

NCERT Solutions for Class 12 Accountancy

Partnership Accounts Chapter 1

Accounting for Partnership : Basic Concepts

Short answers : Solutions of Questions on Page Number : 100

Q1 :

Define Partnership Deed.

Answer :

Partnership Deed is a written agreement among the partners of a partnership firm. It includes agreement on profit sharing ratio, salaries, commission of partners, interest provided on partner's capital and drawings and interest on loan given or taken by the partners, etc. Generally following details are included in a partnership deed.

1. Objective of business of the firm
2. Name and address of the firm
3. Name and address of all partners
4. Profit and loss sharing ratio
5. Contribution to capital by each partner
6. Rights, types of roles and duties of partners
7. Duration of partnership
8. Rate of interest on capital, drawings and loans
9. Salaries, commission, if payable to partners.
10. Rules regarding admission, retirement, death and dissolution of the firm, etc.

Q2 :

Why is it desirable to make the partnership agreement in writing.

Explain in 50 words.

Answer :

Partnership agreement may be oral or written. It is not compulsory to form partnership agreement in writing under the Partnership Act, 1932. However, written partnership deed is desirable than oral agreement as it helps in avoiding disputes and misunderstandings among the partners. Also, it helps in settling disputes (as the case may be) among the partners, as written partnership deed can be referred to anytime. If written partnership deed is duly signed and registered under Partnership Act, then it can be used as evidence in the court of law.

Q3 :

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

(i) Capitals are fixed

(ii) Capitals are fluctuating

Answer :

(i) *When Capitals are fixed*

The following items are credited in the Partner's Capital Account when capital accounts are fixed.

- (a) Opening balance of capital
- (b) Additional capital introduced during an accounting year

The following items are debited in the Partner's Capital Account when capital accounts are fixed.

- (a) Part of capital withdrawn
- (b) Closing balance of capital

(ii) *When Capitals are fluctuating*

The following items are credited in the Partner's Capital Account when capital accounts are fluctuating.

- (a) Opening balance of capital.

- (b) Additional capital introduced during an accounting year
- (c) Salaries to the partners
- (d) Interest on capital
- (e) Share of profit
- (f) Commission and bonus to the partners

The following items are debited in the Partner's Capital Account when capital accounts are fluctuating.

- (a) Drawings made during the accounting period
- (b) Interest on drawings.
- (c) Share of loss.
- (d) Closing balance of capital.

Q4 :

Why is Profit and Loss Adjustment Account prepared? Explain.

Answer :

The Profit and Loss Adjustment Account is prepared because of the following two reasons.

1. *To record omitted items and rectify errors if any*- After the preparation of Profit and Loss Account and Balance Sheet, if any error or omission is noticed, then these errors or omissions are adjusted by opening Profit and Loss Adjustment Account in the subsequent accounting period without altering old Profit and Loss Account.

2. *To distribute profit or loss between the partners*- Sometimes, besides adjusting the items and rectifying errors, this account is also used for distribution of profit (or loss) among the partners. In this situation, this account acts as a substitute for Profit and Loss Appropriation Account. The main rationale to prepare the Profit and Loss Adjustment Account is to ascertain true profit or loss.

Q5 :

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

Answer :

The following are the two circumstances under which the fixed capitals of partner may change.

- (i) If any additional capital is introduced by the partner during the year.
- (ii) If any part of capital is permanently withdrawn by the partner from the firm.

Q6 :

If a fixed amount is withdrawn on the first day of every quarter, for what period the interest on total amount withdrawn will be calculated?

Answer :

If a fixed amount is withdrawn on the first day of every quarter, then the interest is calculated on the amount withdrawn for a period of seven and half ($7\frac{1}{2}$) months.

Example:

If a partner withdraws Rs 5,000 in the beginning of each quarter and the interest is charged @ 10% on the drawings, then interest on drawings is calculated as:

Total drawings made by the partner during the whole year are Rs 20,000, i.e. Rs 5000× 4.

$$= 20,000 \times \frac{10}{100} \times \frac{7\frac{1}{2}}{12} = 1,250$$

Interest on drawings

Short answersnumerical questionslong answers : Solutions of Questions on Page Number : 101

Q1 :

Triphati and Chauhan are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were Rs 60,000 and Rs 40,000 as on January 01, 2005. During the year they

earned a profit of Rs 30,000. According to the partnership deed both the partners are entitled to Rs 1,000 per month as Salary and 5% interest on their capital. They are also to be charged an interest of 5% on their drawings, irrespective of the period, which is Rs 12,000 for Tripathi, Rs 8,000 for Chauhan. Prepare Partner's Accounts when, capitals are fixed.

