additional capital	40,000	30,000
	80,000	60,000
(-) Profit	20,000	10,000
	60,000	50,000

Interest on Capital	
Rajan:	Devan:
$60,000 \times \frac{6}{100} = 3,600$	$50,000 \times \frac{6}{100} = 3,000$
Additional capital:	
$40,000 \times \frac{6}{100} \times \frac{9}{12} = 1,800$	$30,000 \times \frac{6}{100} \times \frac{4}{12} = 600$
Rajan's Total Interest: 5,400	Devan's Total Interest: 3,600

10. Ahamad and Basheer contribute ₹ 60,000 and ₹ 40,000 respectively as capital. Their respective share of profit is 2:1 and the profit before interest on capital for the year is ₹5,000. Compute the amount of interest on capital in each of the following situations:

- (i) if the partnership deed is silent as to the interest on capital
 (ii) if interest on capital @ 4% is allowed as per the partnership deed
 (iii) if the partnership deed allows interest on capital @ 6% per annum.

(i) No Interest on capital is allowed.

(ii) Since the profit is sufficient, Interest on capital will be provided

Ahamad:

$$60,000 \times \frac{4}{100} = ₹ 2,400$$

Basheer:

$$40,000 \times \frac{4}{100} = ₹ 1,600$$

(iii) Since the profit is insufficient, Interest on capital will be provided.

Ahamad:

$$60,000 \times \frac{6}{100} = ₹ 3,600$$

Basheer:

$$40,000 \times \frac{6}{100} = ₹ 2,400$$

Profit of 5,000 will be distributed to the partners in their capital ratio of 3:2.

11. Mani is a partner, who withdrew ₹ 30,000 on 1st September, 2018. Interest on drawings is charged at 6% per annum. Calculate interest on drawings on 31st December, 2018 and show the journal entries by assuming that fluctuating capital method is followed.

Mani:

$$30,000 \times \frac{6}{100} \times \frac{4}{12} = ₹ 600$$

Interest on drawings of Mani = ₹ 600.

12. Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	₹
February 1	2,000
May 1	10,000
July 1	4,000
October 1	6,000

Calculate the amount of interest on drawings.

Interest on Drawings = Amount x Rate of Interest x Period

$$\text{Feb 1} \Rightarrow 2,000 \times \frac{6}{100} \times \frac{11}{12} = ₹ 110$$

$$\text{May 1} \Rightarrow 10,000 \times \frac{6}{100} \times \frac{8}{12} = ₹ 400$$

$$\text{July 1} \Rightarrow 4,000 \times \frac{6}{100} \times \frac{6}{12} = ₹ 120$$

$$\begin{array}{lcl} \text{Oct 1} & \Rightarrow & 6,000 \times \frac{6}{100} \times \frac{3}{12} = ₹ 90 \\ \text{Total Interest} & & \underline{720} \end{array}$$

13. Kumar is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	₹
March 1	4,000
June 1	4,000
September 1	4,000
December 1	4,000

Calculate the amount of interest on drawings.

Interest on Drawings = Amount x Rate of Interest x Period

$$\begin{array}{lcl} \text{March 1} & \Rightarrow & 4,000 \times \frac{6}{100} \times \frac{10}{12} = ₹ 200 \\ \text{June 1} & \Rightarrow & 4,000 \times \frac{6}{100} \times \frac{7}{12} = ₹ 140 \\ \text{Sep 1} & \Rightarrow & 4,000 \times \frac{6}{100} \times \frac{4}{12} = ₹ 80 \\ \text{Dec 1} & \Rightarrow & 4,000 \times \frac{6}{100} \times \frac{1}{12} = ₹ 20 \\ \text{Total Interest} & & \underline{440} \end{array}$$

14. Mathew is a partner who withdrew ₹ 20,000 during the year 2018. Interest on drawings is charged at 10% per annum. Calculate interest on drawings on 31st December 2018.

Mathew:

$$20,000 \times \frac{10}{100} \times \frac{6}{12} = ₹ 1,000$$

Interest on drawings of Mathew = ₹ 1,000

15. Santhosh is a partner in a partnership firm. As per the partnership deed, interest on drawings is charged at 6% per annum. During the year ended 31st December, 2018 he withdrew as follows:

Date	₹
February 1	2,000
May 1	10,000
July 1	4,000
October 1	6,000

Calculate the amount of interest on drawings by using product method.

