Chapter 1 Accounting for Partnership Firms – Fundamentals

Question 1.
In the absence of Partnership Deed, what are the rules relation to
(a) Salaries of partners,
(b) Interest on partners capitals
(c) Interest on partners loan
(d) Division of profit, and
(e) Interest on partners drawings
Solution:

In the absence of Partnership Deed, the provisions of Indian Partnership Act, 1932 are applicable. Accordingly,
a. No Salary is to be allowed to a partner
b. No Interest on Partner's Capital is to be allowed
c. Interest on Partner's Loan to be allowed at 6% p.a.
d. Distribution of Profit to be done in equal ratio
e. No Interest on Partner's Drawings to be charged

Question 2.
Following differences have arisen among P, Q and R. State who is correct in each case:
(a) P used ₹ 20,000 belonging to the firm and made a profit of ₹ 5,000. Q and R want the amount to be given to the firm?
(b) Q used ₹ 5,000 belonging to the firm and suffered a loss of ₹ 1000. He wants the firm to bear the loss?
(c) P and Q want to purchase goods from a Ltd., R does not agree
(d) Q and R want to admit C as partner, P does not agree?
Solution:

a. P is bound to pay Rs.20,000 along with profit of Rs.5,000 to the firm. This is because this because this amount belongs to the firm and according to the principal and agent relationship, P is principal as well as agent to the firm, to Q and to R. And as per the rule, any profit earned by an agent (P) by using the firm's property is attributable to the firm.
b. Q is liable to pay Rs.5,000 to the firm. This is because, as per the Partnership Act, every partner of a partnership firm is liable to the firm for any loss caused by his/her wilful negligence which is clearly evident from the fact that he used the property of the firm and also mis-represented himself as a principal rather than an agent to the other partners and to the firm.
c. As per the Partnership Act, 1932, a partner has a right to buy and sell goods without consulting the other partners unless a Public Notice has been given by the partnership firm to restrict the partners to buy and sell. Accordingly, P and Q may buy goods from A Ltd.
d. No, C will not be admitted as one of the partners, P, has not agreed to admit C. And as per the Partnership Act, 1932 a new partner cannot be admitted into a firm unless all the existing partners agree on the same decision.

Question 3.
A, B and C are partners in a firm. They do not have a Partnership Deed. At the end of the first year of the commencement of the firm, they have faced the following problems:
(a) A wants that interest on capital should be allowed to the partners but B and C do not agree.
(b) B wants that the partners should be allowed to draw salary but A and C do not agree.
(c) C wants that the loan given by him to the firm should bear interest @ 10% p.a. but A and B do not agree.
(d) A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution but C does not agree.
State how you will settle these disputes if the partners approach you for purpose.

Solution:

	Disputes	Possible Judgements
a.	A wants that interest on capital should be allowed to the partners, but B and C do not agree.	According to the Partnership Act, no interest on capital will be allowed as there is no partnership agreement among A, B and C mentioning payment of interest on capital.
b.	B wants that the partners should be allowed to draw salary, but A and C do not agree.	No salary will be allowed to any partner until and unless there is an agreement to the contrary.
c.	C wants that the loan given by him to the firm should bear interest @ 10% p.a., but A and B do not agree.	Interest on C's loan will be allowed at 6% p.a. in the absence of a partnership agreement mentioning the said amount of interest.
d.	A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution, but C does not agree.	Profit will be shared equally if there is no agreement between the partners mentioning such distribution.

Question 4.

Jaspal and Rosy were partners with capital contribution of ₹ 10,00,000 and ₹ 5,00,000 respectively. They do not have a Partnership Deed. Jaspal wants that profits of the firm should be shared in their capital ratio. Rosy convinced jaspal that profits should be shared equally. Explain how Rosy would have convinced Jaspal for sharing the profit equally.

Solution:

In case there is no partnership deed entered between partners or if deed is silent on few of the aspects, then the provisions of Indian Partnership Act, 1932 are applicable. According to the Act, if there is no agreement regarding the ratio in which profits are to be shared, then profits (or losses) are to be shared equally among all the partners. Accordingly, Jaspal's view over distribution of profits in the capital ratio is not acceptable, and Rosy should convince Jaspal stating the provisions contained in the Partnership Act, 1932.

Question 5.

Harshad and Dhiman are in partnership since 1st April, 2017. No partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advance an amount of Rs 1,00,000 to the firm on 1st October, 2017. Due to long illness, Harshad could not participate in business activities from 1st August to 30th September, 2017. The profit for the year ended 31st March, 2018 amounted to Rs 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

(i) He should be given interest @ 10% per annum on capital and loan;

(ii) Profit should be distributed in proportion of capital;

Dhiman Claims:

(i) Profit should be distributed equally;

(ii) He should be allowed Rs 2,000 p.m. as remuneration for the period he managed the business in

the absence of Harshad;
(iii) Interest on Capital and loan should be allowed @ 6% p.a.
You are required to settle the dispute between Harshand and Dhiman. Also prepare Profit and Loss Appropriation Account.

Solution:

Harshad Claims:
(i) It cannot Claim interest on capital to Indian Partnership Act 1932, he is entitled only for 6% interest on loan.
(ii) In absence to any agreement profit are distributed equally, according to Indian Partnership Act 1932.

Dhiman Claims:
(i) It will be accepted, according to Indian Partnership Act 1932.
(ii) He is not entitled for any remuneration because there is no agreement on matter of remuneration.
(iii) It is no interest on capital is allowed whereas 6% interest for loan should be given.

Distribution Profits:

Profit and Loss Adjustment Account

Dr Cr

Particulars	Rs.	Particulars	Rs.
To Interest on Partner's Loan A/c		By Profit and Loss A/c	1,80,000
Harshad [1,00,000 ×(6/100)× (6/12)]	3,000		
To Profit and Loss Appropriation A/c	1,77,000		
	1,80,000		1,80,000

Profit and Loss Appropriation Account

Dr Cr

Particulars	Rs.	Particulars	Rs.
To Profit transferred to :		By Profit and Loss Adjustment A/c	1,77,000
Harshad's Capital A/c	88,500		
Dhiman's Capital A/c	88,500		
	1,77,000		1,77,000

Question 6.

A and B are partners from 1st April, 2017, without a Partnership Deed and they introduced capitals of ₹ 35,000 and ₹ 20,000 respectively. On 1st October, 2017, A advances a loan of ₹ 8,000 to the firm without any agreement as to interest. The profit and Loss Account for the year ended 31st March, 2018 shows a profit of ₹ 15,000 but the partners cannot agree on payment of interest and on the basis of division of profits.
You are required to divide the profits between them giving reasons for your method.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr **Cr**

Particulars		Rs.	Particulars	Rs.
To Interest on A's Loan A/c		240	By Profit b/d (before Interest)	15,000
To Profit transferred to :				
A's Capital A/c	7,380			
B's Capital A/c	7,380	14,760		
		15,000		15,000

Working notes :

1. Calculation of interest on Loan

Interest on loan to be provided at 6% p.a.

Amount of Loan = Rs.8,000

Period (from October 01 to March 31) = 6 Months

$$\text{Interest on A's Loan} = 8,000 \times \frac{6}{100} \times \frac{6}{12} = 240$$

2. Calculation of Profit Share of each partner

Equal distribution of profits

Profit after Interest on A's loan = Rs.15,000 - Rs.240 = Rs.14,760

$$\therefore \text{Profit Share of A and B each} = 14,760 \times \frac{1}{2} = 7,380$$

Question 7.

A and B are partners in a firm sharing profits in the ratio of 3 : 2. They had advanced to the firm a sum of ₹ 30,000 as a loan in their profit-sharing ratio on 1st October, 2017. The Partnership Deed is silent on interest on loans from partners. Compute interest payable by the firm to the partners, assuming the firm closes its books every year on 31st March.

Solution:

Total amount advanced by the partners = Rs.30,000

Profit sharing ratio = 3 :2

$$\text{Advance provided by A} = 30,000 \times \frac{3}{5} = \text{Rs. } 18,000$$

$$\text{Advance provided by B} = 30,000 \times \frac{2}{5} = \text{Rs. } 12,000$$

Interest Period (from Oct. 01, 2017 to Mar. 31, 2018) = 6 months

Interest rate = 6% p.a.

Calculation of Interest on Advances

$$\text{Interest on Advances given by A} = 18,000 \times \frac{6}{100} \times \frac{6}{12} = ₹540$$

$$\text{Interest on Advances given by B} = 12,000 \times \frac{6}{100} \times \frac{6}{12} = ₹360$$

Note: In the absence of a partnership deed, interest on loans and advances is provided at 6% p.a.

Question 8.
A and B are partners in a firm sharing profits equally. They had advanced tot he firm a sum of ₹ 30,000 as a loan in their profit-sharing ratio on 1st October, 2017. The Partnership Deed is silent on the question of interest on the loan from partners. Compute the interest payable by the firm to the partners, assuming the firm closes its books on 31st March each year.
Solution:

Total amount advanced: 30,000

$$\text{Amount advanced by each partner} = 30{,}000 \times \frac{1}{2} = ₹15{,}000$$

Period (from Oct. 01, 2017 to Mar. 31, 2018) = 6 months
Interest rate = 6% p.a.

$$\text{InterestonLoan to each partner} = 15{,}000 \times \frac{6}{100} \times \frac{6}{12} = ₹450$$

Question 9.
X and Y are partners sharing profits and losses in the ratio of 2 : 3 with capitals ₹ 2,00,000 and ₹ 3,00,000 respectively. On 1st October, 2017, X and Y granted loans of ₹ 80,000 and ₹ 40,000 respectively to the firm. Show distribution of profits/losses for the year ended 31st March, 2018 in each of the following alternative cases:
Case 1 : If the profits before interest for the year amounted to ₹ 21,000.
Case 2 : If the profits before interest for the year amounted to ₹ 3,000.
Case 3 : If the profits before interest for the year amounted to ₹ 5,000.
Case 4 : If the loss before interest for the year amounted to ₹ 1,400.
Solution:

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Calculation of Interest on Loan for 6 months

$$\text{Interest on X's Loan for 6 months} = 80{,}000 \times \frac{6}{100} \times \frac{6}{12}$$
$$= 2{,}400$$

$$\text{Interest on Y's Loan for 6 months} = 40{,}000 \times \frac{6}{100} \times \frac{6}{12}$$
$$= 1{,}200$$

Case 1 - When Profits before Interest amounted to Rs.21,000

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr **Cr**

Particulars		Rs.	Particulars		Rs.
To Interest on X's Loan A/c		2,400	By Profit b/d (before interest)		21,000
To Interest on Y's Loan A/c		1,200			
To Profit transferred to					
X's Capital A/c (17,400 ´ 2/5)	6,960				
Y's Capital A/c (17,400 ´ 3/5)	10,440	17,400			
		21,000			21,000

Case 2 – When Profits before Interest amounted to Rs.3,000

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr **Cr**

Particulars		Rs.	Particulars		Rs.
To Interest on X's Loan A/c		2,400	By Profit b/d (before interest)		3,000
To Interest on Y's Loan A/c		1,200	By Loss transferred to-		
			X's Capital A/c (600 ´2/5)	240	
			Y's Capital A/s (600 ´ 3/5)	360	600
		3,600			3,600

Case 3 – When Profits before Interest amounted to Rs.5,000

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr **Cr**

Particulars		Rs.	Particulars		Rs.
To Interest on X's Loan A/c		2,400	By Profit b/d (before interest)		5,000
To Interest on Y's Loan A/c		1,200			
To Profit transferred to					
X's Capital A/c (1400 ´ 2/5)	560				
Y' Capital A/c (1400 ´ 3/5)	840	1,400			
		5,000			5,000

Case 4 – When Losses before Interest were Rs.1,400

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr **Cr**

Particulars		Rs.	Particulars		Rs.
To Loss b/d (before interest)		2,400	By Loss transferred to:		
To Interest on X's Loan A/c		1,200	X's Capital A/c (1400 ´ 2/5)	2,000	
To Interest on Y's Loan A/c		1,400	Y' Capital A/c (1400 ´ 3/5)	3,000	5,000
		5,000			5,000

Question 10.

Bat and Ball are partners sharing the profits in the ratio of 2 : 3 with capitals of ₹ 1,20,000 and ₹ 60,000 respectively. On 1st October, 2017, Bat and Ball granted lonas of ₹ 2,40,000 and ₹ 1,20,000 respectively to the firm. Bat had allowed the firm to use his property for business for a monthly rent of ₹ 5,000. The loss for the year ended 31st March, 2018 before rent and interest amounted to ₹ 9,000. Show distribution of profit/loss.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr Particulars	Rs.	Particulars		Rs. Cr
To Loss b/d (before interest)	9,000	By Loan transferred to :		
To Interest on Bat's Loan A/c	7,200	Bat's Capital A/c	31,920	
To Interest on Ball's loan A/c	3,600	Ball's Capital A/c	47,880	79,800
To Rent A/c (Bat's)	60,000			
	79,800			79,800

Working notes :

1.

Interest on Partner's Loan

$$\text{Interest on Bat's Loan for 6 months} = 2,40,000 \times \frac{6}{100} \times \frac{6}{12} = 7,200$$

$$\text{Interest on Ball's Loan for 6 months} = 1,20,000 \times \frac{6}{100} \times \frac{6}{12} = 3,600$$

2.

$$\text{Rent paid in Bat's for 12 months} = 5,000 \times 12 = 60,000$$

3.

Distribution of Loss to the Partners

$$\text{Bat's Share of Loss} = 79,800 \times \frac{2}{5} = 31,920$$

$$\text{Ball's Share of Loss} = 79,800 \times \frac{3}{5} = 47,880$$

Question 11.

A and B are partners. A's Capital is ₹ 1,00,000 and B's Capital is ₹ 60,000. Interest on capital is payable @ 6% p.a. B is entitled to a salary of ₹ 3,000 per month. Profit for the current year before interest and salary to B is ₹ 80,000. Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account

Dr. Particulars		Rs.	Particulars	Rs. Cr.
To Interest on Capital:			By Profit and Loss (Net Profit)	80,000
A's A/c (6% of 1,00,000)	6,000			
B's A/c(6% of 60,000)	3,600	9,600		
To Salary to B's A/c (3,000 × 12)		36,000		
To Profit transferred to :				
A's Capital A/c	17,200			
B's Capital A/c	17,200	34,400		
		80,000		**80,000**

Working Notes :

WN 1 Calculation of Profit Share of each Partner

Divisible Profit = 80,000 - 9,600 - 36,000 = 34,400

$$\text{Profit Share of A and B each} = 34,400 \times \frac{1}{2}$$
$$= ₹17,200$$

Question 12.

X, Y and Z are partners in a firm sharing profits in 2 : 2 : 1 ratio. The fixed capitals of the partners were : X ₹5,00,000; Y ₹ 5,00,000 and Z ₹ 2,50,000 respectively. The Partnership Deed provides that interest on capital is to be allowed @ 10% p.a. Z is to be allowed a salary of ₹ 2,000 per month. The profit of the firm for the year ended 31st March, 2018 after debiting Z's salary was ₹ 4,00,000. Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Interest on Capital A/c			By Profit and Loss A/c	4,00,000
X (10% of 5,00,000)	50,000		(Net Profit after Z's salary)	
Y (10% of 5,00,000)	50,000			
Z (10% of 2,50,000)	25,000	1,25000		
To Profit transferred to :				
X's Capital A/c	1,10,000			
Y's Capital A/c	1,10,000			
Z's Capital A/c	55,000	2,75,000		
		4,00,000		**4,00,000**

Working Notes :

1. Salary to Z will not be debited to Profit and Loss Appropriation Account as Profit of Rs.4,00,000 is already given after adjusting the Z's salary.

2. Calculation of Profit Share of each Partner

Divisible of Profit after Interest on Capital = Rs.4,00,000 - Rs.1,25,000 = Rs. 2,75,000

Profit sharing ratio = 2 : 2: 1

$$\text{X's Profit Share} = 2{,}75{,}000 \times \frac{2}{5} = 1{,}10{,}000$$

$$\text{Y's Profit Share} = 2{,}75{,}000 \times \frac{2}{5} = 1{,}10{,}000$$

$$\text{Z's Profit Share} = 2{,}75{,}000 \times \frac{1}{5} = 55{,}000$$

Question 13.

X and Y are partners sharing profits in the ratio of 3 : 2 with capitals of ₹ 80,000 and ₹ 60,000 respectively. Interest on capital is agreed @ 5% p.a. Y is to be allowed an annual salary of ₹ 6,000 which has not been withdrawn. Profit for the year ended 31st march, 2018 before interest on capital but after charging Y's salary amounted to ₹ 24,000. A provision of 5% of the profit is to be made in respect commission to the manager. Prepare an account showing the allocation profits.

Solution:

Profit and Loss Adjustment Account

Dr. | | | Cr.

Particulars	Rs.	Particulars	Rs.
To Manager's Commission A/c (30,000 × 5%)	1,500	By Profit and Loss A/c (Net Profit after Y's salary)	24,000
To Profit transferred to Profit and Loss Appropriation A/c:	28,500	By Y's salary A/c	6,000
	30,000		**30,000**

Profit and Loss Appropriation Account

Dr. | | | Cr.

Particulars		Rs.	Particulars	Rs.
To Salary to Y's A/c		6,000	By Profit and Loss Adjustment A/c (After manager's commission)	28,500
To Interest on Capital A/c				
X	4,000			
Y	3,000	7,000		
To Salary to A/c		12,000		
To Profit transferred to :				
X's Capital A/c	9,300			
Y's Capital A/c	6,200	15,500		
		28,500		**28,500**

Working Notes :

1. Calculation of Manager's Commission

Profit to calculate Managers' Commission = 24,000 + 6,000 (Y's Salary) = Rs.30,000

$$\therefore \text{Manager's Commission} = 30{,}000 \times \frac{5}{100} = ₹1{,}500$$

2. Calculation of Interest on Capital

$$\text{Interest on X's Capital} = 80{,}000 \times \frac{5}{100} = ₹4{,}000$$

$$\text{Interest on Y's Capital} = 60{,}000 \times \frac{5}{100} = ₹3{,}000$$

3. Calculation of Profit Share of each Partner

Profit available for distribution = 28,500 - 6,000 - 7,000 = Rs.15,500

$$\text{X's Profit Share} = 15{,}500 \times \frac{3}{5} = ₹9{,}300$$

$$\text{Y's Profit Share} = 15{,}500 \times \frac{2}{5} = ₹6{,}200$$

Question 14.

Prem and Manoj are partners in a firm sharing profits in the ratio of 3 : 2. The Partnership Deed provided that Prem was to be paid salary of ₹ 2,500 per month and Manoj was to ger a commission of ₹ 10,000 per year. Interest on capital was to be allowed @ 5% p.a. and interest on drawings was to be charged @ 6% p.a. Interest on Prem's drawings was ₹ 1,250 and on Manoj's drawings was ₹ 425. Interest on Capitals of the partners were ₹ 10,000 and ₹ 7,500 respectively. The firm earned a profit of ₹ 90,575 for the year ended 31st March, 2018. Prepare Profit and Loss Appropriation Account of the firm.

Solution:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Rs.	Particulars		Rs.
To Salary to Prem (2,500 × 12)		30,000	By Profit and Loss A/c (Net Profit)		90,575
To Commission to Manoj		10,000	By Interest on Drawings A/c:		
To Interest on Capital A/c:			Prem	1,250	
Prem (5% of 2 Lacs)	10,000		Manoj	425	1,675
Manoj (5% of 1.50 Lacs)	7,500	17,500			
To Profit transferred to:					
Prem's Capital A/c	20,850				
Manoj's Capital A/c	13,900	34,750			
		92,250			**92,250**

Working Notes :

1. Calculation of Profit Share of each Partner

Profit available for distribution = 90,575 + 1,675 - 30,000 -10,000 - 17,500 = Rs.34,750

Profit Sharing Ratio = 3 : 2

$$\text{Prem's Profit Share} = 34,750 \times \frac{3}{5} = ₹20,850$$

$$\text{Manoj's Profit Share} = 34,750 \times \frac{2}{5} = ₹13,900$$

Question 15.

Reema and Seema are partners sharing profits equally. The Partnership Deed provides that both Reema and Seema will get monthly salary of Rs 15,000 each, Interest on Capital will be allowed @ 5% p.a. and Interest on Drawings will be charged @ 10% p.a. Their capitals were Rs 5,00,000 each and drawings during the year were Rs 60,000 each. The firm incurred a loss of Rs 1,00,000 during the year ended 31st March, 2018. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2018.