Answer :

a) If interest on Capital and Partners' salaries and interest on drawings is **charged against profit**, the solution will be as:

Profit and Loss Appropriation Account

Dr.

| Particulars | Amount Rs | Particulars | Amount Rs |
|---|--------------|-----------------|--------------|
| Profit transferred to Tripathi's Current Account | 18,000 | Profit and Loss | 30,000 |
| Chauhan's Current Account | 12,000 | | |
| | 30,000 | | 30,000 |
| | | | |

Partners' Capital Account

Dr.

| Particulars | Tripathi | Chauhan | Particulars | Tripathi | Chauhan |
|-------------|----------|---------|-------------|----------|---------|
| Balance c/d | 60,000 | 40,000 | Balance b/d | 60,000 | 40,000 |
| | 60,000 | 40,000 | | 60,000 | 40,000 |
| | | | | | |

Partners' Current Account

Dr.

| Particulars | Tripathi | Chauhan | Particulars | Tripathi | Chauhan |
|----------------------|----------|---------|-----------------------------|----------|---------|
| Drawings | 12,000 | 8,000 | Interest on Capital | 3,000 | 2,000 |
| Interest on Drawings | 600 | 400 | Partners' Salaries | 12,000 | 12,000 |
| Balance c/d | 20,400 | 17,600 | Profit & Loss Appropriation | 18,000 | 12,000 |
| | 33,000 | 26,000 | | 33,000 | 26,000 |

| | | | | | |
|--|--|--|--|--|--|
| | | | | | |
|--|--|--|--|--|--|

b)) If interest on Capital and Partners' salaries and interest on drawings is **distributed out of profit**, the solution will be as:

Profit and Loss Appropriation Account

Dr.

| Particulars | Amount Rs | Particulars | Amount Rs |
|------------------------------|--------------|--------------------------|--------------|
| Partners' Salary | | Profit and Loss (Profit) | 30,000 |
| Tripathi $1,000 \times 12 =$ | 12,000 | Interest on Drawings | |
| Chauhan $1,000 \times 12 =$ | 12,000 | Tripathi | 600 |
| | | Chauhan | 400 |
| Interest on Capital | | | |
| Tripathi | 3,000 | | |
| Chauhan | 2,000 | | |
| Profit Transferred to | | | |
| Tripathi's Current | 1,200 | | |
| Chauhan's Current | 800 | | |
| | | | |
| | 31,000 | | 31,000 |
| | | | |

Partners' Capital Account

Dr.

| Particulars | Tripathi | Chauhan | Particulars | Tripathi | Chauhan |
|-------------|----------|---------|-------------|----------|---------|
| Balance c/d | 60,000 | 40,000 | Balance b/d | 60,000 | 40,000 |
| | 60,000 | 40,000 | | 60,000 | 40,000 |
| | | | | | |

Partners' Current Account

Dr.

| Particulars | Tripathi | Chauhan | Particulars | Tripathi | Chauhan |
|----------------------|----------|---------|---------------------|----------|---------|
| Drawings | 12,000 | 8,000 | Partners' Salaries | 12,000 | 12,000 |
| Interest on Drawings | 600 | 400 | Interest on Capital | 3,000 | 2,000 |

| | | | | | |
|-------------|--------|--------|-------------------------------|--------|--------|
| Balance c/d | 3,600 | 6,400 | Profit and Loss Appropriation | 1,200 | 80 |
| | 16,200 | 14,800 | | 16,200 | 14,800 |
| | | | | | |

As the question is silent about the treatment of Interest on Capitals, Salary, Interest on Drawings, so we have prepared the solution by following two methods, namely:

1. Charge against Profits
2. Out of Profits

This was done deliberately so as to make students aware-off the two above mentioned methods and also to match the answer with that of given in the NCERT. The appropriate answer to the question following Out of Profit Method should be as:

Tripathi's Current A/c balance Rs 3,600 and

Chauhan's Current A/c balance Rs 6,400.

In case no information regarding the treatment of above items is mentioned in the question, then we usually follow the Out of Profits Method.

Q2 :

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

Answer :

According to the Section 4 of the Partnership Act, 1932, partnership is an agreement between two or more persons who have agreed to share profits or losses of a business that will be carried by all or any one of them acting for all.

Person who joined their hands to set up the business are called 'partners' *individually* and 'firm' *collectively* and the name under which they carry out their business is termed as 'firm name'.

Important Characteristics of Partnership

The following are the important characteristics of partnership.

1. **Two or more persons:** Partnership is an agreement between two or more person coming together for a common goal. Although as per the Partnership Act of 1932, there is no maximum

limit on the number of partners in a firm, but as per the Section 11 of Company Act of 1956, the maximum number of partners should not exceed 10 for banking business and 20 for any business. In case if the number of partners exceeds the aforesaid limit, then the partnership becomes illegal.

2. Partnership Deed: The partnership among the partners should be backed up by a partnership deed. A partnership deed is an agreement among the partners governing them in carrying out the proposed business. The deed may be oral or written.

3. Business: A partnership is formed to carry out a legal business. Partnerships in smuggling, black marketing etc. are illegal business activities and hence, the partnership is also illegal.

4. Sharing of profit: The profit or loss earned by a partnership firm must be distributed as per the partnership deed or equally among the partners (in absence of partnership deed). It is a very important feature of partnership. If a group is formed for charitable purpose, not to earn profit then this group will not be regarded as a partnership.