Date of Drawings	Amount	Period	Product
Feb 1	2000	11	22,000
May 1	10,000	8	80,000
July 1	4,000	6	24,000
Oct 1	6,000	3	18,000
			1,44,000

$$\text{Interest on drawings} = \text{Product} \times \text{Rate of interest} \times \frac{1}{12}$$

$$= 1,44,000 \times \frac{6}{100} \times \frac{1}{12} = ₹ 720$$

- 16. Kavitha is a partner in a firm. She withdraws ₹ 2,500 p.m. regularly. Interest on drawings is charged @ 4% p.a. Calculate the interest on drawings using average period, if she draws**

(i) at the beginning of every month

(ii) in the middle of every month

(iii) at the end of every month

(i) At the beginning of every month:

$$2,500 \times 12 \times \frac{4}{100} \times \frac{13}{24} = ₹ 650$$

(ii) In the middle of every month:

$$2,500 \times 12 \times \frac{4}{100} \times \frac{12}{24} = ₹ 600$$

(iii) At the end of every month:

$$2,500 \times 12 \times \frac{4}{100} \times \frac{11}{24} = ₹ 550$$

- 17. Kevin and Francis are partners. Kevin draws ₹ 5,000 at the end of each quarter. Interest on drawings is chargeable at 6% p.a. Calculate interest on drawings for the year ending 31st March 2019 using average period.**

Calculation of interest on drawings of Kevin.

Total amount of drawings: $5000 \times 4 = 20,000$

$$\text{Interest on drawings} = \text{Amount} \times \text{Rate of Interest} \times \frac{\text{Average period}}{12}$$

$$= 20,000 \times \frac{6}{100} \times \frac{4.5}{12} = ₹ 450$$

- 18. Ram and Shyam were partners. Ram withdrew ₹ 18,000 at the beginning of each half year. Interest on drawings is chargeable @ 10% p.a. Calculate interest on the drawings for the year ending 31st December 2018 using average period.**

Total amount of drawing: $18,000 \times 2 = 36,000$

$$\begin{aligned} \text{Interest on drawings} &= \text{Amount} \times \text{Rate of Interest} \times \frac{\text{Average period}}{12} \\ &= 36,000 \times \frac{10}{100} \times \frac{9}{12} = ₹ 2700 \end{aligned}$$

19. Janani, Kamali and Lakshmi are partners in a firm sharing profits and losses equally. As per the terms of the partnership deed, Kamali is allowed a monthly salary of ₹ 10,000 and Lakshmi is allowed a commission of ₹ 40,000 per annum for their contribution to the business of the firm. You are required to pass the necessary journal entry. Assume that their capitals are fluctuating.

Kamali's Salary A/c	Dr.	1,20,000
To Kamali's capital A/c		1,20,000
[Kamali's Salary transferred to her capital A/c]		
Lakshmi's commission A/c	Dr.	40,000
To Lakshmi's capital A/c		40,000
[Commission transferred to her capital A/c]		
Profit and Loss appropriation A/c	Dr.	1,60,000
To Kamali's salary A/c		1,20,000
To Lakshmi's Commission A/c		40,000
[Salary and Commission account transferred]		

20. Sibi and Manoj are partners in a firm. Sibi is to get a commission of 20% of net profit before charging any commission. Manoj is to get a commission of 20% on net profit after charging all commission. Net profit for the year ended 31st December 2018 before charging any commission was ₹ 60,000. Find the commission of Sibi and Manoj. Also show the distribution of profit.

Calculation of Commission:

Commission to Sibi:

$$\begin{aligned} \text{Net profit before commission} &\times \frac{\% \text{ of commission}}{(100 + \% \text{ of commission})} \\ &= 60,000 \times \frac{20}{100} = ₹ 12,000 \end{aligned}$$

Commission to Manoj:

$$\begin{aligned} \text{Net profit after Sibi's commission} &\times \frac{\% \text{ of commission}}{(100 + \% \text{ of commission})} \\ &= 48,000 \times \frac{20}{100} = ₹ 8,000 \end{aligned}$$

21. Anand and Narayanan are partners in a firm sharing profits and losses in the ratio of 5:3. On 1st January 2018, their capitals were ₹ 50,000 and ₹ 30,000, respectively. The partnership deed specifies the following:
- Interest on capital is to be allowed at 6% per annum.
 - Interest on drawings charged to Anand and Narayanan are ₹ 1,000 and ₹ 800, respectively.
 - The net profit of the firm before considering interest on capital and interest on drawings amounted to ₹ 35,000.