Solution:

Profit and Loss Appropriation Account

for the year ended 31st March 2018

Dr. Cr.

Particulars	Rs.	Particulars		Rs.
To Profit and Loss A/c (Loss)	1,00,000	By Interest on Drawings A/c:		
		Reema	3,000	
		Seema	3,000	6,000
		By Net Loss transferred to:		
		Reema Capital A/c	47,000	
		Seema Capital A/c	47,000	94,000
	1,00,000			**1,00,000**

Working Notes :

1. Calculation of Interest on drawings of each Partner

In the no given of dates of drawings, interest thereon has been calculated for the average period.

$$\text{Reema} = 60,000 \times 10\% \times \frac{6}{12} = ₹3,000$$

$$\text{Seema} = 60,000 \times 10\% \times \frac{6}{12} = ₹3,000$$

2. Loss share of each partner Ratio 1:1.
3. Interest on capital is charge against profit.

Question 16.

Bhanu and Partab are partners sharings profits eqully. Their fixed capitals as on 1st April, 2017 are ₹ 8,00,000 and ₹ 10,00,000 respectively. Their drawings the year were ₹ 50,000 and ₹ 1,00,000 respectively. Interest on Capital is a charge and is to be allowed @ 10% p.a. and interest on drawings is to be charged @ 15% p.a. Profit for the year ended 31st March, 2018 was ₹ 1,20,000. Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account
for the year ended 31st March 2018

Dr. Cr.

Particulars	Rs.	Particulars		Rs.
To Profit and Loss A/c (Loss) (1,20,000 - 1,80,000)	60,000	By Interest on Drawings A/c:		
		Bhanu Current A/c	3,750	
		Partap Current A/c	7,500	11,250
		By Net Loss transferred to:		
		Bhanu Current A/c	24,375	
		Partap Current A/c	24,375	48,750
	60,000			**60,000**

Working Notes:

1. Calculation of Interest on Drawing of each partner

In the no given of dates of drawings, interest thereon has been calculated for the average

$$\text{Bhanu} = 50{,}000 \times 15\% \times \frac{6}{12} = ₹3{,}750$$

$$\text{Pratap} = 1{,}00{,}000 \times 15\% \times \frac{6}{12} = ₹7{,}500$$

period.

2. Calculation of Interest on Capital of each partner

Interest on Capital is a charge against Profit. Thus, will be debited to Profit and Loss Account

$$\text{Bhanu} = 8{,}00{,}000 \times 10\% = ₹80{,}000$$

$$\text{Pratap} = 10{,}00{,}000 \times 10\% = ₹1{,}00{,}000$$

Total interest = Rs.1,80,000

Question 17.

Amar and Bimal entered into partnership on 1st April, 2017 contributing ₹ 1,50,000 and ₹ 2,50,000 respecitvely towards capital. The Partnership Deed provided for interest on capital @ 10% p.a. It also provided that Capital Accounts shall be maintained following Fixed Capital Accounts method. The firm earned net profit of ₹ 1,00,000 for the year ended 31st March 2018. Pass the Journal entry for interest on capital.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Profit and Loss Appropriation A/c Dr.		40,000	
	To Amar's Current A/c			15,000
	To Bimal's Current A/c			25,000
	(Being interest on capital transferred to Profit and Loss Appropriation Account)			

Working Notes :

Calculation of Interest on Capital :

$$\text{Amar's} = 1{,}50{,}000 \times \frac{10}{100} = ₹15{,}000$$

$$\text{Bimal's} = 2{,}50{,}000 \times \frac{10}{100} = ₹25{,}000$$

Question 18.

Kamal and Kapil ar partners having fixed capitals of ₹ 5,00,000 each as on 31st March, 2017. Kamal introduced further captial of ₹ 1,00,000 on 1st October, 2017 whereas Kapil withdrew ₹ 1,00,000 on 1st October, 2017 out of capital. Interest on capital is to be allowed @ 10% p.a. The firm earned net profit of ₹ 6,00,000 for the year ended 31st March 2018. Pass the Journal entry for interest on capital and prepare Profit and Loss Appropriation Account.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Profit and Loss Appropriation A/c Dr.		1,00,000	
	To Kamal's Current A/c			55,000
	To Kapil's Current A/c			45,000
	(Being interest on capital transferred to Profit and Loss Appropriation Account)			

Profit and Loss Appropriation Account
year ended 31st March 2018

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Interest on Capital			By Profit and Loss A/c	6,00,000
Kamal A/c	55,000			
Kapil A/c	45,000	1,00,000		
To Profit transferred to:				
Kamal's Capital A/c	2,50,000			
Kapil's Capital A/c	2,50,000	5,00,000		
		6,00,000		**6,00,000**

Working Notes :
Calculation of Interest on Capital:

$$\text{Interest on Kamal's Capital} = \left(\frac{5,00,000 \times 10 \times 6}{100 \times 12}\right) + \left(\frac{6,00,000 \times 10 \times 6}{100 \times 12}\right) = ₹55,000$$

$$\text{Interest on Kapil's Capital} = \left(\frac{5,00,000 \times 10 \times 6}{100 \times 12}\right) + \left(\frac{4,00,000 \times 10 \times 6}{100 \times 12}\right) = ₹45,000$$

Question 19.

Simran and Reema are partners sharing profits in the ratio of 3 : 2. Their capitals as on 31st March, 2017 were ₹ 2,00,000 each whereas Current Accounts had balances of ₹ 50,000 and ₹ 25,000 respectively interest is to be allowed @ 5% p.a. on balances in Capital Accounts. The firm earned net profit of ₹ 3,00,000 for the year ended 31st March 2018. Pass the journal entries for interest on capital and distibution of profit. Also prepare Profit and Loss Appropriation Account for the year.

Solution:

Journal Entries

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Profit and Loss Appropriation A/c	Dr.		20,000	
	To Simran's Current A/c				10,000
	To Reema's Current A/c				10,000
	(Being interest on capital transferred to Profit and Loss Appropriation Account)				
	Profit and Loss Appropriation A/c	Dr.		2,80,000	
	To Simran's Current A/c				1,68,000
	To Reema's Current A/c				1,12,000
	(Being profit transferred to Partners Current Account)				

Profit and Loss Appropriation Account
year ended 31st march 2018

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Interest on Capitals:			By Profit and Loss A/c	3,00,000
Simran's A/c	10,000			
Reema's A/c	10,000	20,000		
To Profit transferred to :				
Simran's Current A/c	1,68,000			
Reema's Current A/c	1,12,000	2,80,000		
		3,00,000		**3,00,000**

Working Notes :

1. Calculation of Interest on Capital

$$\text{Interest on Simaran's Capital} = 2,00,000 \times \frac{5}{100} = ₹10,000$$

$$\text{Interest on Reema's Capital} = 2,00,000 \times \frac{5}{100} = ₹10,000$$

Question 20.

Anita and Ankita are partners sharing profits equally. Their capitals, maintained following Fluctuating Capital Accounts Method, as on 31st March, 2017 were ₹ 5,00,000 and ₹ 4,00,000 respectively. Partnership Deed provided to allow interest on capital @ 10% p.a. The firm earned net profit of ₹ 2,00,000 for the year ended 31st March, 2018. Pass the journal entry for interest on capital.

Solution:

Journal Entries

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Profit and Loss Appropriation A/c	Dr.		90,000	
	To Anita's Current A/c				50,000
	To Ankita's Current A/c				40,000
	(Being interest on capital transferred to Profit and Loss Appropriation Account)				

Working Notes :

Calculation of Interest on Capital

$$\text{Interest on Anita's Capital} = 5,00,000 \times \frac{10}{100} = ₹50,000$$

$$\text{Interest on Ankita's Capital} = 4,00,000 \times \frac{10}{100} = ₹40,000$$

Question 21.

Ashish and Aakash are partners sharing profit in the ratio of 3 : 2. Their Capital Accounts showed a credit balance of ₹ 5,00,000 and ₹ 6,00,000 respectively as on 31st March, 2018 after debit of drawings during the year of ₹ 1,50,000 and ₹ 1,00,000 respectively. Net profit for the year ended 31st March was ₹ 5,00,000. Interest on capital is to be allowed @ 10% p.a. Pass the journal entry for interest on capital and prepare Profit and Loss Appropriation Account.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Profit and Loss Appropriation A/c Dr. To Ashish's Capital A/c To Aakash's Capital A/c (Being interest on capital transferred to Profit and Loss Appropriation Account)		1,35,000	 65,000 70,000
	Profit and Loss Appropriation A/c Dr. To Ashish's Capital A/c To Aakash's Capital A/c (Being profit transferred to Partners Capital Account)		3,65,000	 2,19,000 1,46,000

Profit and Loss Appropriation Account
year ended 31st march 2018

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Interest on Capitals:			By Profit and Loss A/c	5,00,000
Ashish's A/c	65,000			
Aakash's A/c	70,000	1,35,000		
To Profit transferred to :				
Ashish's Capital A/c	2,19,000			
Aakash's Capital A/c	1,46,000	3,65,000		
		5,00,000		**5,00,000**

Working Notes :

1. Calculation of Opening Capital:

Particulars	Ashish	Aakash
Capital at the end	5,00,000	6,00,000
Add: Drawings	1,50,000	1,00,000
Opening Capital	**6,50,000**	**7,00,000**

2. Calculation of Interest on Capital

$$\text{Interest on Ashish's Capital} = 6,50,000 \times \frac{10}{100} = ₹65,000$$

$$\text{Interest on Aakash's Capital} = 7,00,000 \times \frac{10}{100} = ₹70,000$$

Question 22.

Naresh and Sukesh are partners with capitals of ₹ 3,00,000 each as on 31st March, 2018. Naresh had withdrawn ₹ 50,000 against capital on 1st October, 2017 and also ₹ 1,00,000 besides the drawings against capital. Sukesh also had drawings of ₹ 1,00,000. Interest on capital is to be allowed @ 10% p.a. Net profit for the year was ₹ 2,00,000, which is yet to be distributed. Pass the journal entries for interest on capital and distribution of profit.

Solution:

Journal Entries

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Profit and Loss Appropriation A/c	Dr.		82,500	
	To Naresh's Capital A/c				42,500
	To Sukesh's Capital A/c				40,000
	(Being interest on capital transferred to Profit and Loss Appropriation Account)				
	Profit and Loss Appropriation A/c	Dr.		1,17,500	
	To Naresh's Capital A/c				58,750
	To Sukesh's Capital A/c				58,750
	(Being profit transferred to Partners Capital Account)				

Working Notes :

1. Calculation of Opening Capital:

Particulars	Naresh	Sukesh
Capital at the end	3,00,000	3,00,000
Add: Out of Capital Drawings	50,000	-----
Add: Against Profit Drawings	1,00,000	1,00,000
Opening Capital	**4,50,000**	**4,00,000**

2. Calculation of Interest on Capital:

$$\text{Interest on Naresh's Capital} = \left(\frac{4,50,000 \times 10 \times 6}{100 \times 12}\right) + \left(\frac{4,00,000 \times 10 \times 6}{100 \times 12}\right) = ₹42,500$$

$$\text{Interest on Sukesh's Capital} = \frac{4,00,000 \times 10}{100} = ₹40,000$$

Question 23.

On 1st April, 2013, Jay and Vijay entered into partnership for supplying laboratory equipments to government schools situated in remote and backward areas. They contributed capitals of ₹ 80,000 and ₹ 50,000 respectively and agreed to share the profits in the ratio of 3 : 2. The partnership Deed provided that interest on capital shall be allowed at 9% per annum. During the year the firm earned a profit of ₹ 7,800. Showing your calculations cleary, prepare Profit and Loss Appropriation Account of Jay and Vijay for the year ended 31st March, 2014.

Solution:

Profit and Loss Appropriation Account
year ended 31st march 2014

Dr. | Cr.

Particulars		Rs.	Particulars	Rs.
To Interest on Capitals:			By Profit and Loss A/c	7,800
Jay A/c	4,800			
Vijay A/c	3,000	7,800		
		7,800		**7,800**

Working Notes :
1. Calculation of Interest on Capital

$$\text{Interest on Jay's Capital} = 80{,}000 \times \frac{9}{100} = ₹7{,}200$$

$$\text{Interest on Vijay's Capital} = 50{,}000 \times \frac{9}{100} = ₹4{,}500$$

$$\text{Total Interest} = 7{,}200 + 4{,}500 = ₹11{,}700$$

2. Calculation of Proportionate Interest on Capital

$$\text{Jay} = \frac{7{,}200}{11{,}700} \times 7{,}800 = ₹4{,}800$$

$$\text{Vijay} = \frac{4{,}500}{11{,}700} \times 7{,}800 = ₹3{,}000$$

Question 24.
A, B and C are partners in a firm. A and B are to get annual salary of ₹ 1,20,000 p.a. each as they are fully involved in the business. Net profit for the year is ₹ 4,80,000. Determine the share of profit to be credited to each partner.
Solution:

Profit and Loss Appropriation Account

Dr. | Cr.

Particulars		Rs.	Particulars	Rs.
To Salary A/c			By Profit and Loss A/c	4,80,000
A	1,20,000			
B	1,20,000	2,40,000		
To Profit transferred to :				
A's Capital A/c	80,000			
B's Capital A/c	80,000			
C's Capital A/c	80,000	2,40,000		
		4,80,000		**4,80,000**

Question 25.
A, B and C are partners sharing profits and losses in the ratio of 2 : 2 : 1 respectively. A is entitled to a commission of 10% on the net profit. Net profit for the year is ₹ 1,10,000. Determine the amount of commission payable to A.

Solution:

Net Profit for the year= Rs.1,10,000

Commission to A = 10% of on Net Profit

$$\therefore \text{Commission to A} = \text{Net Profit} \times \frac{\text{Rate}}{100}$$

$$= 1,10,000 \times \frac{10}{100}$$

$$= ₹11,000$$

Question 26.

X, Y and Z are partners sharing profits and lossed equally. As per partnership Deed, Z is entitled to a commission of 10% on the net profit after charging such commission. The net profit before charging commission is ₹ 2,20,000. Determine the amount of commission payable to Z.

Solution:

Net Profit before charging Commission = 2,20,000

Commission to Z = 10% of on Net Profit after charging such commission

$$\therefore \text{Commission to Z} = \text{Net Profit} \times \frac{\text{Rate}}{100+\text{Rate}} = 2,20,000 \times \frac{10}{110} = ₹20,000$$

Question 27.

A, B, C, and D are partners in a firm sharing profits as 4 : 3 : 2 : 1 respectively. It earned a profit of ₹ 1,80,000 for the year ended 31st March, 2018. As per the Partnership Deed, they are to charge a commission @ 20% of the profit after charging such commission which they will share as 2 : 3 : 2 : 3. You are required to show appropriation of profits among the partners.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr **Cr.**

Particulars		Amount Rs.	Particulars	Amount Rs.
To Partner's Commission			By Profit and Loss A/c	1,80,000
A's A/c	6,000		(Net Profit)	
B's A/c	9,000			
C's A/c	6,000			
D's A/c	9,000	30,000		
To Profit transferred to :				
A's Capital A/c	60,000			
B's Capital A/c	45,000			
C's Capital A/c	30,000			
D's Capital A/c	15,000	1,50,000		
		1,80,000		**1,80,000**

Working Notes :

1. Calculation of Partner's Commission

Partners Commission = 20 % On Net Profit after charging such commission

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

$$= 1{,}80{,}000 \times \frac{20}{100+20}$$

$$= 1{,}80{,}000 \times \frac{20}{120} = 30{,}000$$

This Commission is to be shared by the partners in the ratio of 2 : 3 : 2 : 3

$$\therefore \text{ Commission to A} = 30{,}000 \times \frac{2}{10} = 6{,}000$$

$$\text{Commission to B} = 30{,}000 \times \frac{3}{10} = 9{,}000$$

$$\text{Commission to C} = 30{,}000 \times \frac{2}{10} = 6{,}000$$

$$\text{Commission to D} = 30{,}000 \times \frac{3}{10} = 9{,}000$$

2. Calculation of Profit Share of each Partner

Profit available for Distribution = 1,80,000 - 30,000 = Rs.1,50,000

Profit sharing ratio = 4 : 3 : 2 : 1

$$\text{A's Profit Share} = 1{,}50{,}000 \times \frac{4}{10} = 60{,}000$$

$$\text{B's Profit Share} = 1{,}50{,}000 \times \frac{3}{10} = 45{,}000$$

$$\text{C's Profit Share} = 1{,}50{,}000 \times \frac{2}{10} = 30{,}000$$

$$\text{D's Profit Share} = 1{,}50{,}000 \times \frac{1}{10} = 15{,}000$$

Question 28.

X and Y are partners in a firm. X is entitled to a salary of ₹ 10,000 per month and commission of 10% of the net profit after partners salaries but before charging commission. Y is entitled to a salary of ₹ 25,000 p.a. and commission of 10% of the net profit after chaging all commission and partners salaries. Net profit before providing for partners salaries and commission for the year ended 31st March, 2018 was ₹ 4,20,000, show distribution of profit.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr. **Cr.**

Particulars		`	Particulars	`
To Partner's Salary A/c			By Profit and Loss A/c	4,20,000
X (10,000 ´ 12)	1,20,000		(Net Profit)	
Y	25,000	1,45,000		
To Partner's Commission				
X's A/c	27,500			
Y's A/c	22,500	50,000		
To Profit transferred to :				
X's Capital A/c	1,12,500			
Y's Capital A/c	1,12,500	2,25,000		
		4,20,000		4,20,000

Working Notes:

1. Calculation of Commission

Commission to X = 10% of Net Profit after partner's salaries but before charging such commission Profit after Partner's Salaries = Rs.4,20,000 - Rs.1,45,000 = Rs.2,75,000

$$\therefore \text{Commission to X} = \text{Profit after Salaries} \times \frac{10}{100} = 2,75,000 \times \frac{10}{100} = 27,500$$

Commission to Y = 10% of Net Profit after charging Commission and Partner's Salaries

Profit after commission and partner's salaries = Rs.4,20,000 - Rs.1,45,000 - Rs.27,500 = Rs.2,47,500

$$\text{Commission to Y} = \text{Profit after Commission and Partner's Salaries} \times \frac{10}{100+\text{Rate}}$$

$$= 2,47,500 \times \frac{10}{110}$$

$$= 22,500$$

2. Calculation of Profit Share of each Partner

Profit available for distribution = Rs.4,20,000 - Rs.1,45,000 - Rs.50,000 = Rs.2,25,000

Profit sharing ratio = 1 : 1

$$\text{Profit Share of X and Y each} = 2,25,000 \times \frac{1}{2} = ₹1,12,500$$

Question 29.

Ram and Mohan, two partners, drew for their personal use ₹ 1,20,000 and ₹ 80,000. Interest is chargeable @ 6% p.a. on the drawings. What is the amount of interest chargeable from each partner?

Solution:

Date of drawings made by the partners is not given. Therefore, interest on drawings is calculated on average basis for a period of six months.

$$\text{Interest on Ram's Drawings} = 1,20,000 \times \frac{6}{100} \times \frac{6}{12} = ₹3,600$$

$$\text{Interest on Mohan's Drawings} = 80,000 \times \frac{6}{100} \times \frac{6}{12} = ₹2,400$$

Question 30.

B and M are partners in a firm. They withdrew ₹ 48,000 and ₹ 36,000 respectively during the year evenly in the middle of every month. According to the partnership agreement, interest on drawings is to be charged @ 10% p.a. Calculate interest on drawings of the partners using the appropriate formula.

Solution:

Drawings are made evenly at the middle of every month, therefore, interest on drawings is calculated for a period of six months.

$$\text{Interest on B's Drawings} = 48{,}000 \times \frac{10}{100} \times \frac{6}{12} = ₹2{,}400$$

$$\text{Interest on M's Drawings} = 36{,}000 \times \frac{10}{100} \times \frac{6}{12} = ₹1{,}800$$

Question 31.

A and B are partners sharing profits equally. A drew regularly ₹ 4,000 in the beginning of every month for six months ended 30th September, 2018. Calculate interest on drawings @ 5% p.a. for a period of six months.

Solution:

Amount of Drawings = 4,000

No. of Drawings = 6

Total Drawings = 4,000 × 6 = 24,000

Rate of Interest = 5% p.a.

$$\text{Time} = \frac{\text{Time left after 1st Drawing} + \text{Time left after last Drawing}}{2}$$

$$= \frac{6+1}{2}$$

$$= 3.5\text{Months}$$

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Time}}{12}$$

$$= 24{,}000 \times \frac{5}{100} \times \frac{3.5}{12}$$

$$= ₹350$$

Question 32.