5. Liability: Liability of a partnership firm is unlimited and each partner is liable for firm's liabilities whether individually and jointly with other partners to the third party. Moreover, each partner along with his/her co-partners is responsible for all the acts of the partnership firm.

6. Mutual agency: Partnership may be carried on by all or any one of them acting on behalf of all. It means all the partners of a firm are equally entitled to participate in the activities of the business or any one of them who is acting on behalf of all. Every partner acts as an agent for others and binds others by his/her act and in turn is bound by others by their act.

Q3 :

Anubha and Kajal are partners of a firm sharing profits and losses in the ratio of 2:1. Their capital, were Rs 90,000 and Rs 60,000. The profit during the year were Rs 45,000. According to partnership deed, both partners are allowed salary, Rs 700 per month to Anubha and Rs 500 per month to Kajal. Interest allowed on capital @ 5% p.a. The drawings at the end of the period were Rs 8,500 for Anubha and Rs 6,500 for Kajal. Interest is to be charged @ 5% p.a. on drawings. Prepare partners capital accounts, assuming that the capital account are fluctuating.

Answer :

a)

Note: If Partners' Salaries, Interest on capital and Interest on Drawing are treated as these have already adjusted in Profit and Loss Account. The Solution will be as

Profit and Loss Appropriation Account

Dr.

| Particulars | Amount Rs | Particulars | Amount Rs |
|-----------------------------------|--------------|-----------------|--------------|
| Profit Transferred to Current A/c | | Profit and Loss | |
| Anubha's Capital | 30,000 | | |
| Kajal's Capital | 15,000 | | |
| | 45,000 | | |
| | 45,000 | | |
| | | | |

Partners' Capital Account

Dr.

| Particulars | Anubha | Kajal | Particulars | Anubha | Kajal |
|----------------------|----------|--------|-------------------------------|----------|--------|
| Drawings | 8,500 | 6,500 | Balance b/d | 90,000 | 60,000 |
| Interest on Drawings | 425 | 325 | Partners' Salaries | 8,400 | 6,000 |
| | | | Interest on Capital | 4,500 | 3,000 |
| Balance c/d | 1,23,975 | 77,175 | Profit and Loss Appropriation | 30,000 | 15,000 |
| | 1,32,900 | 84,000 | | 1,32,900 | 84,000 |
| | | | | | |

b) *Alternative*

Note: If Partners' salaries, interest on capital and interest on drawings adjusted in Profit and Loss Appropriation Account. The solution will be as.

Profit and Loss Appropriation Account

Dr.

| Particulars | Amount Rs | Particulars | Amount Rs |
|---------------------|--------------|-------------------------|--------------|
| Partners' Salaries: | | Profit and Loss Account | |
| Anubha | 8,400 | Interest on Drawings | |

| | | | | |
|-----------------------|--------|--------|--------|-----|
| Kajal | 6,000 | 14,400 | Anubha | 425 |
| | | | Kajal | 325 |
| Interest on Capital: | | | | |
| Anubha | 4,500 | | | |
| Kajal | 3,000 | 7,500 | | |
| Profit transferred to | | | | |
| Anubha's Capital | 15,900 | | | |
| Kajal's Capital | 7,950 | 23,850 | | |
| | | 45,750 | | |
| | | | | |

Partners' Capital Account

Dr.

| Particulars | Anubha | Kajal | Particulars | Anubha | Kajal |
|----------------------|----------|--------|-------------------------------|----------|--------|
| Drawings | 8,500 | 6,500 | Balance b/d | 90,000 | 60,000 |
| Interest on Drawings | 425 | 325 | Partners' Salaries | 8,400 | 6,000 |
| | | | Interest on Capital | 4,500 | 3,000 |
| Balance c/d | 1,09,875 | 70,125 | Profit and Loss Appropriation | 15,900 | 7,950 |
| | 1,18,800 | 76,950 | | 1,18,800 | 76,950 |
| | | | | | |

Q4 :

Discuss the main provisions of the Indian Partnership Act, 1932 that are relevant to partnership accounts if there is no partnership deed.

Answer :

The following are the main provisions of the Indian partnership Act, 1932 that are relevant to the partnership accounts in absence of partnership deed.

1. **Profit Sharing Ratio:** If the partnership deed is silent on sharing of profit or losses among the partners of a firm, then according to the Partnership Act of 1932, profits and losses are to be shared equally by all the partners of the firm.

2. Interest on Capital: If the partnership deed is silent on interest on partner's capital, then according to the Partnership Act of 1932, **no** interest on capital should be given to the partners of the firm. However, interest on capital is given only out of the profits, if mutually agreed by all the partners.

3. Interest on Drawings: If the partnership deed is silent on interest on partner's drawings, then according to the Partnership Act of 1932, **no** interest on drawing should be charged from the partners of the firm for the amount of capital withdrawn in the form of drawings.

4. Interest on Partner's Loan: If the partnership deed is silent on interest on partner's loan, then according to the Partnership Act of 1932, the partners are entitled for 6% p.a. interest on the loan forwarded by them to the firm.