Give necessary journal entries and prepare profit and loss appropriation account as on 31st December 2018. Assume that the capitals are fluctuating.

Dr		Profit and Loss Appropriation Account		Cr
Particulars	Amount	Particulars	Amount	
To Interest on Capital		By profit and loss A/c	35,000	
Anand: 3000		By Interest on drawings:		
Narayanan: 1800	48,000	Anand: 1000		
		Narayanan: 800	1,800	
To share of profit	32,000			
Anand's Capital A/c – 20,000				
Narayanan's Capital A/c – 12,000				
	36,800		36,800	

Journal Entries

Journal	L.F.	Debit	Credit
Interest on Capital A/c Dr. To Anand's capital A/c To Narayanan's capital A/c [I.O.C @ 6% p.a provided].		48,000	3,000 1,800
Profit and loss appropriation A/c Dr. To Interest on capital A/c [I.O.C A/c closed].		48,000	48,000
Anand's Capital A/c Dr. Narayanan's Capital A/c Dr. To Interest on drawings A/c [I.O.D charged]		1,000 800	1,800
Interest on drawing A/c Dr. To Profit and loss Appropriation A/c [I.O.D transferred]		1,800	1,800
Profit and loss appropriation A/c Dr. To Anand's Capital A/c To Narayanan's Capital A/c [Profit transferred]		32,000	20,000 12,000

22. Dinesh and Sugumar entered into a partnership agreement on 1st January 2018, Dinesh contributing ₹ 1,50,000 and Sugumar ₹ 1,20,000 as capital. The agreement provided that:

- Profits and losses to be shared in the ratio 2:1 as between Dinesh and Sugumar.
- Partners to be entitled to interest on capital @ 4% p.a.
- Interest on drawings to be charged Dinesh: ₹ 3,600 and Sugumar: ₹ 2,200
- Dinesh to receive a salary of ₹ 60,000 for the year, and
- Sugumar to receive a commission of ₹ 80,000

During the year ended on 31st December 2018, the firm made a profit of ₹ 2,20,000 before adjustment of interest, salary and commission.

Prepare the Profit and loss appropriation account.

Dr		Profit and Loss Appropriation Account		Cr
Particulars	Amount	Particulars	Amount	
To Interest on Capital:		By Interest on drawings:		
Dinesh: 6,000		Dinesh: 3,600		
Sugumar: <u>4,800</u>	10,800	Sugumar: 2,200	5,800	
To Dinesh's Salary	60,000	By profit and loss A/c	2,20,000	
To Sugumar's Commission	80,000			
To share of profit	75,000			
Dinesh's capital 50,000				
Sugumar's capital <u>25,000</u>				
	2,25,800		2,25,800	

23. Antony and Ranjith started a business on 1st April 2018 with capitals of ₹ 4,00,000 and ₹ 3,00,000 respectively. According to the Partnership Deed, Antony is to get salary of ₹ 90,000 per annum, Ranjith is to get 25% commission on profit after allowing salary to Antony and interest on capital @ 5% p.a. but before charging such commission. Profit-sharing ratio between the two partners is 1:1. During the year, the firm earned a profit of ₹ 3,65,000.

Prepare profit and loss appropriation account. The firm closes its accounts on 31st March every year.

Dr		Profit and Loss Appropriation Account		Cr
Particulars	Amount	Particulars	Amount	
To Antony's Salary	90,000	By profit or loss	3,65,000	
To Interest on capital:				
Antony: 20,000				
Ranjith: <u>15,000</u>	35,000			
To Ranjith's Commission	48,000			
To share of profit	1,92,000			
Antony's Cap: 96,000				
Ranjith Cap: <u>96,000</u>				
	3,65,000		3,65,000	