A and B are partners sharing profits equally. A drew regularly ₹ 4,000 at the end of every month for six months ended 30th September, 2018. Calculate interest on drawings @ 5% p.a. for a period of six months.

Solution:

$$\text{Amount of Drawings} = 4,000$$

$$\text{No. of Drawings} = 6$$

$$\text{Total Drawings} = 4,000 \times 6 = 24,000$$

$$\text{Rate of Interest} = 5\% \text{ p.a.}$$

$$\text{Time} = \frac{\text{Time left after 1st Drawing} + \text{Time left after last Drawing}}{2}$$

$$= \frac{5+0}{2}$$

$$= 2.5 \text{ Months}$$

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Time}}{12}$$

$$= 24,000 \times \frac{5}{100} \times \frac{2.5}{12}$$

$$= ₹250$$

Question 33.

Calculate interest on drawings of Mr. Ashok @ 10% p.a. for the year ended 31st March, 2018, in each of the following alternative cases:

Case 1. If he withdrew ₹ 7,500 in the beginning of each quarte.

Case 2. If he withdrew ₹ 7,500 at the end of each quarter.

Case 3. If he withdrew ₹ 7,500 during the middle of each quarter.

Solution:

Total Drawings = 7,500 × 4 = Rs.30,000
Interest Rate = 10% p.a.

Case (a)

If equal amount is withdrawn in the beginning of each quarter:
Interest on drawings would be calculated for an average period of 7.5 months

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{7.5}{12}$$

$$\therefore \text{Interest on Ashok's Drawings} = 30{,}000 \times \frac{10}{100} \times \frac{7.5}{12}$$

$$= ₹1{,}875$$

Case (b)

If equal amount is withdrawn at the end of each quarter:
Interest on drawings would be calculated for an average period of 4.5 months

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{4.5}{12}$$

$$\therefore \text{Interest on Ashok's Drawings} = 30{,}000 \times \frac{10}{100} \times \frac{4.5}{12}$$

$$= ₹1{,}125$$

Case (c)

If equal amount is withdrawn in the middle of each quarter:
Interest on drawings would be calculated for an average period of 6 months

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

$$\therefore \text{Interest on Ashok's Drawings} = 30{,}000 \times \frac{10}{100} \times \frac{6}{12}$$

$$= ₹1{,}500$$

Question 34.

Kanika and Gautam are partners doing a dry cleaning business in Lucknow, sharing profits in the ratio 2 : 1 with capitals ₹ 5,00,000 and ₹ 4,00,000 respectively. Kanika withdrew the following amounts during the year to pay the hostel expenses of her son:
1st April ₹ 10,000
1st June ₹ 9,000
1st November ₹ 14,000
1st December ₹ 5,000
Gautam withdrew ₹ 15,000 on the first day of April, July, October and January to pay rent for the accommodation of his family. He also paid ₹ 20,000 per month as rent for the office of partnership which was in a nearby shopping complex. Calculate interest on drawings @ 6% p.a.

Solution:

Interest on Kanika's Drawings = Rs.1,500
Interest on Gautam's Drawings = Rs.2,250

Working Notes :
1. Calculation of Interest on Kanika's Drawings

By Product Method

Date	**Rs. (I)**	**Months (II)**	**Product (I × II)**
Apr. 01	10,000	12	1,20,000
June 01	9,000	10	90,000
Nov. 01	14,000	5	70,000
Dec. 01	5,000	4	20,000
Sum of Product			**3,00,000**

$$\text{Interest on Drawings} = \text{Total Drawings} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 3{,}00{,}000 \times \frac{6}{100} \times \frac{1}{12}$$

$$= ₹1,500$$

2. Calculation of Interest on Gautam's Drawings
Gautam withdrew Rs. 15,000 in the beginning of every quarter.

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{7.5}{12}$$

$$= (15,000 \times 4) \times \frac{6}{100} \times \frac{7.5}{12}$$

$$= ₹2,250$$

Question 35.
A and B are partners sharing Profit and Loss in the ratio 3 : 2 having Capital Account balances of ₹ 50,000 and ₹ 40,000 on 1st April, 2017. On 1st July, 2017, A introduced ₹ 10,000 as his additional capital whereas B introduced only ₹ 1,000. Interest on capital is allowed to partners @ 10% p.a. Calculate interest on capital for the financial year ended 31st March, 2018.
Solution:

Calculation of Interest on A's Capital

Date	Capital	×	Period	=	Product
April 01, 2017 to June 30, 2017	50,000	×	3	=	1,50,000
July 01, 2017 to March 31, 2018	60,000	×	9	=	5,40,000
	Sum of Product				**6,90,000**

$$\text{Interest on A's Capital} = 6{,}90{,}000 \times \frac{10}{100} \times \frac{1}{12} = ₹5{,}750$$

Calculation of Interest on B's Capital

Date	Capital	×	Period	=	Product
April 01, 2017 to June 30, 2017	40,000	×	3	=	1,20,000
July 01, 2017 to March 31, 2018	41,000	×	9	=	3,69,000
	Sum of Product				**4,89,000**

$$\text{Interest on B's Capital} = 4{,}89{,}000 \times \frac{10}{100} \times \frac{1}{12} = ₹4{,}075$$

Question 36.

Ram and Mohan are partners in a business. Their capitals at the end of the year were ₹ 24,000 and ₹ 18,000 respectively. During the year, Ram's drawings and Mohan's drawings were ₹ 4,000 and ₹ 6,000 respectively. Profit (Before charging interest on capital) during the year was ₹ 16,000. Calculate interest on capital @ 5% p.a. for the year ended 31st March, 2018.

Solution:

Interest on capital is calculated on the opening balance of partner's capital.

Calculation of Capital balance at the beginning

Particulars	Ram	Mohan
Capital at the end	24,000	18,000
Less : Profit already credited (1 : 1)	(8,000)	(8,000)
Add : Drawings already debited	4,000	6,000
Capital at the beginning	**20,000**	**16,000**

$$\text{Interest on Ram's Capital} = 20{,}000 \times \frac{5}{100} = ₹1{,}000$$

$$\text{Interest on Mohan's Capital} = 16{,}000 \times \frac{5}{100} = ₹800$$

Question 37.

Following is the extract of the Balance Sheet of Neelkant and Mahadev as on 31st March, 2018.

BALANCE SHEET as at 31st March, 2018

Liabilities	₹	Assets***	₹***
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current A/c	1,00,000		
Mahadev' Current A/c	1,00,000		
profit and Loss Appropriation A/c (March 2018)	8,00,000		
	30,00,000		**30,00,000**

During the year, Mahadev's drawings were ₹ 30,000. Profits during the year ended 31st March, 2018 is ₹ 10,00,000. Calculate interest on capital @ 5% p.a. for the year ending 31st March, 2018.

Solution:

Calculation of Interest on Capital

$$\text{Neelkant's capital} = 10{,}00{,}000 \times 5\% = ₹50{,}000$$

$$\text{Mahadev's capital} = 10{,}00{,}000 \times 5\% = ₹50{,}000$$

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

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

Thus, the interest on capital is calculated on fixed capital balances (given in the Balance Sheet of the question).

Question 38.

From the following Balance Sheet of Long and Short, calculate interst on capital @ 8% p.a. for the year ended 31st March, 2018.

BALANCE SHEET as at 31st March, 2018

Liabilities	₹	Assets	₹
Long's Capital A/c	1,20,000	Fixed Assets	3,00,000
Short's Capital A/c	1,40,000	Other Assets	60,000
General Reserve	1,00,000		
	3,60,000		**3,60,000**

During the year, Long withdrew ₹ 40,000 and Short withdrew ₹ 50,000. Profit for the year was ₹ 1,50,000 out of which ₹ 1,00,000 was transferred to General Reserve.

Solution:

Calculation of Capital at the beginning (as on April 01,2017)

Particulars	Long Rs.	Short Rs.
Capital at the end	1,20,000	1,40,000
Less : Adjusted Profit (1,50,000 - 1,00,000) in 1 : 1 ratio	(25,000)	(25,000)
Add : Adjusted Drawings	40,000	50,000
Capital in the beginning	1,35,000	1,65,000

$$\text{Interest on Long's Capital} = 1,35,000 \times \frac{8}{100} = ₹10,800$$

$$\text{Interest on Short's Capital} = 1,65,000 \times \frac{8}{100} = ₹13,200$$

Question 39.

X and Y contribute ₹ 20,000 and ₹ 10,000 respectively towards capital. They decide to allow interest on capital @ 6% p.a. Their respective share of profits is 2 : 3 and the net profit for the year is ₹ 1,500. Show distribution of profits:

(i) where there is no agreement except for interest on capitals; and

(ii) where there is an agreement that the interest on capital as a charge.

Solution:

Calculation of Interest on Capital

$$\text{Interest on X's Capital} = 20{,}000 \times \frac{6}{100} = ₹1{,}200$$

$$\text{Interest on Y's Capital} = 10{,}000 \times \frac{6}{100} = ₹600$$

$$\text{Total amount of interest on capital} = 1{,}200 + 600 = ₹1{,}800$$

Case (a)

Where there is no clean agreement except for interest on capitals
Profit for the year ended = Rs.1,500
Total amount of interest = Rs.1,800
Here, Interest on capital > the profits available for distribution. Therefore, profit of Rs. 1,500 is distributed between X and Y in the ratio of their interest on capital.

Particulars	X	:	Y
Interest on Capital or	1,200	:	600
Ratio of interest on Capital	2	:	1

$$\text{X will get interest on Capital} = 1{,}500 \times \frac{2}{3} = ₹1{,}000$$

$$\text{Y will get interest on Capital} = 1{,}500 \times \frac{1}{3} = ₹500$$

Case (b)

In case, there is an agreement that the interest on capital as a charge., then the whole amount of interest on capital is to be allowed to the partners.

$$\text{Interest on X's Capital} = 20{,}000 \times \frac{6}{100} = ₹1{,}200$$

$$\text{Interest on Y's Capital} = 10{,}000 \times \frac{6}{100} = ₹600$$

Total Profit of the firm = Rs.1,500

Total amount of Interest on Capital = Rs.1,800 (i.e. Rs.1,200 + Rs.600). Therefore, loss to the firm amounts to Rs. 300. This loss is to be shared by X and Y in their profit sharing ratio that is 2:3.

$$\text{Loss to X} = 300 \times \frac{2}{5} = ₹120$$

$$\text{Loss to Y} = 300 \times \frac{3}{5} = ₹180$$

Question 40.

A and B started business on 1st April, 2017 with capitals of ₹ 15,00,000 and ₹ 9,00,000 respectively. On 1st October, 2017, they decided that their capitals should be ₹ 12,00,000 each. The necessary adjustments in capitals were made by introducing or withdrawing by cheque. Interest on capital is allowed @ 8% p.a. Compute interest on capital for the year ended 31st March, 2018.

Solution:

Calculation of Interest on A's Capital

Date	Capital	×	Period	=	Product
April 01, 2017 to Sept 30, 2017	15,00,000	×	6	=	90,00,000
Oct. 01, 2017 to March 31, 2018	12,00,000	×	6	=	72,00,000
Sum of Product					**1,62,00,000**

$$\text{Interest on Capital} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 1,62,00,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= ₹\,1,08,000$$

Calculation of Interest on B's Capital

Date	Capital	×	Period	=	Product
April 01, 2017 to Sept 30, 2017	9,00,000	×	6	=	54,00,000
Oct. 01, 2017 to March 31, 2018	12,00,000	×	6	=	72,00,000
Sum of Product					**1,26,00,000**

$$\text{Interest on B's Capital} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 1,26,00,000 \times \frac{8}{100} \times \frac{1}{12} = ₹\,84,000$$

Question 41.

X and Y are partners in a firm sharing profits and losses in the ratio of 3 : 2 . On 31st March, 2018 after closing the books of account, their Capital Accounts stood at ₹ 4,80,000 and ₹ 6,00,000 respectively. On 1st May, 2017, X introduced an additional capital of ₹ 1,20,000 and Y withdrew ₹ 60,000 form his capital.On 1st October, 2017, X withdrew ₹ 2,40,000 from his capital and Y introduced ₹ 3,00,000 . Interest on capital is allowed at 6% p.a. Subsequently, it was discovered that interest on capital @ 6% p.a. had been omitted. The profits for the year ended 31st March, 2018 amounted to ₹ 2,40,000 and the partners' drawings had been: X ₹1,20,000 and Y ₹ 60,000. Compute the interest on capital if the capitals are (a) fixed, and (b) fluctuating.

Solution:

Case A: Interest on Capital, (If Capitals are Fixed):

$$\text{Interest on X's Capital} = \left(\frac{6,00,000 \times 6 \times 1}{100 \times 12}\right) + \left(\frac{7,20,000 \times 6 \times 5}{100 \times 12}\right) + \left(\frac{4,80,000 \times 6 \times 6}{100 \times 12}\right) = ₹35,400$$

$$\text{Interest on Y's Capital} = \left(\frac{3,60,000 \times 6 \times 1}{100 \times 12}\right) + \left(\frac{3,00,000 \times 6 \times 5}{100 \times 12}\right) + \left(\frac{6,00,000 \times 6 \times 6}{100 \times 12}\right) = ₹27,300$$

Case B: Interest on Capital, (If Capitals are Fluctuating):

$$\text{Interest on X's Capital} = \left(\frac{5,76,000 \times 6 \times 1}{100 \times 12}\right) + \left(\frac{6,96,000 \times 6 \times 5}{100 \times 12}\right) + \left(\frac{4,56,000 \times 6 \times 6}{100 \times 12}\right) = ₹33,960$$

$$\text{Interest on Y's Capital} = \left(\frac{3,24,000 \times 6 \times 1}{100 \times 12}\right) + \left(\frac{2,64,000 \times 6 \times 5}{100 \times 12}\right) + \left(\frac{5,64,000 \times 6 \times 6}{100 \times 12}\right) = ₹25,140$$

Working Notes:

WN 1: Calculation of Opening Capital (When Capitals were Fixed)

Particulars	X	Y
Capital at the end	4,80,000	6,00,000
Add: Drawings (out of capital)	2,40,000	60,000
Less: Fresh Capital introduced	(1,20,000)	(3,00,000)
Opening Capital	**6,00,000**	**3,60,000**

WN 2: Calculation of Opening Capital (When Capitals are Fluctuating)

Particulars	X	Y
Capital at the end	4,80,000	6,00,000
Add: Drawings (out of capital)	2,40,000	60,000
Add: Drawings (out of profits)	1,20,000	60,000
Less: Fresh Capital introduced	(1,20,000)	(3,00,000)
Less: Profit already credited	(1,44,000)	(96,000)
Opening Capital	**5,76,000**	**3,24,000**

Question 42.

C and D are partners in a firm; C has contributed ₹ 1,00,000 and D ₹ 60,000 as capital. Interest in payable @ 6% p.a. and D is entitled to a salary of ₹ 3,000 per month. In 2017-18, the profit was ₹ 80,000 before interest and salary. Divide the amount between C and D.

Solution:

Profit and Loss Appropriation Account
for the year ended 2017 - 2018

Dr Particulars		Rs.	Particulars	Cr Rs.
To Interest on Capital A/c			By Profit and Loss A/c (Net Profit)	80,000
C	6,000			
D	3,600	9,600		
To Salary to D A/c (3,000 × 12)		36,000		
To Profit transferred to :				
C's Capital A/c	17,200			
D's Capital A/c	17,200	34,400		
		80,000		**80,000**

Working note

1. Calculation of Interest on Capital

$$\text{Interest on C's Capital} = 1{,}00{,}000 \times \frac{6}{100} = 6{,}000$$

$$\text{Interest on D's Capital} = 60{,}000 \times \frac{6}{100} = 3{,}600$$

2. Calculation of Profit Share of each Partner

Profit available for distribution =Rs.80,000 - Rs.9,600 -Rs.36,000 = Rs.34,400

$$\text{Profit Share of C and D each} = 34{,}400 \times \frac{1}{2} = 17{,}200$$

Total amount received by C = Interest on Capital + Profit Share =Rs.6,000 + Rs.17,200 =Rs.23,200

Total amount received by D= Interest on Capital + Salary + Profit Share

= Rs.3,600 + Rs.36,000 + Rs.17,200

= Rs.56,800

Question 43.

Amit and Vijay started a partnership business on 1st April,2017. Their capital contributions were ₹ 2,00,000 and ₹ 1,50,000 respectively. The Partnership Deed provided that:

(a) Interest on capital be allowed @ 10% p.a.

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

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

Profit for the year ended 31st March, 2018 befor above appropriations was ₹ 2,16,000. Interest on drawings amounted to ₹ 2,200 for Amit and ₹ 2,500 for Vijay. Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Rs.	Particulars		Rs.
To Interest on Capital A/c			By Profit and Loss A/c (Net Profit)		2,16,000
Amit	20,000		By Interest on Drawings A/c		
Vijay	15,000	35,000	Amit	2,200	
Salary A/c to :			Vijay	2,500	4,700
Amit (2,000 × 12)	24,000				
Vijay (3,000 × 12)	36,000	60,000			
To Profit transferred to :					
Amit's Capital A/c	75,420				
Vijay's Capital A/c	50,280	1,25,700			
		2,20,700			**2,20,700**

Working Notes :

1. Calculation of Interest on Capital

$$\text{Interest on Amit's Capital} = 2{,}00{,}000 \times \frac{10}{100} = ₹20{,}000$$

$$\text{Interest on Vijay's Capital} = 1{,}50{,}000 \times \frac{10}{100} = ₹15{,}000$$

2. Calculation of Profit Share of each Partner

Divisible Profit = 2,16,000 + 4,700 - 35,000 - 60,000 = Rs.1,25,700

Profit sharing ratio = 3 : 2

$$\text{Amit's Profit Share} = 1{,}25{,}700 \times \frac{3}{5} = ₹75{,}420$$

$$\text{Vijay's Profit Share} = 1{,}25{,}700 \times \frac{2}{5} = ₹50{,}280$$

Question 44.

Show how the following will be recorded in the Capital Accounts of the Partners Sohan and Mohan when their capitals are fluctuating:

	Sohan(₹)	Mohan(₹)
Capital on 1st April, 2017	4,00,000	3,00,000
Drawings during 2017 –18	50,000	30,000
Interest on Capital	5%	5%
Interest on Drawings	1,250	750
Share of Profit for 2017–18	60,000	50,000
Partner's Salary	36,000	.....
Commission	5,000	3,000

Solution:

Partner's Capital Account

Dr Particulars	Sohan Rs.	Mohan Rs.	Particulars	Sohan Rs.	Cr Mohan Rs.
To Drawings A/c	50,000	30,000	By Balance c/d	4,00,000	3,00,000
To Interest on Drawings A/c	1,250	750	By Interest on Capital A/c	20,000	15,000
To Balance c/d	4,69,750	3,37,250	By P and L Appropriation A/c	60,000	50,000
			By Partner's Salary A/c	36,000	-
			By Commission A/c	5,000	3,000
	5,21,000	**3,68,000**		**5,21,000**	**3,68,000**

Working Note:

Calculation of Interest on Capital

$$\text{Interest on Sohan's Capital} = 4,00,000 \times \frac{5}{100} = 20,000$$

$$\text{Interest on Mohan's Capital} = 3,00,000 \times \frac{5}{100} = 15,000$$

Question 45.

Sajal and Kajal are partners sharing profits and losses in the ratio of 2 : 1. On 1st April, 2017 their Capitals were: Sajal ₹ 50,000 and Kajal ₹ 40,000.

Prepare Profit and Loss Appropriation Account and the Partners Capital Accounts at the end of the year after considering the following items:

(a) Interest on Capital is to be allowed @ 5% p.a.

(b) Interest on the loan advanced by Kajal for the whole year, the amount of loan being ₹ 30,000.

(c) Interest on partners drawings @ 6% p.a. Drawings: Sajal ₹ 10,000 and Kajal ₹ 8,000.

(d) 10% of the divisible profit is to be transferred to Reserve.

The net profit for the year ended 31st March, 2018 ₹ 68,460.

Note: Net profit means net profit after debit of interest on loan by the partner.