5. Salary to Partner: If the partnership deed is silent on salary to a partner, then according to the Partnership Act of 1932, **no** salary should be given to any partner.

Q5 :

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

Answer :

A partnership deed forms the basis of a partnership firm. A partnership deed consists of all the pre-determined terms and conditions that are agreed to by all the partners while forming the partnership. Generally the following details are included in a partnership deed.

1. Objective of business of the firm
2. Name and address of the firm
3. Name and address of all partners
4. Profit and loss sharing ratio
5. Contribution to capital by each partner
6. Rights, types of roles and duties of partners
7. Duration of partnership
8. Rate of interest on capital, drawings and loans
9. Salaries, commission, if payable to partners.

10. Rules regarding admission, retiring, death and dissolution of the firm, etc. It ensures the

A partnership deed can both be oral or written. Although, it is not compulsory to form partnership agreement in writing under the Partnership Act of 1932, however, written partnership deed is more desirable than the oral agreements. This is because it ensures the smooth functioning of the business of the partnership firm. It helps in avoiding disputes and misunderstandings among the partners. Also, it helps in settling the disputes (as the case may be) among the partners, as written partnership deed can be referred to anytime. If written partnership deed is duly signed and registered under Partnership Act, then it can be used as evidence in the court of law. Moreover, any changes (if needed) in the partnership deed cannot be made without the consent of all the partners of the firm. Therefore, it is desirable to form partnership deed in writing because of the merits associated with written documents over its oral counterparts.

Q6 :

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

Answer :

When a partner withdraws any amount, either in cash or in any other form, from the firm for his/her personal use, then it is termed as drawings. The interest charged by the firm on the amount of drawings is termed as interest on drawings. The method of calculating interest on drawings depends on the information available for time and frequency of the drawings made by the partner. The following different situations of drawings made illustrate the calculation of interest charged on drawings.

Situation 1: When information regarding Amount, Date and Rate of Interest on drawings are given.

If a partner withdrew Rs 10,000 on May 01 and interest on drawing is charged at 10% p.a. and the firm closes its books on December 31 every year then interest of drawings amounts to Rs 667.

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

$$\text{Interest on drawings} = 10,000 \times \frac{10}{100} \times \frac{8}{12} = \text{Rs } 667$$

Situation 2: When information regarding Amount, Rate of Interest on drawings is given

Case I: If the Amount and Rate of Interest on drawings (*per annum*) is given but date is not mentioned

If the details regarding the amount of drawings and rate of interest of drawings (p.a.) is given but the date of drawings is not mentioned then interest is charged on average basis and the period of drawings is taken as 6 months.

Example- If a partner withdrew Rs 10,000 and rate of interest on drawings is 10% p.a. then the interest of drawings amounts to Rs 500

$$\text{Interest on drawings} = 10,000 \times \frac{10}{100} \times \frac{6}{12} = 500$$

Case II: If the Amount and Rate of Interest on drawings is given but the date and *per annum rate of interest is not mentioned*

If the date and the rate of interest are given but per annum is not specified, then annual interest is charged.

Example- If a partner withdrew Rs 20,000 and interest rate is 10% , then the interest on drawings amounts to Rs 2,000.

$$\text{Interest on drawings} = 20,000 \times \frac{10}{100} = \text{Rs } 2,000$$

Situation 3: When a fixed amount is withdrawn at regular interval

Case I: If a fixed amount is withdrawn at the beginning of each month, then the interest is calculated for 6.5 months.

Example- If a partner withdraws Rs 1,000 in the beginning of every month and the rate of interest is 10% p.a., then the interest on drawings amount to Rs 650.

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{6.5}{12} = 650$$

Case II: If a fixed amount is withdrawn at the end of each month, then the interest is calculated for 5.5 months

Example- If a partner withdraws Rs 1,000 at the end of each month and rate of interest is 10% p.a., then the interest on drawings amount to Rs 550.

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{5.5}{12} = \text{Rs } 550$$

Case III: If a fixed amount is withdrawn in the middle of every month then assuming that the drawings are made on 15th of every month then interest on drawings is calculated for 6 months

Example- If a partner withdraws Rs 1,000 on 15th of every month and the rate of interest is 10% p.a., then the interest on drawings amount to Rs 600.

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 600$$

Case IV: If a fixed amount is withdrawn in the beginning of every quarter then the interest is calculated for 7.5 months

Example- If a partner withdraws Rs 3,000 in the beginning of every quarter and the rate of interest is 10% p.a. then the interest on drawings amount to Rs 750

$$\text{Interest on drawings} = 12,000 \times \frac{10}{100} \times \frac{7.5}{12} = \text{Rs } 750$$

Q7 :

Write a note on guarantee of profit to a partner.

Answer :

Guarantee to a partner refers to the guarantee of certain minimum amount of profit by all the other partners or any one partner of a firm. The difference amount is paid to the guaranteed partner, if and only if his/her share in the profit is lesser than the assured amount (or the minimum amount guaranteed). There are usually two cases:

Case 1: *If a partner is guaranteed by all the other partners for minimum profit*

Step I: Calculate the profit earned by the firm.