Solution:

Profit and Loss Account

Dr Particulars	Rs.	Particulars	Cr Rs.
To Interest on Kajal's loan @ 6% p.a.	1,800	By Profit b/d	70,260
To Profit transferred to P/L Appropriation A/c	68,460		
	70,260		70,260

Profit and Loss Appropriation Account

Dr Particulars		Rs.	Particulars		Cr Rs.
To Interest on Capital A/c			By Profit and Loss A/c		68,460
Sajal	2,500		By Interest on Drawings A/c		
Kajal	2,000	4,500	Sajal	300	
To Reserve A/c		6,450	Kajal	240	540
To Profit transferred to :					
Sajal's Capital; A/c	38,700				
Kajal's Capital A/c	19,350	58,050			
		69,000			69,000

Partner's Capital Account

Dr Particulars	Sajal Rs.	Kajal Rs.	Particulars	Sajal Rs.	Kajal Rs. Cr
To Drawings A/c	10,000	8,000	By Balance b/d	50,000	40,000
To Interest on Drawings A/c	300	240	By Interest on Capital A/c	2,500	2,000
			By P and L Appropriation A/c	38,700	19,350
To Balance c/d	80,900	53,110			
	91,200	61,350		91,200	61,350

Working Note :

1. Calculation of Interest on Capital

$$\text{Interest on Sajal's Capital} = 50{,}000 \times \frac{5}{100} = 2{,}500$$

$$\text{Interest on Kajal's Capital} = 20{,}000 \times \frac{5}{100} = 2{,}000$$

2. Calculation of Interest on Drawings

$$\text{Interest on Sajal's Drawings} = 10{,}000 \times \frac{6}{100} \times \frac{6}{12} = 300$$

$$\text{Interest on Kajal's Drawings} = 8{,}000 \times \frac{6}{100} \times \frac{6}{12} = 240$$

3. Calculation of Amount to be transferred to Reserve

Amount for Reserve = 10% of Divisible Profit

Divisible Profit = Profit + Interest on Drawings - Interest on Capital

=Rs. 68,460 + Rs.540 - Rs.4,500

= Rs.64,500

$$\therefore \text{ Amount for Reserve} = 64{,}500 \times \frac{10}{100}$$

$$= 6{,}450$$

4. Calculation of Profit Share of each Partner

Profit available for Distribution

= 68,460 + 540 - 4,500 - 6,450

= Rs.58,050

Profit sharing ratio = 2:1

$$\text{Sajal's Profit Share} = 58{,}050 \times \frac{2}{3} = 38{,}700$$

$$\text{Kajal's Profit Share} = 58{,}050 \times \frac{1}{3} = 19{,}350$$

Question 46.

On 1st April, 2017, A and B entered into partnership contributing ₹ 60,000 and ₹ 45,000 respectively. They agreed to share profits and losses in the ratio of 3 : 2. B is allowed salary of ₹ 12,000 per year. Interest on capital is to be allowed @ 10% p.a. During the year, A withdrew ₹ 9,000 and B withdrew ₹ 18,000 as drawings, Interest on drawings paid by A and B were ₹ 150 and ₹ 210 respectively. Profit for the year ended 31st March, 2018 before the above adjustments was ₹ 35,000. Show distribution of profits by preparing Profit and Loss Appropriation Account of the firm. Prepare Partners Capital Accounts also.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr Particulars		Rs.	Particulars		Cr Rs.
To Salary to B		12,000	By Profit and Loss A/c (Net Profit)		35,000
To Interest on Capital			By Interest on Drawings A/c		
A	6,000		A	150	
B	4,500	10,500	B	210	360
To Profit transferred to :					
A's Capital A/c	7,716				
B's Capital A/c	5,144	12,860			
		35,360			35,360

Partner's Capital Accounts

Dr Particulars	A	B	Particulars	A	Cr B
To Drawings A/c	9,000	18,000	By Balance b/d	60,000	45,000
To Interest on Drawings A/c	150	210	By Interest Capital A/c	6,000	4,500
To Balance c/d	64,566	48,434	By Salary A/c		12,000
			By P and L Appropriation A/c	7,716	5,144
	73,716	66,644		73,716	66,644

Working Notes :

1. Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 60,000 \times \frac{10}{100} = 6,000$$

$$\text{Interest on B's Capital} = 45,000 \times \frac{10}{100} = 4,500$$

2. Calculation of Share of Profit for each Partner

Profit available for Distribution = Rs.35,000 + Rs.360 - Rs.12,000 - Rs.10,500 = Rs.12,860

$$\text{A's Profit Share} = 12,860 \times \frac{3}{5} = 7,716$$

$$\text{B's Profit Share} = 12,860 \times \frac{2}{5} = 5,144$$

Question 47.

A and B are partners sharing profits and losses in the ratio of 3 : 1. On 1st April, 2017, their capitals were: A ₹ 50,000 and B ₹ 30,000. During the year ended 31st March, 2018 they earned a net profit of ₹ 50,000. The terms of partnership are:

(a) Interest on capital is to allowed @ 6% p.a.

(b) A will get a commission @ 2% on turnover.

(c) B will get a salary of ₹ 500 per month.

(d) B will get commission of 5% on profits after deduction of all expenses including such commission.

Partners drawings for the year were: A ₹ 8,000 and B ₹ 6,000. Turnover for the year was ₹ 3,00,000. After considering the above facts, you are required to prepare Profit and Loss Appropriation Account and Partners Capital Accounts.

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2018

Dr Particulars		Rs.	Particulars	Cr Rs.
To Interest on Capital A/c			By Profit and Loss A/c (Net Profit)	50,000
A	3,000			
B	1,800	4,800		
To B's Salary A/c(500 × 12)		6,000		
To Partner's Commission A/c				
A	6,000			
B	1,581	7,581		
To Profit transferred to :				
A's Capital A/c	23,714			
B's Capital A/c	7,905	31,619		
		50,000		50,000

Partner's Current Account

Dr Particulars	A Rs.	B Rs.	Particulars	A Rs.	Cr B Rs.
To Drawings A/c	8,000	6,000	By Balance b/d	50,000	30,000
To Balance c/d	74,714	41,286	By Interest on Capital A/c	3,000	1,800
			By Commission A/c	6,000	1,581
			By Salary A/c		6,000
			By P/L Appropriation A/c	23,714	7,905
	82,714	47,286		82,714	47,286

Working Notes :

1. Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{6}{100} = 3,000$$

$$\text{Interest on B's Capital} = 30,000 \times \frac{6}{100} = 1,800$$

2. Calculation of Commission

$$\text{Commission to A} = 2\% \text{ on Turnover}$$

$$= \frac{2}{100} \times 3,00,000 = 6,000$$

Commission to B = 5% on Profits after all expenses (including Commission)

Profits after all expense

= Rs.50,000 - Rs.4,800 - Rs.6,000 - Rs.6,000

= Rs.33,200

$$\text{Commission to B} = \text{Profit after all Expenses} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

$$= 33,200 \times \frac{5}{105} = 1,581 \text{ (App.)}$$

3. Calculation of Share of Profit of each Partner

Profit available for Distribution

= Rs.50,000 - Rs.4,800 - Rs.6,000 - Rs.7,581

= Rs.31,619

Profit sharing ratio = 3 :1

$$\text{A's Profit Share} = 31,619 \times \frac{3}{4} = 23,714$$

$$\text{B's Profit Share} = 31,619 \times \frac{1}{4} = 7,905$$

Question 48.

A, B and C were partners in a firm having capitals of ₹ 50,000 ; ₹ 50,000 and ₹ 1,00,000 respectively. Their Current Account balances were A: ₹ 10,000; B: ₹ 5,000 and C: ₹ 2,000 (Dr.). According to the Partnership Deed the partners were entitled to an interest on Capital @ 10% p.a. C being the working partner was also entitled to a salary of ₹ 12,000 p.a. The profits were to be capitals:

(a) The first ₹ 20,000 in proportion to their capitals.

(b) Next ₹ 30,000 in the ratio of 5 : 3 : 2.

(c) Remaining profits to be shared equally.

The firm earned net profit of ₹ 1,72,000 before charging any of the above items.

Prepare Profit and Loss Appropriation Account and pass necessary Journal entry for the appropriation of profits.

Solution:

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars		Rs.	Particulars	Rs.
To Interest on Capital			By Profit and Loss A/c (Net Profit)	1,72,000
A	5,000			
B	5,000			
C	10,000	20,000		
To Salary to C A/c		12,000		
To Profit transferred to :				
A's Capital A/c	50,000			
B's Capital A/c	44,000			
C's Capital A/c	46,000	1,40,000		
		1,72,000		**1,72,000**

Journal Entries

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Interest on Capital A/c	Dr.		20,000	
	To A's Current A/c				5,000
	To B's Current A/c				5,000
	To C's Current A/c				10,000
	(Being Interest on partner's capital allowed to partners)				
	Salary A/c	Dr.		12,000	
	To C's Current A/c				12,000
	(Being Salary Allowed to C)				
	Profit and Loss Appropriation A/c	Dr.		1,40,000	
	To A's Current A/c				50,000
	To B,s Current A/c				44,000
	To C's Current A/c				46,000
	(Being profit available for distribution transferred to partners' current account)				

Working Notes :

1. Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{10}{100} = ₹5,000$$

$$\text{Interest on B's Capital} = 50,000 \times \frac{10}{100} = ₹5,000$$

$$\text{Interest on C's Capital} = 1,00,000 \times \frac{10}{100} = ₹10,000$$

2. Calculation of share of Profit of each Partner

Profits available for Distribution = 1,72,000 - 20,000 - 12,000 = Rs. 1,40,000

i. Distribution of first Rs. 20,000 in the Capital ratio i.e. 1:1:2

$$\text{A's Profit Share} = 20,000 \times \frac{1}{4} = ₹5,000$$

$$\text{B's Profit Share} = 20,000 \times \frac{1}{4} = ₹5,000$$

$$\text{C's Profit Share} = 20,000 \times \frac{2}{4} = ₹10,000$$

ii. Distribution of Next Rs. 30,000 in the ratio of 5: 3: 2

$$\text{A's Profit Share} = 30,000 \times \frac{5}{10} = ₹15,000$$

$$\text{B's Profit Share} = 30,000 \times \frac{3}{10} = ₹9,000$$

$$\text{C's Profit Share} = 30,000 \times \frac{2}{10} = ₹6,000$$

iii. Remaining profit available for distribution = 1,40,000 - 20,000 - 30,000 = Rs.90,000
This profit of Rs.90,000 is to be shared equally by the partners.

$$\text{A, B and C each will get} = 90,000 \times \frac{1}{3} = ₹30,000$$

Therefore,
Total Profit Share of A = 5,000 + 15,000 + 30,000 = Rs.50,000
Total Profit Share of B = 5,000 + 9,000 + 30,000 = Rs.44,000
Total Profit Share of C = 10,000 + 6,000 + 30,000 = Rs.46,000

Question 49.

A and B are partners sharing profits in the ratio of 3 : 2 with capitals of ₹ 50,000 and ₹ 30,000 respectively. Interest on cpital is agreed @ 6% p.a. B is to be allowed an annual salary of ₹ 2,500. During the year profit prior to interest on capital but after charging B's salary amounted to ₹ 12,500. A provision of 5% of the profits if to be made in respect of Manager's Commission.

Solution:

Profit and Loss Account

Dr | Cr

Particulars	Rs.	Particulars	Rs.
To Manager's Commission A/c (5% of 15,000)	750	By Profit b/d (before B's Salary) (12,500 + 2,500)	15,000
To Profit transferred to Profit and Loss Appropriation A/c	14,250		
	15,000		15,000

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

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Interest on Capital A/c			By Profit and Loss A/c	14,250
A	3,000			
B	1,800	4,800		
To B's Salary A/c		2,500		
To Profit transferred to				
A's Capital A/c	4,170			
B's Capital A/c	2,780	6,950		
		14,250		14,250

Partner's Capital Account

Dr					Cr
Particulars	**A Rs.**	**B Rs.**	**Particulars**	**A Rs.**	**B Rs.**
To Balance c/d	57,170	37,080	By Balance b/d	50,000	30,000
			By Interest on Capital A/c	3,000	1,800
			By Salary A/c		2,500
			By PandL Appropriation A/c	4,170	2,780
	57,170	37,080		57,170	37,080

Working Note :

1. Calculation of Manager's Commission

Manager's Commission = 5% on Net Profit (before Salary)

Profit before Salary = Profit after Salary + Salary = Rs.12,500 + Rs.2,500 = Rs.15,000

$$\therefore \text{ Manager's Commission} = 15,000 \times \frac{5}{100} = 750$$

2. Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{6}{100} = 3,000$$

$$\text{Interest on B's Capital} = 30,000 \times \frac{6}{100} = 1,800$$

3. Calculation of share of profit of each Partner

Profit available for distribution = Rs.12,500 - Rs.750 - Rs.3,000 - Rs.1,800 = Rs.6,950

Profit sharing ratio = 3 : 2

$$\text{A's Profit Share} = 6,950 \times \frac{3}{5} = 4,170$$

$$\text{B's Profit Share} = 6,950 \times \frac{2}{5} = 2,780$$

Question 50.

P, Q and R are in a partnership and as at 1st April, 2017 their respective capitals were: ₹ 40,000, ₹ 30,000 and ₹ 30,000. Q is entitled to a salary of ₹ 6,000 and R ₹ 4,000 p.a. payable before division of profits. Interest is allowed on capital @ 5% p.a. and is not charged on drawings. Of the divisible profits, P is entitled to 50% of the first ₹ 10,000, Q to 30% and R to 20%, rest of the profit are shared equally. Profits for the year ended 31st March, 2018, after debiting partners salaries but before charging interest on capital was ₹ 21,000 and the partners had drawn ₹ 10,000 each on account of salaries, interest and profit.
Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2018 showing the distribution of profit and the Capital Accounts of the partners.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr Particulars		Rs.	Particulars	Cr Rs.
To Interest on capital A/c			By Profit b/d (after Salary)	21,000
P	2,000			
Q	1,500			
R	1,500	5,000		
To Profit transferred to				
P's Capital A/c	7,000			
Q's Capital A/c	5,000			
R's Capital A/c	4,000	16,000		
		21,000		21,000

Partner's Capital Account

Dr Particulars	P	Q	R	Particulars	P	Q	Cr R
To Drawings A/c	10,000	10,000	10,000	By Balance b/d	40,000	30,000	30,000
To Balance c/d	39,000	31,500	29,500	By Salaries A/c	-	6,000	4,000
				By Interest Capital A/c	2,000	1,500	1,500
				By P/L Appropriation A/c	7,000	5,000	4,000
	49,000	42,500	39,500		49,000	42,500	39,500

Working Notes :

1. Calculation of Interest on Capital

$$\text{Interest on P's Capital} = 40,000 \times \frac{5}{100} = 2,000$$

$$\text{Interest on Q's Capital} = 30,000 \times \frac{5}{100} = 1,500$$

$$\text{Interest on R's Capital} = 30,000 \times \frac{5}{100} = 1,500$$

2. Calculation of share of profit of each Partner

Profit available for distribution = Rs.21,000 - Rs.5,000 =Rs. 16,000

i. Distribution of first Rs.10,000 (50% 30% and 20%)

$$\text{P's Profit Share} = 10,000 \times \frac{50}{100} = 5,000$$

$$\text{Q's Profit Share} = 10,000 \times \frac{30}{100} = 3,000$$

$$\text{R's Profit Share} = 10,000 \times \frac{20}{100} = 2,000$$

ii. Distribution of Reaming Profits in equal ratio i.e. Rs.6,000 (Rs.16,000 - Rs.10,000)

$$\text{Profit Share of each} = 6,000 \times \frac{1}{3} = 2,000$$

Accordingly,

Total Profit Share of P = Rs.5,000 + Rs.2,000 = Rs.7,000

Total Profit Share of Q = Rs.3,000 + Rs.2,000 = Rs.5,000

Total Profit Share of R = Rs.2,000 + Rs.2,000 = Rs.4,000

Question 51.

A, B and C are partners sharing profits and losses in the ratio of A 1/2, B 3/10, C 1/5 after providing for interest @ 5% on their respective capitals, viz., A ₹ 50,000; B ₹ 30,000 and C ₹ 20,000 and allowing B and C a salary of ₹ 5,000 each per annum. During the year ended 31st March, 2018, A has drawn ₹ 10,000 and B and C in addition to their salaries have drawn ₹ 2,500 and ₹ 1,000 respectively. The Profit and Loss Account for the year ended 31st March, 2018 showed a net profit of ₹ 45,000 before charging (a) interest on capital and (b) partners salaries. On 1st April, 2017, the balances in the current Account of the partners were A (cr.) ₹ 4,500; B (Cr.) ₹ 1,500 and C (Cr.) ₹ 1,000. Interest is not charged on Drawings or Current Account balances. Show Partners Capital and Current Accounts as at 31st March, 2018 after division of profits in accordance with the partnership agreement.

Solution:

Profit and Loss Appropriation Account

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Interest on capital A/c			By Profit and Loss A/c	45,000
A	2,500			
B	1,500			
C	1,000	5,000		
To Salary A/c to:				
B	5,000			
C	5,000	10,000		
To Profit transferred to:				
A's Current A/c	15,000			
B's Current A/c	9,000			
C's Current A/c	6,000	30,000		
		45,000		45,000

Partner's Capital Account

Dr | Cr

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
				By Balance b/d	50,000	30,000	20,000
To Balance c/d	50,000	30,000	20,000				
	50,000	30,000	20,000		50,000	30,000	20,000

Partner's Current Account

Dr | Cr

Particulars	A Rs.	B Rs.	C Rs.	Particulars	A Rs.	B Rs.	C Rs.
To Drawings A/c	10,000	7,500	6,000	By Balance b/d	4,500	1,500	1,000
To Balance c/d	12,000	9,500	7,000	By Interest on Capital A/c	2,500	1,500	1,000
				By Salaries A/c	-	5,000	5,000
				By P/L Appropriation A/c	15,000	9,000	6,000
	22,000	17,000	13,000		22,000	17,000	13,000

Working Notes

1. Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{5}{100} = 2,500$$

$$\text{Interest on B's Capital} = 30,000 \times \frac{5}{100} = 1,500$$

$$\text{Interest on C's Capital} = 20,000 \times \frac{5}{100} = 1,000$$

2. Calculation of share of profit of each Partner

Profit available for Distribution = Rs.45,000 - Rs.15,000 = Rs.30,000

$$\text{A's Share of Profit} = 30,000 \times \frac{1}{2} = 15,000$$

$$\text{B's Share of Profit} = 30,000 \times \frac{3}{10} = 9,000$$

$$\text{C's Share of Profit} = 30,000 \times \frac{1}{5} = 6,000$$

Question 52.

Ali the Bahadur are partners in a firm sharing profits and losses as Ali 70% and Bahadur 30%. Their respective capitals as at 1st April, 2017 stand as Ali ₹ 25,000 and Bahadur ₹ 20,000. The partners are allowed interest on capitals @ 5% p.a. Drawings of the partners during the year ended 31st March, 2018 amounted to ₹ 3,500 and ₹ 2,500 respectively. Profit for the year, before charging interest on capital and annual salary of Bahadur @ ₹ 3,000, amounted to ₹ 40,000, 10% of divisible profit is to be transferred to Reserve. You are asked to show Partners Current Account and Capital Accounts recording the above transactions.

Solution:

Partner's Capital Accounts

Dr | Cr

Particulars	Ali	Bahadur	Particulars	Ali	Bahadur
To Balance c/d	25,000	20,000	By Balance b/d	25,000	20,000
	25,000	20,000		25,000	20,000

Partner's Current Accounts

Dr | Cr

Particulars	Ali	Bahadur	Particulars	Ali	Bahadur
To Drawings A/c	3,500	2,500	By Interest on Capital A/c	1,250	1,000
To Balance c/d	19,642	10,883	By Bahadur's Salary A/c		3,000
			By P/L Appropriation A/c	21,892	9,383
	22,775	13,225		22,775	13,225

Working Notes

1.

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Interest on Capital A/c			By Profit and Loss A/c	40,000
Ali	1,250			
Bahadur	1,000	2,250		
To Reserve A/c		3,475		
To Bahadur's Salary A/c		3,000		
To Profit transferred to				
Ali's Capital A/c	21,892			
Bahadur's Capital A/c	9,383	31,275		
		40,000		40,000

2. Calculation of Interest on Capital

$$\text{Interest on Ali's Capital} = 25{,}000 \times \frac{5}{100} = 1{,}250$$

$$\text{Interest on Bahadur's Capital} = 20{,}000 \times \frac{5}{100} = 1{,}000$$

3. Calculation of Amount to be transferred to Reserve

$$\text{Amount for Reserve} = 10\,\%\ \text{Divisible Profit}$$

$$= (40{,}000 - 2{,}250 - 3{,}000) \times \frac{10}{100} = 3{,}475$$

4. Calculation of share of profit of each partner

Profit available for distribution

=Rs. 40,000 - Rs.2,250 - Rs.3,475- Rs.3,000

= Rs.31,275

$$\text{Ali's Profit Share} = 31{,}275 \times \frac{70}{100} = 21{,}892$$

$$\text{Bahadur Profit Share} = 31{,}275 \times \frac{30}{100} = 9{,}383$$

Question 53.

Amal, Bimal and kamal are three partners. On 1st April, 2017, their Capitals stood as: Amal ₹ 40,000, Bimal ₹ 30,000 and Kamal ₹ 25,000. It was decided that:

(a) they would receive interest on Capital @ 5% p.a.

(b) Amal would get a salary of ₹ 250 per month.

(c) Bimal would receive commission @ 4% on net profit after deducting commission, interest on capital and salary, and

(d) After deducting all of these 10% of the profit should be transferred to the General Reserve.

Before the above items were taken into account, the profit for the year ended 31st March, 2018 was

₹ 33,360. Prepare Profit and Loss Appropriation Account and the Capital Accounts of the Partners.

Solution:

Profit and Loss Appropriation Account

for the year ended March 31,2018

Dr Cr

Particulars		Rs.	Particulars	Rs.
To Interest on Capital A/c			By Profit and Loss A/c	33,360
Amal	2,000		(Net Profit)	
Bimal	1,500			
Kamal	1,250	4,750		
To Salary to Amal A/c				
(250 ×12)		3,000		
To Commission A/c (Bimal)		985		
To General Reserve A/c		2,462		
To Profit transferred to :				
Amal's Capital A/c	7,388			
Bimal's Capital A/c	7,388			
Kamal's Capital A/c	7,387	22,163		
		33,360		33,360

Partner's Current Account

Dr Particulars	Amal	Bimal	Kamal	Particulars	Amal	Bimal	Kamal Cr
To Balance c/d	52,388	39,873	33,637	By Balance b/d	40,000	30,000	25,000
				By Interest on Capital A/c	2,000	1,500	1,250
				By Salary A/c	3,000	-	-
				By Commission	-	985	-
				By P/L Appropriation A/c	7,388	7,388	7,387
	52,388	39,873	33,637		52,388	39,873	33,637

Working Note :

1. Calculation of Interest on Capital

$$\text{Interest on Amal's Capital} = 40,000 \times \frac{5}{100} = 2,000$$

$$\text{Interest on Bimal's Capital} = 30,000 \times \frac{5}{100} = 1,500$$

$$\text{Interest on Kamal's Capital} = 25,000 \times \frac{5}{100} = 1,250$$

2. Calculation of Commission to Bimal

Commission to Bimal = 4% on Net Profits after Commission

Profit after expenses = Rs.33,360 - Rs.4,750 - Rs.3,000 = Rs.25,610

$$\therefore \text{Commission to Bimal} = \text{Profit after Expenses} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

$$= 25,610 \times \frac{4}{104} = 985$$

3. Calculation of Amount to be transferred to General Reserve

Amount for General Reserve

= 10 % of Profit

$$= (33,360 - 4,750 - 3,000 - 985) \times \frac{10}{100}$$

$$= 24,625 \times \frac{10}{100} = 2,462$$

4. Calculation of share of profits to each partner

Profit available for Distribution

= Rs.33,360 - Rs.4,750 - Rs.3,000 - Rs.985 - Rs.2,462

= Rs.22,163

$$\text{Profit Share of Amal, Bimal and Kamal each} = 22,163 \times \frac{1}{3} = 7,387.67$$

Question 54.

Amit, Binita and Charu are three partners. On 1st April, 2017, their Capitals stood as: Amit ₹

1,00,000, Binita ₹ 2,00,000 and Charu ₹ 3,00,000. It was decided that:
(a) they would receive interest on Capital @ 5% p.a.
(b) Amit would get a salary of ₹ 10,000 per month.
(c) Binita would receive commission @ 5% of net profit after deduction of commission, and
(d) 10% of the net profit would be transferred to the General Reserve.
Before the above items were taken into account, the profit for the year ended 31st March, 2018 was ₹ 5,00,000. Prepare Profit and Loss Appropriation Account and the Capital Accounts of the partners.

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2018

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Interest on Capital A/c			By Profit and Loss A/c (Net Profit)	5,00,000
Amit	5,000			
Binita	10,000			
Charu	15,000	30,000		
To Salary to Amit A/c (10,000 ×12)		1,20,000		
To Commission A/c (Binita)		23,810		
To General Reserve A/c		50,000		
To Profit transferred to :				
Amit's Capital A/c	92,063			
Binita's Capital A/c	92,063			
Charu's Capital A/c	92,064	2,76,190		
		5,00,00		**5,00,000**

Partner's Capital Account

Dr							Cr
Particulars	**Amit**	**Binita**	**Charu**	**Particulars**	**Amit**	**Binita**	**Charu**
To Balance c/d	3,17,063	3,25,873	4,07,064	By Balance b/d	1,00,000	2,00,000	3,00,000
				By Interest on Capital A/c	5,000	10,000	15,000
				By Salary A/c	1,20,000		
				By Commission		23,810	
				By P/L Appropriation A/c	92,063	92,063	92,064
	3,17,063	3,25,873	4,07,064		3,17,063	3,25,873	4,07,064

Working Note :

1. Calculation of Interest on Capital

$$\text{Interest on Amit's Capital} = 1,00,000 \times \frac{5}{100} = ₹5,000$$

$$\text{Interest on Binita's Capital} = 2,00,000 \times \frac{5}{100} = ₹10,000$$

$$\text{Interest on Charu's Capital} = 3,00,000 \times \frac{5}{100} = ₹15,000$$

2. Calculation of Commission to Binita

$$\text{Commission (Binita)} = \text{Net Profit} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

$$= 5,00,000 \times \frac{5}{105} = ₹23,810$$

3. Calculation of Amount to be transferred to General Reserve

Amount for General Reserve 10 % of Profit

$$= 5,00,000 \times \frac{10}{100}$$

$$= ₹50,000$$

4. Calculation of Share Profit of each Partner

Profit available for Distribution

= Rs.5,00,000 - Rs.30,000 - Rs.1,20,000 - Rs.23,810 - Rs.50,000

= Rs.2,76,190

$$\text{Profit Share of Amit, Binita and Charu each} = 2,76,190 \times \frac{1}{3} = ₹92,063$$

Question 55.

Anita, Bimla and Cherry are three partners. On 1st April, 2017, their Capitals stood as: Anita ₹ 1,00,000, Bimla ₹ 2,00,000 and Cherry ₹ 3,00,000. It was decided that:

(a) they would receive interest on Capital @ 5% p.a.
(b) Anita would get a salary of ₹ 5,000 per month.
(c) Bimla would receive commission @ 5% of net profit after deduction of commission, and
(d) 10% of the net divisible profit would be transferred to the General Reserve.
Before the above items were taken into account, the profit for the year ended 31st March, 2018 was ₹ 5,00,000. Prepare Profit and Loss Appropriation Account and the Capital Accounts of the partners.

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2018

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Interest on Capital			By Profit and Loss A/c	5,00,000
Anita	5,000		(Net Profit)	
Bimla	10,000			
Cherry	15,000	30,000		
To Salary to Anita A/c (5,000 ×12)		60,000		
To Commission A/c (Bimla)		23,810		
To General Reserve A/c		38,619		
To Profit transferred to :				
Anita's Capital A/c	1,15,857			
Bimla's Capital A/c	1,15,857			
Cherry's Capital A/c	1,15,857	3,47,571		
		5,00,000		**5,00,000**

Partner's Capital Account

Dr Cr

Particulars	Anita	Bimla	Cherry	Particulars	Anita	Bimla	Cherry
To Balance c/d	2,80,857	3,49,667	4,30,857	By Balance b/d	1,00,000	2,00,000	3,00,000
				By Interest on Capital A/c	5,000	10,000	15,000
				By Salary A/c	60,000		
				By Commission A/c		23,810	
				By P/L Appropriation A/c	1,15,857	1,15,857	1,15,857
	2,80,857	3,49,667	4,30,857		2,80,857	3,49,667	4,30,857

Working Note :

1. Calculation of Interest on Capital

$$\text{Interest on Anita's Capital} = 1{,}00{,}000 \times \frac{5}{100} = 5{,}000$$

$$\text{Interest on Bimla's Capital} = 2{,}00{,}000 \times \frac{5}{100} = 10{,}000$$

$$\text{Interest on Cherry's Capital} = 3{,}00{,}000 \times \frac{5}{100} = 15{,}000$$

2. Calculation of Commission to Bimla

Commission to Bimla = 5% on Net Profits after Commission

$$\therefore \text{Commission to Bimla} = \text{Net Profit} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

$$= 5{,}00{,}000 \times \frac{5}{105} = 23{,}810$$

3. Calculation of Amount to be transferred to General Reserve

Amount for General Reserve 10 % of Divisible Profit

$$= 3{,}86{,}190 \times \frac{10}{100}$$

$$= 38{,}619$$

Divisible Profit = Rs.5,00,000 - Rs.30,000 - Rs.23,810 - Rs.60,000

= Rs.3,86,190

4. Calculation of Share of Profit of each Partner

Profit available for Distribution

= Rs.5,00,000 - Rs.30,000 - Rs.60,000 - Rs.23,810 - Rs.38,619

= Rs.3,47,571

$$\text{Profit Share of Anita, Bimla and Cherry each} = 3{,}47{,}571 \times \frac{1}{3} = ₹1{,}15{,}857$$

Question 56.

Anshul and Asha are partners sharing profits and losses in the ratio of 3 : 2. Anshul being a non-working partner contributed ₹ 8,00,000 as her capital. Asha being a working partner did not contribute capital. The partnership Deed provides for interest on capital @ 5% and salary to every working partner @ ₹ 2,000 per month. Net profit before providing for interest on capital and partner’s salary for the year ended 31st March, 2018 was ₹ 32,000.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Interest on Anshul's Capital A/c	20,000	By Profit and Loss A/c	32,000
To Anshu's Salary A/c	12,000		
	32,000		32,000

Working Note

$$\text{Interest on Anshul's Capital} = 8,00,000 \times \frac{5}{100} = 40,000$$

Salary to Asha = Rs.24,000

Total appropriation to be made = Rs.40,000 + Rs.24,000 = Rs.64,000

Profit earned during the year = Rs.32,000

Here, profit available for distribution (i.e. Rs.32,000) *is less than* the sum of total of interest on Capital and Salary (i.e. Rs.64,000)

Therefore, profit will be distributed in the ratio of interest on Capital and Salary.

Ratio of Interest on Anshul's Capital to Asha' Salary is 40,000 : 24,000, i.e. 5 : 3.

$$\text{Interest on Anshul's Capital} = 32,000 \times \frac{5}{8} = 20,000$$

$$\text{Asha's Salary} = 32,000 \times \frac{3}{8} = 12,000$$

Question 57.

X and Y entered into partnership on 1st April, 2017 and contributed ₹ 2,00,000 and ₹ 1,50,000 respectively as their capitals. On 1st October, 2017, X provided ₹ 50,000 as loan to the firm. As per the provisions of the partnership Deed:

(i) 20% of Profits before charging interest on Drawings but after making appropriations to be transferred to General Reserve.

(ii) Interest on capital at 12% p.a. and Interest on Drawings @ 10% p.a.

(iii) X to ger monthly salary of ₹ 5,000 and Y to get salary of ₹ 22,500 per quarter.

(iv) X is entitled to a commission of 5% on sales. Sales for the year were ₹ 3,50,000.

(v) Profit and Loss to be shared in the ratio of their capital contribution up to ₹ 1,75,000 and above ₹ 1,75,000 equally.

The profit for the year ended 31st March, 2018 before providing for any interest was ₹ 4,61,000. The drawings of X and Y were ₹ 1,00,000 and ₹ 1,25,000 respectively. Pass the necessary Journal entries relating to appropriation our of profit and Loss Appropriation Account and the Partners Capital Accounts.

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2018

Dr. Particulars		Rs.	Particulars		Cr. Rs.
To Interest on Capital A/c			By Profit and Loss A/c (4,61,000 - 1,500)		4,59,500
X	24,000		By Interest on drawings		
Y	18,000	42,000	X's A/c	5,000	
To X's Capital A/c (Commission) (3,50,000×5%)		17,500	Y's A/c	6,250	11,250
To Salary A/c					
X	60,000				
Y	90,000	1,50,000			
To Reserve A/c		50,000			
To Profit transferred to :					
X's Capital A/c	1,18,125				
Y's Capital A/c	93,125	2,11,250			
		4,70,750			**4,70,750**

Partner's Capital Account

Dr Particulars	X	Y	Particulars	X	Cr Y
To Drawings A/c	1,00,000	1,25,000	By Balance b/d	2,00,000	1,50,000
To Interest on drawings A/c	5,000	6,250	By Interest on Capital A/c	24,000	18,000
To Balance c/d	3,14,625	2,19,875	By Salary A/c	60,000	90,000
			By Commission A/c	17,500	
			By P/L Appropriation A/c	1,18,125	93,125
	4,19,625	3,51,125		4,19,625	3,51,125

Working Note :

1. Calculation of Reserve

Profit before charging Interest on Drawings but after making appropriations

= Rs.4,59,500 - Rs.42,000 - Rs.17,500 - Rs.60,000 - Rs.90,000

= Rs.2,50,000

$$\text{Reserve} = 2,50,000 \times \frac{20}{100} = ₹50,000$$

2. Division of Profits

Partners	Up to Rs.1,75,000	Rs.36,250 (Above Rs.1,75,000)	Total
X	1,00,000	18,125	1,18,125
Y	75,000	18,125	93,125

Question 58.

P and Q were partners in a firm sharing profits and losses equally. Their fixed capitals were ₹ 2,00,000 and ₹ 3,00,000 respectively. The Partnership Deed provided for interest on capital @ 12% per annum. For the year ended 31st March, 2016, the profits of the firm were distributed without providing interest on capital. Pass necessary adjustment entry to rectify the error.

Solution:

Journal

Adjustment entry

Particulars	L.F.	Debit Rs.	Credit Rs.
P's Current A/c Dr.		6,000	
To Q's Capital A/c			6,000
(Being adjustment of omission of interest on capital)			

Working Note:

Statement Showing Adjustment

	P	Q	Total
Interest on Capital @ 12%	24,000	36,000	60,000
Less: Profit wrongly distributed to the extent of interest amount	(30,000)	(30,000)	(60,000)
Net Effect (Profit Sharing)	(6,000)	6,000	NIL

Question 59.

Reya, Mona and Nisha shared profits in the ratio of 3 : 2 : 1. The profits for the last three year were ₹ 1,40,000; ₹ 84,000 and ₹ 1,06,000 respectively. These profits were by mistake shared equally for all the give necessary Journal entry for the same.

Solution:

Journal

Particulars	L.F.	Debit Rs.	Credit Rs.
Nisha's Capital A/c Dr.		55,000	
To Reya's Capital A/c			55,000
(Being adjustment of profit made)			

Working Note :

Total Profits for Last 3 years

= 1,40,000 + 84,000 + 1,06,000

= 3,30,000

Statement Showing Adjustment

Particulars	Reya Rs.	Mona Rs.	Nisha Rs.	Total Rs.
Right Distribution of Profit (3 :2 :1)	1,65,000	1,10,000	55,000	3,30,000
Less: Wrong Distribution of Profit (1:1:1)	(1,10,000)	(1,10,000)	(1,10,000)	(3,30,000)
Net Effect	55,000	NIL	(55,000)	NIL

Question 60.

Profits earned by a partnership firm for the year ended 31st March, 2017 were distributed equally between the partners Pankaj and Anu without allowing interest on capital. Interest due on capital was Pankaj ₹ 3,000 and Anu ₹ 1,000.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Anu's Capital A/c	Dr.		1,000	
	To Pankaj's Capital A/c				1,000
	(Being adjustment of commission of Interest on Capital)				

Working Note :

Statement Showing Adjustment

Particulars	Pankaj Rs.	Anu Rs.	Total Rs.
Interest on Capital to be credited	3,000	1,000	4,000
Less: Profit wrongly distributed	(2,000)	(2,000)	(4,000)
Net Effect	**1,000 (Credit)**	**1,000 (Debit)**	**NIL**

Question 61.

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

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Azad's Current A/c	Dr.		1,000	
	To Benny's Current A/c				1,000
	(Being adjustment of Profit made)				

Working Note:

Statement Showing Adjustment

	Azad	Benny	Total
Interest on Capital @ 5%	2,000	4,000	6,000
Less: Profit wrongly distributed to the extent of interest amount (1:1)	(3,000)	(3,000)	(6,000)
Net Effect (Profit Sharing)	(1,000)	(1,000)	NIL

Question 62.

Ram and Mohan are equal partners. Their capitals are ₹ 4,000 and ₹ 8,000 respectively. After the accounts for the year are prepared it is discovered that interest @ 5% p.a. on capital as provided in the Partnership Deed has not been credited to the Capital Accounts before distribution of profits. It is decided to make an adjusting entry in the beginning of the next year. Give necessary adjustment entry.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Ram's Capital A/c Dr.		100	
	To Mohan's Capital A/c			100
	(Being Interest on Capital was Omitted, now adjusted)			

Working Notes :

1. Calculation of Interest on Capital

$$\text{Interest on Ram's Capital} = 4,000 \times \frac{5}{100} = 200$$

$$\text{Interest on Mohan's Capital} = 8,000 \times \frac{5}{100} = 400$$

$$\text{Total Interest Amount} = 200 + 400 = 600$$

Particulars	Ram Rs.	Mohan Rs.	Total Rs.
Interest on Capital to be credited	200	400	600
Less: For sharing above Loss (1:1)	(300)	(300)	(600)
Net Effect	100 (Debit)	100 (Credit)	Nil

Question 63.

Ram, Mohan and Sohan sharing profits and losses equally have capitals of ₹ 1,20,000, ₹ 90,000 and ₹ 60,000. For the year ended 31st March, 2018, interest was credited to them @ 6% instead of 5%. Give adjustment Jounral entry.

Solution:

Journal

Particulars	L.F.	Debit Rs.	Credit Rs.
Ram's Capital A/c Dr. To Sohan's Capital A/c (Being Interest on Capital was wrongly credited now adjusted)		300	 300

Working Notes :

1 Calculation of Interest on Capital at 6% p.a.

$$\text{Interest on Ram's Capital} = 1,20,000 \times \frac{6}{100} = ₹7,200$$

$$\text{Interest on Mohan's Capital} = 90,000 \times \frac{6}{100} = ₹5,400$$

$$\text{Interest on Sohan's Capital} = 60,000 \times \frac{6}{100} = ₹3,600$$

2 Calculation of Interest on Capital at 5% p.a.

$$\text{Interest on Ram's Capital} = 1,20,000 \times \frac{5}{100} = ₹6,000$$

$$\text{Interest on Mohan's Capital} = 90,000 \times \frac{5}{100} = ₹4,500$$

$$\text{Interest on Sohan's Capital} = 60,000 \times \frac{5}{100} = ₹3,000$$

3.

Statement Showing Adjustment

Particulars	Ram Rs.	Mohan Rs.	Sohan Rs.	Total Rs.
Reversal of Interest on Capital wrongly credited at 6% p.a. Interest on Capital credited at 5% p.a.	(7,200) 6,000	(5,400) 4,500	(3,600) 3,000	(16,200) 13,500
Wrong Distribution **Less:** Right Distribution of 2,700 (1:1:1)	(1,200) 900	(900) 900	(600) 900	(2,700) 2,700
Net Effect	(300)	NIL	300	NIL

Question 64.

Ram, Shyam and Mohan were partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2. Their capitals were fixed at ₹ 3,00,000, ₹ 1,00,000, ₹ 2,00,000. For the year ended 31st March, 2018, interest on capital was credited to them @ 9% instead of 10% p.a. The profit for the year before charging interest was ₹ 2,50,000. Show your working notes clearly and pass necessary adjustment entry.