Step II: Calculate the share of profit of the guaranteed partner.

Step III: Deficiency, if any, will be borne by all the other partners either in their profit ratio or in any other agreed ratio.

Case 2: *If a partner is guaranteed by any other partner for minimum profit*

Step I: Calculate the profit earned by the firm.

Step II: Calculate the share of profit of all the partners.

Step III: Calculate the deficiency of the guaranteed partner.

Step IV: Deduct the amount of deficiency from the profit of the guarantor partner and add the deficiency amount to the guaranteed partner's profit.

Q8 :

How will you deal with a change in the profit sharing ratio among existing partners?

Take imaginary figures to illustrate your answer?

Answer :

Usually due to the admission, retirement or death of a partner or sometimes due to the general agreement among the partners, they may decide to change the profit sharing ratio. Various adjustments that should be considered during the change in the profit sharing ratio are , goodwill, reserves and accumulated profits, profit or loss on the revaluation of assets and liabilities and adjustment of capitals, etc. The general reserves and accumulated profits (if any) and profit (or loss) on revaluation on assets and liabilities should be credited (debited) in the Partner's Capital Account in their old profit sharing ratio.

But if the existing partners decide to change the profit sharing ratio then some partners gain (gaining partners) at the cost of other partners (sacrificing partners). Thus, the former should compensate the latter. Therefore, the gaining Partners' Capital Accounts are debited to the extent of their gain and sacrificing Partners' Capital Accounts are credited to extent of their sacrifice. The following Journal entry is passed.

| | |
|--------------------------------------|-----|
| Gaining Partner's Capital A/c | Dr. |
| To Sacrificing Partner's Capital A/c | |
| (Adjustment entry passed) | |

Example:

A, B, C are partners in a firm sharing profit and loss in 3:2:1 ratio. They decide to share profit and loss equally in future. On that date, the books of the firm shows Rs 1,20,000 as general reserve, profit due to revaluation of building Rs 30,000. The following adjustment entry is passed through the capital accounts without affecting the books of accounts.

| Particulars | A | B | C |
|-----------------------------------|------------------|--------|------------------|
| Share of profit as per 3:2:1 | 60,000 | 40,000 | 20,000 |
| Profit on revaluation of building | 15,000 | 10,000 | 5,000 |
| Share of profit as per 1:1:1 | 75,000 | 50,000 | 25,000 |
| | 50,000 | 50,000 | 5,000 |
| Difference (Gain or Loss) | 25,000 (Loss) | - | 25,000 (Gain) |

Hence, in this example, C gains at the cost of A, so the partner A needs to be compensated by C with the amount of Rs 25,000. The following adjustment entry is passed.

Adjustment entry:

| | | | |
|----------------------------|-----|--------|--------|
| C's Capital A/c | Dr. | 25,000 | |
| To A's Capital A/c | | | 25,000 |
| (Adjustment entry passed) | | | |

Q9 :

In the absence of partnership deed, specify the rules relating to the following:

- (i) Sharing of profits and losses.**
- (ii) Interest on partner's capital.**
- (iii) Interest on Partner's drawings.**

(iv) Interest on Partner's loan

(v) Salary to a partner.

Answer :

(i) *Sharing of profits and losses:* If the partnership deed is silent on sharing of profit or losses among the partners of a firm, then according to the Partnership Act of 1932, profits and losses are to be shared equally by all the partners of the firm.

(ii) *Interest on partner's capital:* If the partnership deed is silent on interest on partner's capital, then according to the Partnership Act of 1932, **no** interest on capital should be given to the partners of the firm.

(iii) *Interest on partner's drawings:* If the partnership deed is silent on interest on partner's drawings, then according to the Partnership Act of 1932, **no** interest on drawing should be charged from the partners of the firm for the amount of capital withdrawn in form of drawings.

(iv) *Interest on partner's loan:* If the partnership deed is silent on interest on partner's loan, then according to the Partnership Act of 1932, the partners are entitled for 6% p.a. interest on the loan forwarded by them to the firm.

(v) *Salary to a partner:* If the partnership deed is silent on salary to a partner, then according to the Partnership Act of 1932, **no** salary should be given to any partner.

Numerical questions : Solutions of Questions on Page Number : 102

Q1 :

Harshad and Dhiman are in partnership since April 01, 2006. No Partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advanced an amount of Rs 1,00,000 to the firm, on October 01, 2006. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2006. The profits for the year ended March 31, 2006 amounted to Rs 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

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

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

Dhiman Claims:

- (i) Profits should be distributed equally;**
- (ii) He should be allowed Rs 2,000 p.m. as remuneration for the period he managed the business, in the absence of Harshad;**
- (iii) Interest on Capital and loan should be allowed @ 6% p.a.**

You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit and Loss Appropriation Account.