Solution:

Journal

Particulars		L.F.	Debit Rs.	Credit Rs.
Shyam's Current A/c	Dr		200	
Mohan's Current A/c	Dr		400	
To Ram's Current A/c				600
(Being Interest on Capital adjusted)				

Working Notes:

1 Calculation of Interest on Capital 10% p.a.

$$\text{Interest on Ram's Capital} = 3,00,000 \times \frac{10}{100} = ₹30,000$$

$$\text{Interest on Shyam's Capital} = 1,00,000 \times \frac{10}{100} = ₹10,000$$

$$\text{Interest on Mohan's Capital} = 2,00,000 \times \frac{10}{100} = ₹20,000$$

2 Calculation of Interest on Capital 9% p.a.

$$\text{Interest on Ram's Capital} = 3,00,000 \times \frac{9}{100} = ₹27,000$$

$$\text{Interest on Shyam's Capital} = 1,00,000 \times \frac{9}{100} = ₹9,000$$

$$\text{Interest on Mohan's Capital} = 2,00,000 \times \frac{9}{100} = ₹18,000$$

3

Statement Showing Adjustment

Particulars	Ram Rs.	Mohan Rs.	Sohan Rs.	Total Rs.
Interest on Capital wrongly credited at 10% p.a.	30,000	10,000	20,000	60,000
Less: Reversal of Interest on Capital Wrongly credited at 9% p.a.	(27,000)	(9,000)	(18,000)	(54,000)
Right Distribution	3,000	1,000	2,000	6,000
Wrong distribution of 6,000 (2:1:2)	(2,400)	(1,200)	(2,400)	(6,000)
Net Effect	**600**	**(200)**	**(400)**	**NIL**

Question 65.

Mita and Usha are partners in a firm sharing profits in the ratio of 2 : 3. Their Capital Accounts as on 1st April, 2015 showed balances of ₹ 1,40,000 and ₹ 1,20,000 respectively. The drawings of mita and Usha during the year 2015-16 were ₹ 32,000 and ₹ 24,000 respectively. Both the amounts were withdrawn on 1st January 2016. It was subsequently found that the following items had been omitted while preparing the final accounts for the year ended 31st March, 2016:

(a) Interest on Capital @ 6% p.a.

(b) Interest on Drawings @ 6% p.a.

(c) Mita was entitled to a commission of ₹ 8,000 for the whole year.

Showing your working clearly, pass a rectifying entry in the books of the firm.

Solution:

Journal

Particulars	L.F.	Debit Rs.	Credit Rs.
Usha's Capital A/c Dr. To Mita's Capital A/c (Being Interest on Capital adjusted)		6,816	 6,816

Working Notes :

1 Calculation of Interest on Capital 6% p.a.

$$\text{Interest on Mita's Capital} = 1,40,000 \times \frac{6}{100} = ₹8,400$$

$$\text{Interest on Usha's Capital} = 1,20,000 \times \frac{6}{100} = ₹7,200$$

2 Calculation of Interest on Drawing 6% (1 Jan 2016)

$$\text{Interest on Mita's Drawing} = 32,000 \times \frac{6}{100} \times \frac{3}{12} = ₹480$$

$$\text{Interest on Usha's Drawing} = 24,000 \times \frac{6}{100} \times \frac{3}{12} = ₹360$$

3.

Statement Showing Adjustment

Particulars	Mita `	Usha Rs.	Total Rs.
Interest on Capital wrongly credited at 6% p.a.	8,400	7,200	15,600
Interest on Drawing	(480)	(360)	(840)
Commission to Mita	8,000		8,000
Wrong distribution of (2:3)	9,104	13,656	22,760
Right distribution	(15,920)	(6,840)	(22760)
Net Effect	**(6,816)**	**6,816**	**NIL**

Question 66.

Mohan, Vijay and Anil are partners, the balances of their Capital Accounts being ₹ 30,000, ₹ 25,000 and ₹ 20,000 respectively. In arriving at these figures, the profits for the year ended 31st March, 2016, ₹ 24,000 had already been credited to partners in the proportion in which they shared profits. Their drawings were ₹ 5,000 (Mohan), ₹ 4,000 (Anil) during the year. Subsequently, the following omissions were noticed and it was decided to bring them into account:

(a) Interest on capital @ 10% p.a.

(b) Interest on drawings: Mohan ₹ 250, Vijay ₹ 200 and Anil ₹ 150.

Make necessary corrections through a Journal entry and show your workings clearly.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Anil's Capital A/c Dr. To Mohan's Capital A/c (Being Interest on Capital and inters on drawings was omitted, now adjusted)		550	 550

Working Notes

1 Calculation of Capital at the beginning

Particulars	Mohan Rs.	Vijay Rs.	Anil Rs.	Total Rs.
Capital at the end	30,000	25,000	20,000	75,000
Add : Drawings	5,000	4,000	3,000	12,000
Less : Profit (1:1:1)	(8,000)	(8,000)	(8,000)	(24,000)
Capital in the beginning	27,000	21,000	15,000	63,000

2 Calculation of Interest on Capital

$$\text{Interest on Mohan's Capital} = 27,000 \times \frac{10}{100} = 2,700$$

$$\text{Interest on Vijay's Capital} = 21,000 \times \frac{10}{100} = 2,100$$

$$\text{Interest on Anil's Capital} = 25,000 \times \frac{10}{100} = 1,500$$

3.

Statement Showing Adjustment

Particulars	Mohan Rs.	Vijay Rs.	Anil Rs.	Total Rs.
Interest on Capital to be credited	2,700	2,100	1,500	6,300
Less : Interest on Drawings	(250)	(200)	(150)	(600)
Right Distribution of Net Rs.5,700	2,450	1,900	1,350	5,700
Less: Wrong Distribution of Rs.5,700 (1:1:1)	(1,900)	(1,900)	(1,900)	(5,700)
Net Effect	550	NIL	(550)	NIL

4. Calculation of Final Share of Profits

Total Corrected Profit Available for Distribution

= Profit - Interest On Capital + Interest on Drawings

= Rs.24,000 - Rs.6,300 + Rs.600

= Rs.18,300

$$\text{So, Connected profit share of Mohan, Vijay and Anil} = 18,300 \times \frac{1}{3} = 6,100 \text{ each}$$

Question 67.

Piya and Bina are partners in a firm sharing profits and losses in the ratio of 3 : 2. Following was the

Balance Sheet of the firm as on 31st March, 2016:

Liabilities		₹	Assets	₹
Capitals:			Sundry Assets	1,20,000
Piya	80,000			
Bina	40,000	1,20,000		
		1,20,000		1,20,000

The profits ₹ 30,000 for the year ended 31st March, 2016 were divided between the partners without allowing interest on capital @ 12% p.a. salary to Piya @ ₹ 1,000 per month. During the year Piya withdrew ₹ 8,000 and Bina withdrew ₹ 4,000. Showing your working notes clearly, pass the necessary rectifying entry.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bina's Capital A/c Dr.		5,856	
	To Piya's Capital A/c			5,856
	(Being Interest on Capital adjusted)			

Working Notes:

Adjusting Table

Particulars	Piya	Bina	Total
Interest on Capital to be credited @ 12% (Cr.)	1,920	(480)	1,440
Salary to A (Cr.)	12,000	-	12,000
Profit to be credited (Cr.)	63,936	42,624	1,06,560
Profit wrongly credited (Dr.)	(72,000)	(48,000)	(1,20,000)
Difference	**5,856 (Cr.)**	**5,856 (Dr.)**	**Nil**

Particulars	Piya	Bina
Capital at the end	80,000	40,000
Less : Profit already credited	72,000	48,000
Add : Drawings already debited	8,000	4,000
Capital at the beginning	16,000	(4,000)

Calculation of Interest on Capital

Interest on Piya's Capital : $16,000 \times \frac{12}{100} = 1,920$

Interest on Bina's Capital : $4,000 \times \frac{12}{100} = 480$

Question 68.

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

Year	2015–16	2016–17	2017–18
Profit (₹)	2,20,000	2,40,000	2,90,000

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

Solution:

Journal

Particulars		L.F.	Debit. Rs.	Credit Rs.
Harry's Capital A/c	Dr.		50,000	
Porter's Current A/c	Dr.		50,000	
To Ali's Current A/c				1,00,000
(Being Internet On Capital wrongly credited now adjusted)				

Working Notes :

	Harry	Porter	Ali	=	Total Rs.
Total profit of 3 years (old Ratio) (2:2:1)	(3,00,000)	(3,00,000)	(1,50,000)	=	(7,50,000)
Distribution of Profit (New Ratio) (1:1:1)	2,50,000	2,50,000	2,50,000		7,50,000
	(50,000)	**(50,000)**	**1,00,000**	=	**NIL**
Adjusted Profit	**Dr.**	**Dr.**	**Cr.**		

Adjustment of Profit old Ratio:(2 : 2 : 1)

Adjustment of Profit	**Harry**	**Porter**	**Ali**
For 2015 - 2016	88,000	88,000	44,000
For 2016 - 2017	96,000	96,000	48,000
For 2017 - 2018	1,16,000	1,16,000	58,000
Net Effect	**3,00,000**	**3,00,000**	**1,50,000**

Question 69.

On 31st March, 2018, after the closing of the accounts, the Capital Accounts of P, Q and R stood in the books of the firm at ₹ 40,000; ₹ 30,000 and ₹ 20,000 respectively. Subsequently, it was discovered that interest on capital @ 5% had been omitted. Profit for the year ended 31st March, 2018 amounted to ₹ 60,000 and the partners drawings had been P ₹ 10,000, Q ₹ 7,500 and R ₹ 4,500. The profit-sharing ratio of P, Q and R is 3 : 2 : 1. Give necessary adjustment entry.

Solution:

Journal

Particulars		L.F.	Debit Rs.	Credit Rs.
P's Current A/c	Dr.		300	
To Q's Capital A/c				8
To R's Capital A/c				292
(Being interest on capital was omitted, now adjusted)				

Working Notes :

1 Calculation of Capital at the beginning (as on April 01,2016)

Particulars	P Rs.	Q Rs.	R Rs.
Capital as in March 31,2017 (Closing)	40,000	30,000	20,000
Add : Drawings	10,000	7,500	4,500
Less : Profit 60,000 (3 :2 :1)	(30,000)	(20,000)	(10,000)
Capital as on April 01, 2016 (Opening)	**20,000**	**17,500**	**14,500**

2 Calculation of Interest on Capital

$$\text{Interest on P's Capital} = 20,000 \times \frac{5}{100} = 1,000$$

$$\text{Interest on Q's Capital} = 17,500 \times \frac{5}{100} = 875$$

$$\text{Interest on R's Capital} = 14,500 \times \frac{5}{100} = 725$$

3

Statement Showing Adjustment

Particulars	P Rs.	Q Rs.	R Rs.	Total
Interest on Capital (to be credited)	1,000	875	725	2,600
For Sharing above Loss (3 :2 :1)	(1,300)	(867)	(433)	(2,600)
Net Effect	**(300)**	**8**	**292**	**NIL**

Question 70.

A, B and C were partners. Their capitals were A ₹ 30,000; B ₹ 20,000 and C ₹ 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 profit for the year were ₹ 30,000 distributed in the ratio of capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 5 : 3 : 2.
Pass necessary adjustment entry showing the workings clearly.

Solution:

Journal

Particulars		L.F.	Debit Rs.	Credit Rs.
A's Current A/c	Dr		3,675	
To B's Current A/c				2,895
To C's Current a/c				780
(Being Adjustment of profit made)				

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 30,000 \times \frac{5}{100} = ₹1,500$$

$$\text{Interest on B's Capital} = 20,000 \times \frac{5}{100} = ₹1,000$$

$$\text{Interest on C's Capital} = 10,000 \times \frac{5}{100} = ₹500$$

2. Salary to B = 500 × 12 = 6,000

3. Calculation of Commission to C

Commission to C = 5% on Profit after interest on capital but before salary

Profit after Interest on Capital but before Salary = Rs.30,000 - Rs.3,000 = Rs.27,000

$$\therefore \text{ C's Commission} = 27,000 \times \frac{5}{100} = ₹1,350$$

4. Calculation of Share of Profit of each Partner

Profit available for Distribution = Rs.30,000 - Rs.3,000 - Rs.6,000 - Rs.1,350 = Rs.19,650

$$\text{A's Profit Share} = 19,650 \times \frac{5}{10} = 9,825$$

$$\text{B's Profit Share} = 19,650 \times \frac{3}{10} = 5,895$$

$$\text{C's Profit Share} = 19,650 \times \frac{2}{10} = 3,930$$

5

Statement Showing Adjustment

Particulars	A Rs.	B Rs.	C Rs.	Total
Interest on Capital (to be credited	1,500	1,00	500	3,000
Salary Commission (to be credited)	-	6,00	1,350	7,350
Profit (to be credited)	9,825	5,895	3,930	19,650
Right Distribution	11,325	12,895	5,780	30,000
Wrong Distribution of 30,000 (3 :2:1)	(15,000)	(10,000)	(5,000)	(30,000)
	(3,675)	**2,895**	**780**	**NIL**
Net Effect				

Question 71.

Mannu and shristhi are partners in a firm sharing profit in the ratio of 3 : 2. Following is the balance sheet of the firm as on 31st March 2018:

Profit for the year ended 31st March, 2018 was ₹ 5,000 which was divided in the agreed ratio, but interest @ 5% p.a. on capital and @ 6% p.a. on drawings was inadvertently enquired. Adjust interest on drawings on an average basis for 6 months. Give the adjustment entry.

Solution:

Adjusting entry

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Shrishti Capital A/c Dr. To Mannu's Capital A/c (Being adjustment of Profit made)		288	288

Adjustment of Profit

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

Question 72.

A, B and C are partners in a firm. Net profit of the firm for the year ended 31st march, 2018 is ₹ 30,000, which has been duly distributed among the partners, in their agreed ratio of 3 : 1 : 1 respectively. It is discovered on 10th April, 2018 that the undermentioned transactions were not passed through the books of account of the firm for the year ended 31st March, 2018.

(a) Interest on Capital @ 6% per annum, the capital of A, B and C being ₹ 50,000; ₹ 40,000 and ₹ 30,000 respectively.

(b) Interest on drawings: A ₹ 350; B ₹ 250; C ₹ 150.

(c) Partners' Salaries: A ₹ 5,000; B ₹ 7,500.

(d) Commission due to A (for some special transaction) ₹ 3,000.

You are required to pass a Journal entry, which will not affect Profit and Loss Account of the firm and rectify the position of partners.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c	Dr.		2,520	
	C's Capital A/c	Dr.		2,740	
	To B's Capital A/c				5,260
	(Being Adjustment of Profit Made)				

Working Note

1. Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50{,}000 \times \frac{6}{100} = ₹3{,}000$$

$$\text{Interest on B's Capital} = 40{,}000 \times \frac{6}{100} = ₹2{,}400$$

$$\text{Interest on C's Capital} = 30{,}000 \times \frac{6}{100} = ₹1{,}800$$

2. Interest on drawing

For A - Rs.350

For B - Rs.250

For C - Rs.150

3. Salaries

To A - Rs.5,000, and

To B - Rs.7,500

4. Commission to A Rs.3,000

5. Calculation of Profit share of each partner

Profit available for distribution

= Rs.30,000 - Rs.7,200 + Rs.750 - Rs.12,500 - Rs.3,000

= Rs.8,050

$$\text{A's Profit Share} = 8{,}050 \times \frac{3}{5} = 4{,}830$$

$$\text{B's Profit Share} = 8{,}050 \times \frac{1}{5} = 1{,}610$$

$$\text{C's Profit Share} = 8{,}050 \times \frac{1}{5} = 1{,}610$$

6.

Statement Showing Adjustment

Particulars	A Rs.	B Rs.	C Rs.	Total
Interest On Capital (to be credited)	3,000	2,400	1,800	7,200
Interest on Drawings (to Be debited	(350)	(250)	(150)	(750)
Salaries to A and B (to be credited)	5,000	7,500		12,500
Commission to A (to be credited)	3,000			3,000
Profits to be credited	4,830	1,610	1,610	8,050
Correct Distribution of Profits	15,480	11,260	3,260	30,000
Less: Wrong Distribution of Profits (3:1:1)	(18,000)	(6,000)	(6,000)	(30,000)
Net Effect	**2,520 Debit**	**5260 Credit**	**2,740 Debit**	-

Question 73.

On 31st March, 2014, the balances in the Capital Accounts of Saroj, Mahinder and Umar after making adjustments for profits and drawings, etc., were ₹ 80,000, ₹ 60,000, ₹ 40,000 respectively. Subsequently, it was discovered that the interest on capital and drawings has been omitted.

(a) The profit for the year ended 31st March, 2014 was ₹ 80,000.

(b) During the year Saroj and Mahinder each withdrew a sum of ₹ 24,000 in equal instalments in the end of each month and Umar withdrew ₹ 36,000.

(c) The interest on drawings was to be charged @ 5% p.a. and interest on capital was to be allowed @ 10% p.a.

(d) The profit-sharing ratio among partners was 4 : 3 : 1.

Showing your workings clearly, pass the necessary rectifying entry.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Saroj's Capital A/c	Dr.		2,350	
	Mahinder's Capital A/c	Dr.		1,300	
	To Umar's Capital A/c				3,650
	(Being Profits wrongly distributed without providing interest on capital and drawings, now adjusted)				

Working Note

1 Calculating of Opening Capital

Particulars	Saroj Rs.	Mahinder Rs.	Umar Rs.
Closing Capital	80,000	60,000	40,000
Add : Drawings	24,000	24,000	24,000
Less : Profits (80,000 in 4:3:1)	(40,000)	(30,000)	(10,000)
Opening Capital	**64,000**	**54,000**	**66,000**

2 Calculation of Interest on Capital

$$\text{Interest on Saroj's Capital} = 64,000 \times \frac{10}{100} = 6,400$$

$$\text{Interest on Mahinder's Capital} = 54,000 \times \frac{10}{100} = 5,400$$

$$\text{Interest on Umar's Capital} = 66,000 \times \frac{10}{100} = 6,600$$

3: Calculation of Share of Profits to be credited

Profit available for distribution among partners = Rs.80,000 - Rs.18,400 + Rs.2,000 = Rs.63,600

$$\text{Saroj's Profit Share} = 63,600 \times \frac{4}{8} = ₹31,800$$

$$\text{Mahinder's Profit Share} = 63,600 \times \frac{3}{8} = ₹23,850$$

$$\text{Umar's Profit Share} = 63,600 \times \frac{1}{8} = ₹7,950$$

4: Statement showing adjustment

Statement Showing Adjustment

Particulars	Saroj Rs.	Mahinder Rs.	Umar Rs.	Total
Interest on Capital	6,400	5,400	6,600	18,400
Interest on Drawings	(550)	(550)	(900)	(2,000)
Profits to be distributed	31,800	23,850	7,950	63,600
Total (A)	37,650	28,700	13,650	80,000
Less : Profits wrongly distributed	(40,000)	(30,000)	(10,000)	(80,000)
Net Effect (A - B)	(2,350) Dr	(1,300) Dr	3,650 Cr	NIL

Question 74.

The Capitals of A, B and C as on 31st March, 2018 amounted to ₹ 90,000, ₹ 3,30,000 and ₹ 6,60,000 respectively. The profits amounting ₹ 1,80,000 for the year 2017-18 were distributed in the ratio of 4 : 1 : 1 after allowing interest on Capital @ 10% p.a. During the year, each partner withdrew ₹ 3,60,000. The Partnership Deed was silent as to profit-sharing ratio but provided for interest on capital @ 12%.

Pass the necessary adjustment entry showing the working clearly.

Solution:

Journal

Particulars		L.F.	Debit Rs.	Credit Rs.
A's Capital A/c	Dr.		66,000	
To B's Capital A/c				30,000
To C's Capital a/c				36,000
(Being Adjustment of profit made)				

Working Note :

1. Calculation of Opening Capital

Particulars	A Rs.	B Rs.	C Rs.
1. Closing Capital	90,000	3,30,000	6,60,000
2. Add : Drawings	3,60,000	3,60,000	3,60,000
	4,50,000	6,90,000	10,20,000
3. Less: Profit already credited (4:1:1)	(1,20,000)	(30,000)	(30,000)
4. Opening Capital with interest on capital	3,30,000	6,60,000	9,90,000
Less: Interest on Capital (4. × 10/110)	(30,000)	(60,000)	(90,000)
Opening Capital	3,00,000	6,00,000	9,00,000

2 : Calculation of Intrest on Capital

$$\text{Interest on A's Capital} = 3,00,000 \times \frac{10}{100} = 30,000$$

$$\text{Interest on B's Capital} = 6,00,000 \times \frac{10}{100} = 60,000$$

$$\text{Interest on C's Capital} = 9,00,000 \times \frac{10}{100} = 90,000$$

3 : Statement showing adjustment

Particulars	A Rs.	B Rs.	C Rs.	Total Rs.
Interest on Capital 10%	30,000	60,000	90,000	1,80,000
Profits to be distributed	1,20,000	30,000	30,000	1,80,000
Less: Interest on Capital 12%	(36,000)	(72,000)	(1,08,000)	(2,16,000)
Less: Share profit ratio(1:1:1)	(48,000)	(48,000)	(48,000)	(1,44,000)
Net Effect	66,000 Dr.	30,000 Cr.	36,000 Cr.	NIL

Question 75.

The Capital Accounts of A and B stood at ₹ 4,00,000 and ₹ 3,00,000 respectively after necessary adjustments in respect of the drawings and the net profit for the year ended 31st March, 2018. It was subsequently discovered that 5% p.a. interest on capital and also drawings were not taken into account in arriving at the distributable profit. The drawings of the partners had been: A–₹ 12,000 drawn at the end of each quarter and B–₹ 18,000 drawn at the end of each half year. The profit for the year as adjusted amounted to ₹ 2,00,000. The partners share profits in the ratio of 3 : 2. You are required to pass Journal entries and show adjusted Capital Accounts of the partners.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Pand:L Adjustment A/c	Dr.		29,200	
	To A's Capital A/c				16,400
	To B's Capital A/c				12,800
	(Being Interest on capital omitted, now provided)				
	A's Capital A/c	Dr.		900	
	B's Capital A/c	Dr.		450	
	To Pand L Adjustment A/c				1,350
	(Being Interest on drawings omitted, now charged)				
	A's Capital A/c	Dr.		16,710	
	B's Capital A/c	Dr.		11,140	
	To PandL Adjustment A/c (29,200 - 1,350)				27,850
	(Being Loss on adjustment is distributed between the partner)				

Partner's Current Account

Dr | Cr

Particulars	A Rs.	B Rs.	Particulars	A Rs.	B Rs.
To B's Capital A/c	1,210		By Balance b/d	4,00,000	3,00,000
To Balance c/d	3,98,790	3,01,210	By A's Capital A/c	-	1,210
	4,00,000	3,01,210		4,00,000	3,01,210

Working Notes :

1 Calculation of Capital as on April 01,2016 (Opening Capital)

Particulars	A Rs.	B Rs.	Total Rs.
Capital as on March 31,2017 (Closing)	4,00,000	3,00,000	7,00,000
Add : Drawings	48,000	36,000	84,000
Less : Profit	(1,20,000)	(80,000)	(2,00,000)
Capital as on April 01,2016 (Opening)	**3,28,000**	**2,56,000**	**5,84,000**

2 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 3,28,000 \times \frac{5}{100} = 16,400$$

$$\text{Interest on B's Capital} = 2,56,000 \times \frac{5}{100} = 12,800$$

3 Calculation of Interest on Drawings

$$\text{Interest on A's Drawings} = 48,000 \times \frac{5}{100} \times \frac{4.5}{12} = 900$$

$$\text{Interest on B's Drawings} = 36,000 \times \frac{5}{100} \times \frac{3}{12} = 450$$

In Case only Adjustment Entry is to be passed

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	A's Capital A/c		1,210	
	To B's Capital A/c			1,210
	(Being amount of interest on Capital and interest on drawings adjusted)			

Working Notes :

Statement Showing Adjustment

Particulars	A Rs.	B Rs.	Total Rs.
Interest on Capital (to be credited)	16,400	12,800	29,200
Less : Interest on Drawings	(900)	(450)	(1,350)
Right distribution of 27,850	15,500	12,350	27,850
Less : Wrong Distribution of 27,850 (3:2)	(16,710)	(11,140)	(27,850)
Net Effect	**(1,210)**	**1,210**	**NIL**

Question 76.

X and Y are partners sharing profits and losses in the ratio of 3 : 2. They employed Z as their Manager to whom they paid a salary of ₹ 7,500 per month. Z had deposited ₹ 2,00,000 on which interest was payable ₹ 9% p.a. At the end off the accounting year (i.e., 31st March, 2018) 2017-18 (after division of the year's profits), it was decided that Z should be treated as a partner with effect from 1st April, 2014 with 1/6th share of profits, his deposit being considered as capital carrying interest @ 6% p.a. like capitals of other partners. The firm's profits and losses after allowing interest on capitals were 2014-15:

Profit ₹ 5,90,000; 2015-16: Profit ₹ 6,26,000; 2016-17: Loss ₹ 40,000 and 2017-18: Profit ₹ 7,80,000. Record necessary Journal entries to give effect to the above.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Z's Loan A/c	Dr.		2,00,000	
	To Z's Capital A/c				2,00,000
	(Being Z's Loan transferred to his Capital Account)				
	X's Capital A/c	Dr.		3,600	
	Y's Capita; A/c	Dr.		2,400	
	To Z's Capital A/c				6,000
	(Being Z's excess credit balance paid to him by X and Y in the ratio of 3 : 2)				

Working Notes :

1 Profit before Z's Salary and Interest on Loan

Year	Profit/Loss	+	Salary	+	Interest on Z's loan	=	Profit before Z's Salary and Interest on Loan
2012 - 2013	5,90,000	+	90,000	+	18,000	=	6,98,000
2013 - 2014	6,26,000	+	90,000	+	18,000	=	7,34,000
2014 - 2015	(40,000)	+	90,000	+	18,000	=	68,000
2015 - 2016	7,80,000	+	90,000	+	18,000	=	8,88,000
Profit before Interest on Z's Capital (for 4 years)							

2 Calculation of Interest on Capital

$$\text{Interest on Z's Capital} = 2,00,000 \times \frac{6}{100} = 12,000 \text{p.a.}$$

$$\text{Interest on Z's Capital for 4 years} = 12,000 \times 4 = 48,000$$

3 Calculation of Z's Share of Profit as a Partner

Profit after Interest on Z's Capital = Profit before Interest on Z's Capital - Interest on Z's Capital = Rs.23,88,000 -Rs.48,000 = Rs.23,40,000

Z's Profit Share as a Partner for 4 years

$$= 23,40,000 \times \frac{1}{6} = 3,90,000$$

∴ Z's Share of Interest on Capital and Profit Share as a Partner = Rs.48,000 + Rs.3,90,000 = Rs.4,38,000

Z's Salary and Interest on Loan as Manager = Rs.72,000 + Rs.3,60,000 = Rs.4,32,000

Adjusting Table

Z's Share as a Partner	4,38,000
Less : Z's Share as a Manager	(4,32,000)
Z will get from X and Y in their profit sharing ratio	**6,000**

Profit to be transferred by X and Y in Favour of Z

$$X = 6,000 \times \frac{3}{5} = 3,600$$

$$Y = 6,000 \times \frac{2}{5} = 2,400$$

Question 77.

A and B are partners sharing profits in the ratio of 2 : 1. They decided to admit C, their manager, as a partner form 1st April, 2017, giving him 1/5th share of profit. C, while a manager, was getting a salary of ₹ 50,000 p.a. plus a commission of 10% of the net profit after charging such salary and commission. It was also agreed that any excess amount which C receives as a partner (over his salary and commission) will be borne by A. Profit for the year ended 31st March, 2018 amounted to

₹ 6,44,000, before payment of salary and commission. Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2018

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c	6,44,000
A's Capital A/c	3,35,200			
B's Capital A/c	1,80,000			
C's Capital A/c	1,28,800	6,44,000		
		6,44,000		**6,44,000**

Working Notes:

1. Calculation of Remuneration to C as a Manager

Salary to C Rs.50,000

Commission to C 10% salary and Commission After Net Profit

= Rs.6,44,000 - Rs.50,000 = Rs.5,94,000

$$C's\ Commission = 5,94,000 \times \frac{10}{110} = 54,000$$

Remuneration to C as a Manager = Salary + Commission = 50,000 + 54,000 = Rs.1,04,000

2. Calculation of Profit Share of C as a Partner

Total Profit = Rs.6,44,000

$$Profit\ on\ C's\ Share = 6,44,000 \times \frac{1}{5} = ₹1,28,000$$

Part of C's share to be borne by A = 1,28,000 - 1,04,000= 24,800

Profits available for distribution = 6,44,000 - 1,04,000=5,40,000

Profit Share of A = 5,40,000 ×2/3 = 3,60,000

Profit Share of B = 5,40,000 ×1/3 = 1,80,000

Final Share of A after adjusting C's Deficiency = 3,60,000 - 24,800 = 3,35,200.

Question 78.

X and Y are partners in a firm sharing profits in the ratio of 3 : 2. The have a manager, Z, who gets ₹ 10,000 p.m. salary plus commission of 5% of the profit after charging his salary and commission, Now, they decide to admit Z as a partner, giving him 1/5th share in the profits of the firm. Any excess amount which Z receives as a partner (over his salary and commission) will be borne by X. The profit for the year ended 31st March, 2018 amounted to ₹ 8,40,000 after charging Z's salary. Prepare Profit and Loss Appropriation Account showing the division of profit for the year.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c (Excluding Z's Salary)	9,60,000
X's Capital A/c	4,48,000			
Y's Capital A/c	3,20,000			
Z's Capital A/c	1,92,000	9,60,000		
		9,60,000		**9,60,000**

Working Notes:

1. Calculation of Remuneration to Z as a Manager

Salary to Z = Rs.1,20,000

Commission to Z= 5% of Net Profit after salary and commission

Net Profit after salary and commission = Rs.8,40,000

$$Z's\ Commission = 8,40,000 \times \frac{5}{105} = 40,000$$

Remuneration to Z as a Manager = Salary + Commission = 1,20,000 + 40,000 = Rs.1,60,000

2. Calculation of Profit Share of Z as a Partner

Total Profit = Rs.9,60,000

$$Profit\ on\ Z's\ Share = 9,60,000 \times \frac{1}{5} = ₹1,92,000$$

Z's Profit share to be borne by X = Rs.1,92,000 - Rs.1,60,000 = Rs.32,000

Profits available for distribution between X and Y = Rs.9,60,000 - Rs.1,60,000 = Rs.8,00,000

$$Profit\ on\ X's\ Share = 8,00,000 \times \frac{3}{5} = ₹4,80,000$$

$$Profit\ on\ Y's\ Share = 8,00,000 \times \frac{2}{5} = ₹3,20,000$$

X's Share in profits after adjusting Z's deficiency = Rs.4,80,000 - Rs.32,000 = Rs.4,48,000

Question 79.

A, B and C were in partnership sharing profits and losses in the ratio of 4 : 2 : 1 respectively. It was provided that C's share in profit for a year would not be less then ₹ 7,500. The profit for the year ended 31st March, 2018 amounted to ₹ 31,500. You are required to show the appropriation among the partners. The profit and Loss Appropriation Account is not required.

Solution:

Profit and Loss Appropriation Account
For the year ended 2018

Dr Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	31,500
A's Capital A/c	16,000			
B's Capital A/c	8,000			
C's Capital A/c	7,500	31,500		
		31,500		**31,500**

Working Notes :

Profit for the year = Rs.31,500

Profit sharing ratio = 4:2:1

Minimum profits guaranteed to C Rs.7,500

$$A's\ Profit\ share = 31,500 \times \frac{4}{7} = 18,000$$

$$B's\ Profit\ share = 31,500 \times \frac{2}{7} = 9,000$$

$$C's\ Profit\ share = 31,500 \times \frac{1}{7} = 4,500$$

C's Actual Profit Share (i.e. Rs.4,500) is less than his Minimum Guaranteed Profit (i.e. 7,500)

Deficiency in C's Profit Share = Rs.7,500 -Rs. 4,500 = Rs.3,000

This deficiency is to be borne by A and B in their profit sharing ratio i.e. 4:2

$$Deficiency\ borne\ by\ A = 3,000 \times \frac{4}{6} = 2,000$$

$$Deficiency\ borne\ by\ B = 3,000 \times \frac{2}{6} = 1,000$$

Therefore,

Final Profit Share of A = Rs.18,000 - Rs.2,000 = Rs.16,000

Final Profit Share of B = Rs.9,000 - Rs.1,000 = Rs.8,000

Final Profit Share of C = Rs.4,500 + Rs.3,000 = Rs.7,500

Question 80.

A and B are partners sharing profits in the ratio of 3 : 2. C was admitted for 1/6th share of profit with a minimum guaranteed amount of ₹ 10,000. At the close of the first financial year the firm earned a profit of ₹ 54,000. Find out the share of profit which A, B and C will get.

Solution:

Profit and Loss Appropriation Account

Dr | Cr

Particulars		Amount Rs.	Particulars	Amount Rs.
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	54,000
A's A/c	26,400			
B's A/c	17,600			
C's A/c	10,000	54,000		
		54,000		**54,000**

Working Note

C will get higher of the two:

(i) Share of Profit as per profit sharing ratio, i.e. $\frac{1}{6} \times 54,000 = 9,000$

(ii) Minimum guranteed profit i.e. 10,000

Thus,

From net profits of 54,000; Minimum guranteed profit to C for 10,000 would be adjusted, and then Balance profits of 44,000 (54,000 - 10,000) will be shared by A and B in the ratio 3:2

Accordingly, Final Profit Share of

$$A = \frac{3}{5} \times 44,000 = 26,400$$

$$B = \frac{2}{5} \times 44,000 = 17,600$$

C = 10,000 (minimum guaranteed profit)

Question 81.

X, Y and Z entered into partnership on 1st October, 2017 to share profits and losses in the ratio of 4 : 3 : 3. X, personally guaranteed that Z's share of profit after charging interest on capital @ 10% p.a. would not be less then ₹ 80,000 in any year. The capital contributions were: X ₹ 3,00,000, Y ₹ 2,00,000 and Z ₹ 1,50,000.

The profit for the year ended 31st March, 2018 amounted to ₹ 1,60,000. Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account as on 31st March 2018

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Interest on Capital A/c			By Net Profit b/d	1,60,000
X	15,000			
Y	10,000			
Z	7,500	32,500		
To Profit transferred to :				
X's A/c (51,000 - 1,750)	49,250			
Y's A/c (38,250)	38,250			
Z's A/c (38,250 + 1,750)	40,000	1,27,500		
		1,60,000		1,60,000

Note: Z is admitted on 1st October,2017 and Profit is ascertained on March 31,2018, therefore interest on Capital is to be calculated for 6 months and guaranteed amount is considered as Rs.40,000, i.e. half of the total amount.

Question 82.

A, B and C are partners in a firm. Their profit-sharing ratio is 2 : 2 : 1. C is guaranteed a minimum amount of ₹ 10,000 as share of profit every year. Any deficiency arising on that amount shall be met by B. The profits for the two years ended 31st March, 2017 and 2018 were ₹ 40,000 and ₹ 60,000 respectively. Prepare Profit and Loss Appropriation Account for the two years.

Solution:

Profit and Loss Appropriation Account

For the year ended 2017

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	40,000
A's Capital A/c	16,000			
B's Capital A/c	14,000			
C's Capital A/c	10,000	40,000		
		40,000		40,000

Profit and Loss Appropriation Account

For the year ended 2018

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	60,000
A's Capital A/c	24,000			
B's Capital A/c	24,000			
C's Capital A/c	12,000	60,000		
		60,000		60,000

Working Notes :

1. Distribution of Profit for the year 2017

Profit for 2017 = Rs.40,000

Profit sharing ratio = 2 : 2 :1

C is a given a guarantee of minimum profit of Rs.10,000

$$\text{A's Profit Share} = 40,000 \times \frac{2}{5} = 16,000$$

$$\text{B's Profit Share} = 40,000 \times \frac{2}{5} = 16,000$$

$$\text{C's Profit Share} = 40,000 \times \frac{1}{5} = 8,000$$

Deficiency in C's Profit Share = Rs.10,000 - Rs.8,000 = Rs.2,000

This deficiency is to be borne by B

Therefore

Final Profit Share of A =Rs. 16,000

Final Profit Share of B = Rs.16,000 - Rs.2,000 = Rs.14,000

Final Profit Share of C = Rs.8,000 + Rs.2,000 = Rs.10,000

2. Distribution of Profit for the year 2018

Profit for 2018

Profit sharing ratio = 2:2 : 1

C is given a guarantee of minimum profit of Rs.10,000

$$\text{A's Profit Share} = 60,000 \times \frac{2}{5} = 24,000$$

$$\text{B's Profit Share} = 60,000 \times \frac{2}{5} = 24,000$$

$$\text{C's Profit Share} = 60,000 \times \frac{1}{5} = 12,000$$

Question 83.

A, B and C are partners sharing profits in the ratio of 5 : 4 : 1. C is given a guarantee that his minimum share of profit in any given year would be at least ₹ 5,000. Deficiency, if any, would be borne by A and B equally. The profit for the year 2017-18 amounted to ₹ 40,000.

Pass necessary Journal entries in the books of the firm.

Solution:

Profit and Loss Appropriation Account
For the year ended 2017-18

Dr Particulars		Rs.	Particulars	Cr Rs.
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	40,000
A's Capital A/c	19,500			
B's Capital A/c	15,500			
C's Capital A/c	5,000	40,000		
		40,000		40,000

Working Notes :

Profit for the year = ₹40,000

Profit sharing ratio = 5 : 4 : 1

C is given a guarantee of minimum profit of ₹5,000

$$\text{A's Profit Share} = 40,000 \times \frac{5}{10} = ₹20,000$$

$$\text{B's Profit Share} = 40,000 \times \frac{4}{10} = ₹16,000$$

$$\text{C's Profit Share} = 40,000 \times \frac{1}{10} = ₹4,000$$

Deficiency in C's Share = 5,000 - 4000 = ₹1,000

This deficiency is to be borne by A and B equally.

$$\text{Deficiency borne by A} = 1,000 \times \frac{1}{2} = ₹500$$

$$\text{Deficiency borne by B} = 1,000 \times \frac{1}{2} = ₹500$$

Therefore,

Final Profit Share of A = 20,000 - 500 = ₹19,500

Final Profit Share of B = 16,000 - 500 = ₹15,500

Final Profit Share of C = 4,000 + 1,000 = ₹5,000

Question 84.

Vikas and Vivek were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2017, they admitted Vandana as a new partner for 1/8th share in the profits with a guaranteed profit of ₹ 1,50,000. The new profit-sharing ratio between Vikas and Vivek will remain same but they decided to bear any deficiency on account of guarantee to Vandana in the ratio 3 : 2. The profit of the firm for the year ended 31st March, 2018 was ₹ 9,00,000. Prepare Profit and Loss Appropriation Account of Vikas, Vivek and Vandana for the year ended 31st March, 2018.

Solution:

Profit and Loss Appropriation Account
for the year ended 31st March 18

Dr Particulars		Rs.	Particulars	Cr Rs.
To Profit transferred to :			By Profit and Loss A/c	9,00,000
Vikas's Capital A/c	4,57,500			
Vivek's Capital A/c	2,92,500			
Vandana's Capital A/c	1,50,000	9,00,000		
		9,00,000		**9,00,000**

Working Notes:

$$\text{Profit Share on Vandana's} = 9,00,000 \times \frac{1}{8} = ₹1,12,500$$

Remaining Profit = Rs.9,00,000 - Rs.1,12,500 = Rs.7,87,500

$$\text{Profit on Vikas's Share} = 7,87,500 \times \frac{3}{5} = ₹4,72,500$$

$$\text{Profit on Vivek's Share} = 7,87,500 \times \frac{2}{5} = ₹3,15,000$$

Minimum Guaranteed Profit Vandana = Rs.1,50,000

Deficiency = 37,500 (1,50,000 - 1,12,500)

Deficiency to borne by Vikas and Vivek in the ratio =2:3

$$\text{Vikas's} = 37,500 \times \frac{2}{5} = ₹15,000$$

$$\text{Vivek's} = 37,500 \times \frac{3}{5} = ₹22,500$$

Profit of Vikas after adjusting after deficiency = Rs.4,72,500 - Rs.15,000 = Rs.4,57,500

Profit on Vivek after adjusting after deficiency = Rs.3,15,000 - Rs.22,500 = Rs.2,92,500

Question 85.