Answer :

Harshad and Dhiman are in partnership since April 01, 2006. No Partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advanced an amount of Rs 1,00,000 to the firm, on October 01, 2006. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2006. The profits for the year ended March 31, 2006 amounted to Rs 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

- (i) He should be given interest @ 10% per annum on capital and loan;**
- (ii) Profit should be distributed in proportion of capital;**

Dhiman Claims:

- (i) Profits should be distributed equally;**
- (ii) He should be allowed Rs 2,000 p.m. as remuneration for the period he managed the business, in the absence of Harshad;**
- (iii) Interest on Capital and loan should be allowed @ 6% p.a.**

You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit and Loss Appropriation Account.

Q2 :

Aakriti and Bindu entered into partnership for making garment on April 01, 2006 without any Partnership agreement. They introduced Capitals of Rs 5,00,000 and Rs 3,00,000 respectively on October 01, 2006. Aakriti Advanced. Rs 20,000 by way of loan to the firm without any agreement as to interest. Profit and Loss account for the year ended March 2007 showed profit of Rs 43,000. Partners could not agree upon the question of interest and the basis of division of profit. You are required to divide the profits between them giving reason for your solution.

Answer :

Profit and Loss Adjustment Account

| Dr. | | Cr. | |
|---|----------------------|--------------------|----------------------|
| Particulars | Amount Rs | Particulars | Amount Rs |
| Interest on Partner's Loan Aakriti $20,000 \times (6/100) \times (6/12)$ | 600 | Profit and Loss | 43,000 |
| Profit transferred to Aakriti's Capital 21,200 | | | |
| Bindu's Capital 21,200 | 42,400 | | |
| | 43,000 | | 43,000 |
| | | | |

Reason

- a) Interest on partners loan shall be allowed at 6% p.a. because there is no partnership agreement.
- b) Interest on capital shall not be allowed because there is no agreement on interest on capital.

c) Profit shall be distributed equally because profit sharing ratio has not been given.

Q3 :

Rakhi and Shikha are partners in a firm, with capitals of Rs 2,00,000 and Rs 3,00,000 respectively. The profit of the firm, for the year ended 2006-07 is Rs 23,200. As per the Partnership agreement, they share the profit in their capital ratio, after allowing a salary of Rs 5,000 per month to Shikha and interest on Partner's capital at the rate of 10% p.a. During the year Rakhi withdrew Rs 7,000 and Shikha Rs 10,000 for their personal use. You are required to prepare Profit and Loss Appropriation Account and Partner's Capital Accounts.

Answer :

If interest on capital and Partners' salaries will be provided even if firm involves in loss.

Profit and Loss Appropriation Account

| Dr. | | Cr. | |
|------------------------------|----------------------|---------------------|----------------------|
| Particulars | Amount Rs | Particulars | Amount Rs |
| Partner's Salaries Shikha | 60,000 | Profit and Loss | 23,200 |
| Interest on Capital | | Loss transferred to | |
| Rakhi | 20,000 | Rakhi Capital | 34,720 |
| Shikha | 30,000 | Shikha's Capital | 52,080 |
| | 1,10,000 | | 86,800 |
| | | | 1,10,000 |

Partners' Capital Account

| Dr. | | | Cr. | | |
|--------------------|--------------|---------------|--------------------|--------------|---------------|
| Particulars | Rakhi | Shikha | Particulars | Rakhi | Shikha |
| Drawings | 7,000 | 10,000 | Balance b/d | 2,00,000 | 3,00,000 |

| | | | | | |
|---------------|-----------------|-----------------|---------------------|-----------------|-----------------|
| Profit & Loss | 34,720 | 52,080 | Partner's Salaries | | 60,000 |
| Appropriation | | | | | |
| Balance c/d | 1,78,280 | 3,27,920 | Interest on Capital | 20,000 | 30,000 |
| | <u>2,20,000</u> | <u>3,90,000</u> | | <u>2,20,000</u> | <u>3,90,000</u> |
| | | | | | |

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

Profit and Loss Appropriation Account

| Dr. | | Cr. | |
|-----------------------------------|---------------|-----------------|---------------|
| Particulars | Amount Rs | Particulars | Amount Rs |
| Partner's Salaries | | Profit and Loss | 23,200 |
| Shikha { $23,200 \times (6/11)$ } | 12,655 | | |
| Interest on Capital | | | |
| Rakhi { $23,200 \times (2/11)$ } | 4,218 | | |
| Shikha { $23,200 \times (3/11)$ } | 6,327 | | |
| | <u>23,200</u> | | <u>23,200</u> |
| | | | |

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

| Partners Salaries | Ratio | | |
|---------------------|-----------|------------------------|---------------|
| Shikhar (Rs 60,000) | 6 | $23,200 \times (6/11)$ | 12,655 |
| Interest on Capital | | | |
| Rakhi (Rs 20,000) | 2 | $23,200 \times (2/11)$ | 4,218 |
| Shikhar (Rs 30,000) | 3 | $23,200 \times (3/11)$ | 6,327 |
| | <u>11</u> | | <u>23,200</u> |