Pranshu and Himanshu are partners sharing profits and losses in the ratio of 3 : 2 respectively. They admit Anshu as partner with 1/6 share in the profits of the firm. Pranshu personally guaranteed that Anshu’s share of profit would not be less than ₹ 30,000 in any year. The net profit of the firm for the ear ending 31st March, 2013 was ₹ 90,000. Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2013

Dr Particulars		Rs.	Particulars	Cr Rs.
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	90,000
Pranshu's Capital A/c	30,000			
Himanshu's Capital A/c	30,000			
Anshu's Capital A/c	30,000	90,000		
		90,000		90,000

Working Notes:

1: Calculation of New Profit Sharing Ratio

Old ratio = 3:2

Let the total share of the firm be Re 1

Anshu is admitted for $1/6^{th}$ share in profits

Remaining Share = $1 - \frac{1}{6} = \frac{5}{6}$

Pranshu's New Share = $\frac{3}{5} \times \frac{5}{6} = \frac{15}{30}$

Himanshu's New Share = $\frac{2}{5} \times \frac{5}{6} = \frac{10}{30}$

Anshu's Share = $\frac{1}{6}$ or $\frac{5}{30}$

New Profit Sharing Ratio = 15 : 10 : 5 or 3:2:1

2: Distribution of Profit

Ansh's Share of Profit = $90,000 \times \frac{1}{6}$ =₹15,000

Deficiency of `15,000 in Anshu's share of profit will be borne by Pranshu

Pranshu's Share of Profit = $90,000 \times \frac{3}{6}$ = ₹45,000

Pranshu's actual share of profit (after bearing deficiency) = ₹30,000 (45,000 - 15,000)

Himanshu's Share of Profit = $90,000 \times \frac{2}{6}$ = ₹30, 000

Question 86.

A, B and C are partners in a firm sharing profits in the ratio of 3 : 2 : 1. They earned a profit of ₹ 30,000 during 2017-18. Distribute profit among A, B and C if:

(a) C's share of profit is guaranteed to be ₹ 6,000 Minimum.

(b) Minimum profit payable to C amounting to ₹ 6,000 is guaranteed by A.

(c) Guaranteed minimum profit of ₹ 6,000 payable to C is guaranteed by B.

(d) Any deficiency after making payment of guaranteed ₹ 6,000 will be borne by A and B in the ratio of 3 : 1.

Solution:

Case (a)

Profit and Loss Appropriation Account

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Net Profit b/d	30,000
A's Capital A/c	14,400			
B's Capital A/c	9,600			
C's Capital A/c	6,000	30,000		
		30,000		30,000

Working Notes :

Profit = 30, 000

Profit sharing ratio = 3 : 2 : 1

C is given a guarentee of minimum profit of ₹6, 000

$$\text{A's Profit Share} = 30,000 \times \frac{3}{6} = ₹15,000$$

$$\text{B's Profit Share} = 30,000 \times \frac{2}{6} = ₹10,000$$

$$\text{C's Profit Share} = 30,000 \times \frac{1}{6} = ₹5,000$$

Deficiency in C's Profit Share = 6, 000 - 5, 000 = ₹1, 000

Thie deficiency is to be borne by A and B in their profit sharing ratio i.e. 3 : 2

$$\text{Deficiency borne by A} = 1,000 \times \frac{3}{5} = ₹600$$

$$\text{Deficiency borne by B} = 1,000 \times \frac{2}{5} = ₹400$$

Therefore,

Final Profit Share of A = 15, 000 - 600 = ₹14, 400

Final Profit Share of B = 10, 000 - 400 = ₹9, 600

Final Profit Share of C = 5, 000 + 1, 000 = ₹6, 000

Case (b)

Profit and Loss Appropriation Account

Dr Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c	30,000
A's Capital A/c	14,000			
B's Capital A/c	10,000			
C's Capital A/c	6,000	30,000		
		30,000		30,000

Working Notes :

Deficiency in C's Profit Share = Rs.6,000 - Rs.5,000 = Rs.1,000

This deficiency is to be borne by A only

Therefore,

Final Profit Share of A = Rs.15,000 - Rs.1,000 = Rs.14,000

Final Profit Share of B = Rs.10,000

Final Profit Share of C = Rs.5,000 + Rs.1,000 = Rs.6,000

Case (c)

Profit and Loss Appropriation Account

Dr Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c	30,000
A's Capital A/c	15,000			
B's Capital A/c	9,000			
C's Capital A/c	6,000	30,000		
		30,000		30,000

Working Notes:

Deficiency in C's Profit Share = Rs.6,000 - Rs.5,000 = Rs.1,000

This deficiency is to be borne by B only

Therefore,

Final Profit Share of A = Rs.15,000

Final Profit Share of B = Rs.10,000 - Rs.1,000 = Rs.9,000

Final Profit Share of C = Rs.5,000 + Rs.1,000 = Rs.6,000

Case (d)

Profit and Loss Appropriation Account

Dr Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c	30,000
A's Capital A/c	14,250			
B's Capital A/c	9,750			
C's Capital A/c	6,000	30,000		
		30,000		30,000

Deficiency in C's Profit Share = 6,000 - 5000 = 1,000

This deficiency is to be borne by A and B in the ratio of 3:1

Deficiency borne by A = $1,000 \times \frac{3}{4} = 750$

Deficiency borne by B = $1,000 \times \frac{1}{4} = 250$

Therefore,

Final Profit Share of A = 15,000 - 750 = 14,250

Final Profit Share of B = 10,000 - 250 = 9,750

Final Profit Share of C = 5,000 + 1,000 = 6,000

Question 87.

A and B are in partnership sharing profits and losses in the ratio of 3 : 2. They decided to admit C, their Manager, as a partner with effect from 1st April, 2017, giving him 1/4th share of profits.
C, while a Manager, was in receipt of a salary of ₹ 27,000 p.a. and a commission of 10% of the net profits after charging such salary and commission.
In terms of the Partnership Deed, and excess amount, which C will be entitled to receive as a partner over the amount which would have been due to him if he continued to be the manager, would have to be personally borne by A out of his share of profit. Profit for the year ended 31st March, 2018 amounted to ₹ 2,25,000. You are required to show Profit and Loss Appropriation Account for the year ended 31at March, 2018.

Solution:

Profit and Loss Appropriation Account
for the year and March 31,2018

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c	2,25,000
A's Capital A/c	96,750			
B's Capital A/c	72,000			
C's Capital A/c	56,250	2,25,000		
		2,25,000		2,25,000

Working Notes

1. Calculation of Remuneration to C as a Manager

Salary to C = Rs.27,000

Commission to C = 10% of Net Profit after Salary and Commission

Net Profit after Salary and Commission

= Rs.2,25,000 - Rs.27,000

= Rs.1,98,000

$$\therefore \text{Commission to C} = 1,98,000 \times \frac{10}{110} = 18,000$$

C's remuneration as Manager

= Salary + Commission

= Rs.27,000 + Rs.18,000

= Rs.45,000

2. Calculation of Profit Share of C as a Partner

Profit = Rs.2,25,000

$$\text{C's Profit Share} = 2,25,000 \times \frac{1}{4} = 56,250$$

Part of C's Profit Share to be borne by A = Rs.56,250 - Rs.45,000 =Rs. 11,250

Profit available for distribution between A and B = Rs.2,25,000 - Rs.45,000 = Rs.1,80,000

$$\text{A's Share of Profit} = 1,80,000 \times \frac{3}{5} = 1,08,000$$

$$\text{B's Share of Profit} = 1,80,000 \times \frac{2}{5} = 72,000$$

A's Profit Share after adjusting C's deficiency = Rs.1,08,000 - Rs.11,250 = Rs.96,750

Question 88.

Asgar, Chaman and Dholu are partners in a firm. Their Capital Accounts stood at ₹ 6,00,000; ₹

5,00,000 and ₹ 4,00,000 respectively on 1st April, 2017. They shared Profits and Losses in the proportion of 4 : 2 : 3. Partners are entitled to interest on capital @ 8% per annum and salary to Chaman and Dholu @ ₹ 7,000 per month and ₹ 10,000 per quarter respectively as per the provision of the Partnership Deed. Sholu's share of profit (excluding interest on capital but including salary) is guaranteed at a minimum of ₹ 1,10,000 p.a. Any deficiency arising on that account shall be met by Asgar. The profit for the year ended 31st March, 2018 amounted to ₹ 4,24,000.
Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2018.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2018

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Interest on Capital A/c :			By Profit and Loss A/c	4,24,000
Asgar	48,000		(Net Profit)	
Chaman	40,000			
Dholu	32,000	1,20,000		
To Salary to Chaman A/c (7,000 × 12)		84,000		
To Salary to Dholu A/c (10,000 × 4)		40,000		
To Profit transferred to :				
Asgar Capital A/c	70,000			
Chaman Capital A/c	40,000			
Dholu Capital A/c	70,000	1,80,000		
		4,24,000		4,24,000

Working Notes :

Profit available for distribution

= Rs.4,24,000 - (Rs.1,20,000 + Rs.84,000 + Rs.40,000)

= Rs.1,80,000

Profit sharing ratio = 4:2:3

$$\text{Asgar's Profit Share} = 1,80,000 \times \frac{4}{9} = 80,000$$

$$\text{Chaman's Profit Share} = 1,80,000 \times \frac{2}{9} = 40,000$$

$$\text{Dholu's Profit Share} = 1,80,000 \times \frac{2}{9} = 60,000$$

Dholu's Minimum Guaranteed Profit = Rs.1,10,000 (excluding interest on capital but including salary)

Dholu's Minimum Guaranteed Profit (excluding salary) = Rs.1,10,000 - Rs.40,000 = Rs.70,000

But, Dholu's Actual Profit Share = Rs.60,000

Deficiency in Dholu's Profit Share = Rs.70,000 - Rs.60,000 = Rs.10,000

This deficiency is to be borne only by Asgar

Therefore, Asgar New Profit Share

= Rs.80,000 - Rs.10,000

= Rs.70,000

Question 89.

Ankur, Bhavns and Disha are partners in a firm. On 1st April, 2017, the balance in their Capital

Accounts stood at ₹ 14,00,000, ₹ 6,00,000 and ₹ 4,00,000 respectively. They shared profits in the proportion of 7 : 3 : 2 respectively. Partners are entitled to interest on capital @ 6% per annum and salary to Bhavna @ ₹ 50,000 p.a. and a commission of ₹ 3,000 per month to Disha as per the provisions of the partnership Deed. Bhavna's share of profit (excluding interest on capital) is guaranteed at not less than ₹ 1,70,000 p.a. Disha's share of profit (including interest on capital but excluding commission) is guaranteed at not less than ₹ 1,50,000 p.a. Any deficiency arising on that account shall be met by Ankur. The profit of the firm for the year ended 31st March, 2018 amounted to ₹ 9,50,000. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2018.

Solution:

Profit and Loss Appropriation Account

for the year ended March 31,2018

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Interest on Capital to :			By Profit and Loss A/c (Net Profit)	9,50,000
Ankur	84,000			
Bhavna	36,000			
Disha	24,000	1,44,000		
To Salary to Bhavna		50,000		
To Commission to Disha(3,000 × 12)		36,000		
To Profit transferred to :				
Ankur	4,14,000			
Bhavna	1,80,000			
Disha	1,26,000	7,20,000		
		9,50,000		9,50,000

Working Notes :

Profit available for distribution

= Rs.9,50,000 - (Rs.1,44,000 + Rs.50,000 + Rs.36,000)

= Rs.7,20,000

Profit sharing ratio = 7 : 3 :2

$$\text{Ankur's Profit Share} = 7,20,000 \times \frac{7}{12} = 4,20,000$$

$$\text{Bhavna's Profit Share} = 7,20,000 \times \frac{3}{12} = 1,80,000$$

$$\text{Disha's Profit Share} = 7,20,000 \times \frac{2}{12} = 1,20,000$$

Bhavna's Minimum Guaranteed Profit = Rs.1,70,000 (excluding interest on capital)

But, Bhavna's Actual Profit Share = Rs.1,80,000

$\Rightarrow$ No Deficiency

Disha's Minimum Guaranteed Profit = Rs.1,50,000 (including interest on capital but excluding salary)

Disha's Minimum Guaranteed Profit (excluding interest) = Rs.1,50,000 - Rs.24,000 = Rs.1,26,000

But, Disha's Actual Profit Share = Rs.1,20,000

Deficiency in Disha's Profit Share = Rs.1,26,000 - Rs.1,20,000 = Rs.6,000

This deficiency is to be borne by Ankur alone

Therefore,

Ankur's New Profit Share = Rs.4,20,000 - Rs.6,000 = Rs.4,14,000

Question 90.
Ankur and Bobby were into the business of providing software solutions in India. They were sharing profits and losses in the ratio 3 : 2. They admitted Rohit for a 1/5 share in the firm. Rohit, an alumni or IIT, Chennai would help them to expand their business to various South African countries where he had been working earlier. Rohit is guaranteed a minimum profit of ₹ 2,00,000 for the year. Any deficiency in Rohit's share is to be borne by Ankur and Bobby in the ratio 4 : 1. Loss for the year was ₹ 10,00,000. Pass the necessary Journal entries.
Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Ankur's Capital A/c	Dr.		4,80,000	
	Bobby's Capital A/c	Dr.		3,20,000	
	Rohit's Capital A/c	Dr.		2,00,000	
	To Profit and Loss A/c				10,00,000
	(Being Loss debited to Partner's Capital Accounts)				
	Ankur's Capital A/c	Dr.		3,20,000	
	Bobby's Capital A/c	Dr.		80,000	
	To Rohit's Capital A/c				4,00,000
	(Being Deficiency borne by Ankur and Bobby in ratio of 4:1)				

Working Notes:

1: Calculation of New Ratio

$$\text{Rohit's Share} = \frac{1}{5}$$

Let total share = 1

$$\text{Remaining Share} = 1 - \frac{1}{5} = \frac{4}{5}$$

$$\text{Ankur's New Share} = \frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$$

$$\text{Bobby's New Share} = \frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$$

New Ratio = 12 : 8 : 5

2: Calculation of Share of Loss

$$\text{Ankur's Share of Loss} = 10,00,000 \times \frac{12}{25} = 4,80,000$$

$$\text{Bobby's Share of Loss} = 10,00,000 \times \frac{8}{25} = 3,20,000$$

$$\text{Rohit's share of Loss} = 10,00,000 \times \frac{5}{25} = 2,00,000$$

3: Calculation of Deficiency

Amount payable to Rohit

= Guaranteed Profit Amount + Loss transferred to Rohit' Capital A/c

= Rs.2,00,000 + Rs.2,00,000

= Rs.4,00,000

Deficiency to be borne by Ankur and Bobby in the ratio of 4:1

$$\text{Deficiency to be borne by Ankur} = 4,00,000 \times \frac{4}{5} = 3,20,000$$

$$\text{Deficiency to be borne by Bobby} = 4,00,000 \times \frac{1}{5} = 80,000$$

Question 91.

Ajay, Binay and Chetan were partners sharing profits in the ratio of 3 : 3 : 2. The Partnership Deed provided for the following:

(i) Salary of ₹ 2,000 per quarter to Ajay and Binay.

(ii) Chetan was entitled to a commission of ₹ 8,000.

(iii) Binay was guaranteed a rofit of ₹ 50,000 p.a.

The profit of the firm for the year ended 31st March, 2015 was ₹ 1,50,000 which was distributed among Ajay, Binay and Chetan in the ratio of 2 : 2 : 1, without taking into consideration the provisions of Partnership Deed. Pass necessary rectifying entry for the above adjustments in the books of the firm. Show your workings clearly.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
	Ajay's Capital A/c	Dr.		6,400	
	Binay's Capital A/c	Dr.		2,000	
	To Chetan's Capital A/c				8,400
	(Being adjustment entry)				

Working Notes:

1.

Profit and Loss Appropriation Account
for the year ended March 31,2015

Dr. Cr.

Particulars		Rs.	Particulars	Rs.
To Salary A/c			By Profit and Loss A/c	1,50,000
Ajay	8,000			
Binay	8,000	16,000		
To Chetan's Capital A/c				
To Profit transferred to :				
Ajay's Capital A/c	45,600			
Binay's Capital A/c	50,000			
Chetan's Capital A/c	30,400	1,26,000		
		1,50,000		1,50,000

2.

Statement Showing Adjustment

Particulars	Ajay	Binay	Chetan	Total
Salary be provided	8,000	8,000	--	16,000
Commission to be provided			8,000	8,000
Profit to be credited	45,600	50,000	30,400	1,26,000
Total	**53,600**	**58,000**	**38,400**	**1,50,000**
Profit already distributed	(60,000)	(60,000)	(30,000)	(1,50,000)
Net Effect	**(6,400)**	**(2,000)**	**8,400**	**Nil**

Question 92.

P, Q and R entered into partnership on 1st April, 2015 to share profits and losses in the ratio of 12 : 8 : 5. It was provided that in no case R's share in profit be less then ₹ 30,000 p.a. The profits and losses for the period ended 31st March were: 2015-16 Profit ₹ 1,20,000 2016-17 Profit ₹ 1,80,000; 2017-18 Loss ₹ 1,20,000.

Pass the necessary Journal entries in the books of the firm.

Solution:

Journal

Date	Particulars		L.F.	Debit Rs.	Credit Rs.
2015 - 16	P's Capital A/c Q's Capital A/c To R's Capital A/c (Being deficiency adjust)	Dr. Dr.		3,600 2,400	 6,000
2017 - 18	P's Capital A/c Q's Capital A/c To R's Capital A/c (Being deficiency adjust)	Dr. Dr.		32,400 21,600	 54,000

Working Notes:

Calculation of amount of deficiency of R's

Minimum Guaranteed R's Profit = Rs.30,000

$$2015-16,\ \text{R's Share Profit (actual)} = 1,20,000 \times \frac{5}{25} = 24,000$$

Deficiency in R's Profit = 30,000 - 24,000 = 6,000

Deficiency to borne by P and Q in the ratio =12:8

$$2016-17\ \text{R's actual share profit} = 1,80,000 \times \frac{5}{25} = 36,000$$

No deficiency in R's profit as his actual share exceeds his minimum guaranteed share.

$$2017-18,\ \text{R's share of loss} = 1,20,000 \times \frac{5}{25} = 24,000$$

Deficiency in R's Profit = 30,000 + 24,000 = 54,000

Deficiency to borne by P and Q in the ratio =12:8

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Question 93.

Three Chartered Accountants A, B and C form a partnership, profits being shared in the ratio of 3 : 2 : 1 subject to the following:

(a) C's share of profit guaranteed to be not less than ₹ 15,000 p.a.

(b) B gives a guarantee to the effect that gross fee earned by him for the firm shall be equal to his average gross fee of the preceeding five years when he was carrying on profession alone, which on an average works out at ₹ 25,000.

The profit for the first year of the partnership are ₹ 75,000. The gross fee earned by B for the firm is ₹ 16,000. You are required to show Profit and Loss Appropriation Account after giving effect to the above.

Solution:

Profit and Loss Appropriation Account

Dr | Cr

Particulars		Rs.	Particulars	Rs.
To Profit transferred to :			By Profit and Loss A/c	75,000
A's Capital A/c	41,400		By B's Capital A/c	
B's Capital A/c	27,600		(Deficiency in Revenue)	9,000
C's Capital A/c	15,000	84,000		
		84,000		84,000

Working Notes :

Deficiency in revenue guaranteed by B = 25,000 - 16,000 = 9,000

∴ Profit to be distributed among Partners

= 75,000 + B's deficiency

= Rs.75,000 + Rs.9,000 = Rs.84,000

Profit Sharing ratio = 3 : 2 : 1

$$\text{A's Profit Share} = 84,000 \times \frac{3}{6} = 42,000$$

$$\text{B's Profit Share} = 84,000 \times \frac{2}{6} = 28,000$$

$$\text{C's Profit Share} = 84,000 \times \frac{1}{6} = 14,000$$

C is guaranteed of minimum profit of Rs.15,000

Deficiency in C's Profit Share = Rs.15,000 - Rs.14,000 = Rs.1,000

$$\text{Deficiency borne by A} = 1,000 \times \frac{3}{5} = 600$$

$$\text{Deficiency borne by B} = 1,000 \times \frac{2}{5} = 400$$

Therefore, Final Profit Share of A = Rs.42,000 -Rs. 600 = Rs.41,400

Final Profit Share of B = Rs.28,000 - Rs.400 =Rs. 27,600**

Final Profit Share of C = Rs.14,000 +Rs. 1,000 = Rs.15,000

The answer is different from one provided in the book as the deficiency of Rs.9,000 that was guaranteed by B to the firm would not be deducted from his share as he is bearing it in form of profit.