Partners' Capital Account

| Dr. | Cr. |
|-----|-----|
|-----|-----|

| Particulars | Rakhi | Shikha | Particulars | Rakhi | Shikha |
|-------------|----------|----------|---------------------|----------|----------|
| Drawings | 7,000 | 10,000 | Balance b/d | 2,00,000 | 3,00,000 |
| Balance c/d | 1,97,218 | 3,08,972 | Partner's Salaries | | 12,655 |
| | | | Interest on Capital | 4,218 | 6,327 |
| | 2,04,218 | 3,18,972 | | 2,04,218 | 3,18,972 |
| | | | | | |

Q4 :

Lokesh and Azad are partners sharing profits in the ratio 3:2, with capitals of Rs 50,000 and Rs 30,000, respectively. Interest on capital is agreed to be paid @ 6% p.a. Azad is allowed a salary of Rs 2,500 p.a. During 2006, the profits prior to the calculation of interest on capital but after charging Azad's salary amounted to Rs 12,500. A provision of 5% of profits is to be made in respect of manager's commission. Prepare accounts showing the allocation of profits and partner's capital accounts.

Answer :

Profit and Loss Adjustment Account

| Dr. | | Cr. | |
|--|--------------|-------------------------------------|--------------|
| Particulars | Amount Rs | Particulars | Amount Rs |
| Interest on Capital | | By Profit and Loss (12,500 + 2,500) | 15,000 |
| Lokesh 3,000 | | | |
| Azad 1,800 | 4,800 | | |
| Partner's Salaries | | | |
| Azad | 2,500 | | |
| Provision for | | | |
| Manager's Commission $15,000 \times (5/100)$ | 750 | | |
| Profit transferred to | | | |

| | | | | |
|----------------|-------|--------|--|--------|
| Lokesh Capital | 4,170 | | | |
| Azad Capital | 2,780 | 6,950 | | |
| | | 15,000 | | 15,000 |
| | | | | |

Partners' Capital Account

| Dr. | | | Cr. | | |
|-------------|--------|--------|--------------------------|--------|--------|
| Particulars | Lokesh | Azad | Particulars | Lokesh | Azad |
| | | | Balance b/d | 50,000 | 30,000 |
| | | | Interest on Capital | 3,000 | 1,800 |
| | | | Partner's Salaries | | 2,500 |
| | | | Profit and Appropriation | 4,170 | 2,780 |
| Balance c/d | 57,170 | 37,080 | | 57,170 | 37,080 |
| | 57,170 | 37,080 | | | |
| | | | | | |

Q5 :

The partnership agreement between Maneesh and Girish provides that:

- (i) Profits will be shared equally;
- (ii) Maneesh will be allowed a salary of Rs 400 p.m;
- (iii) Girish who manages the sales department will be allowed a commission equal to 10% of the net profits, after allowing Maneesh's salary;
- (iv) 7% interest will be allowed on partner's fixed capital;
- (v) 5% interest will be charged on partner's annual drawings;
- (vi) The fixed capitals of Maneesh and Girish are Rs 1,00,000 and Rs 80,000, respectively. Their annual drawings were Rs 16,000 and 14,000, respectively. The net profit for the year ending March 31, 2006 amounted to Rs 40,000;

Prepare firm's Profit and Loss Appropriation Account.

Answer :

Profit and Loss Appropriation Account

| Dr. | | Cr. | |
|--|----------------------|---|----------------------|
| Particulars | Amount Rs | Particulars | Amount Rs |
| Partner's Salary Maneesh | 4,800 | Profit and Loss | 40,000 |
| Partner's commission Girish $\{(40,000 - 4,800) \times (10/100)\}$ | 3,520 | Interest on Drawings Maneesh 800 Girish 700 | 1,500 |
| Interest on Capital Mannesh 7,000 Girish 5,600 | 12,600 | | |
| Profit transferred to Maneesh's Current 10,290 Girish's Current 10,290 | 20,580 | | |
| | 41,500 | | 41,500 |

Q6 :

Ram, Raj and George are partners sharing profits in the ratio 5 : 3 : 2. According to the partnership agreement George is to get a minimum amount of Rs 10,000 as his share of profits every year. The net profit for the year 2006 amounted to Rs 40,000. Prepare the Profit and Loss Appropriation Account.

Answer :

Profit and Loss Appropriation Account

Dr.

Cr.

| | Amount | | Amount |
|--|--------|-----------------|--------|
| Particulars | Rs | Particulars | Rs |
| Profit transferred to | | Profit and Loss | 40,000 |
| Ram's Capital (20,000 – 1,250) | 18,750 | | |
| Raj's Capital (12,000 – 750) | 11,250 | | |
| George's Capital (8,000 + 1,250 + 750) | 10,000 | | |
| | 40,000 | | 40,000 |
| | | | |

Q7 :

Amann, Babita and Suresh are partners in a firm. Their profit sharing ratio is 2:2:1. Suresh is guaranteed a minimum amount of Rs 10,000 as share of profit, every year. Any deficiency on that account shall be met by Babita. The profits for two years ending December 31, 2005 and December 31, 2006 were Rs 40,000 and Rs 60,000, respectively. Prepare the Profit and Loss Appropriation Account for the two years.

Answer :

Profit and Loss Appropriation Account for the year 2005

Dr.

Cr.

| | Amount | | Amount |
|-----------------------------------|--------|-----------------|--------|
| Particulars | Rs | Particulars | Rs |
| Profit transferred to | | Profit and Loss | 40,000 |
| Amann's Capital 16,000 | 16,000 | | |
| Babita's Capital (16,000 – 2,000) | 14,000 | | |
| Suresh's Capital (8,000 + 2,000) | 10,000 | | |
| | 40,000 | | 40,000 |
| | | | |

Profit and Loss Appropriation Account for the year 2006

Dr.

Cr.

| | Amount | | Amount |
|-----------------------|--------|-----------------|--------|
| Particulars | Rs | Particulars | Rs |
| Profit transferred to | | Profit and Loss | 60,000 |
| Amann's Capital | 24,000 | | |
| Babita's Capital | 24,000 | | |
| Suresh's Capital | 12,000 | | |
| | 60,000 | | 60,000 |
| | | | |

Q8 :

Simmi and Sonu are partners in a firm, sharing profits and losses in the ratio of 3:1. The profit and loss account of the firm for the year ending March 31, 2006 shows a net profit of Rs 1,50,000. Prepare the Profit and Loss Appropriation Account by taking into consideration the following information:

(i) Partners capital on April 1, 2005;

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

(ii) Current accounts balances on April 1, 2005;

Simmi, Rs 30,000 (cr.); Sonu, Rs 15,000 (cr.);

(iii) Partners drawings during the year amounted to

Simmi, Rs 20,000; Sonu, Rs 15,000;

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

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

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

Answer :

Profit and Loss Appropriation Account

| Dr. | | | Cr. | | |
|-----------------------|--------|--------------|-------------------------|-----|--------------|
| Particulars | | Amount Rs | Particulars | | Amount Rs |
| Interest on Capital | | | Profit and Loss Account | | 1,50,000 |
| Simmi | 1,500 | | Interest on Drawings | | |
| Sonu | 3,000 | 4,500 | Simmi | 600 | |
| | | | Sonu | 450 | 1,050 |
| Partners' Salaries | | | | | |
| Simmi | 12,000 | | | | |
| Sonu | 9,000 | 21,000 | | | |
| Profit transferred to | | | | | |
| Simmi's Current | 94,162 | | | | |
| Sonu's Current | 31,388 | 125,550 | | | |
| | | | | | |
| | | 1,51,050 | | | 1,51,050 |
| | | | | | |

Partners' Capital Account

| Dr. | | | Cr. | | |
|-------------|--------|--------|-------------|--------|--------|
| Particulars | Simmi | Sonu | Particulars | Simmi | Sonu |
| Balance c/d | 30,000 | 60,000 | Balance b/d | 30,000 | 60,000 |
| | 30,000 | 60,000 | | 30,000 | 60,000 |
| | | | | | |

Partners' Current Account

| Dr. | | | Cr. | | |
|----------------------|----------|--------|-------------------------------|----------|--------|
| Particulars | Simmi | Sonu | Particulars | Simmi | Sonu |
| Drawings | 20,000 | 15,000 | Balance b/d | 30,000 | 15,000 |
| Interest on Drawings | 600 | 450 | Interest on Capital | 1,500 | 3,000 |
| | | | Partners' Salaries | 12,000 | 9,000 |
| Balance c/d | 1,17,662 | 43,388 | Profit and Loss Appropriation | 94,162 | 31,388 |
| | 1,37,662 | 58,388 | | 1,37,662 | 58,388 |
| | | | | | |

Q9 :

Ramesh and Suresh were partners in a firm sharing profits in the ratio of their capitals contributed on commencement of business which were Rs 80,000 and Rs 60,000 respectively. The firm started business on April 1, 2005. According to the partnership agreement, interest on capital and drawings are 12% and 10% p.a., respectively. Ramesh and Suresh are to get a monthly salary of Rs 2,000 and Rs 3,000, respectively. The profits for year ended March 31, 2006 before making above appropriations was Rs 1,00,300. The drawings of Ramesh and Suresh were Rs 40,000 and Rs 50,000, respectively. Interest on drawings amounted to Rs 2,000 for Ramesh and Rs 2,500 for Suresh. Prepare Profit and Loss Appropriation Account and partners' capital accounts, assuming that their capitals are fluctuating.

Answer :

Profit and Loss Appropriation Account

| Dr. | | | Cr. | |
|---------------------|--------|--------|----------------------|----------|
| Particulars | Amount | | Particulars | Amount |
| | Rs | | | Rs |
| Interest on Capital | | | Profit and Loss | 1,00,300 |
| Ramesh | 9,600 | | Interest on Drawings | |
| Suresh | 7,200 | 16,800 | Ramesh | 2,000 |
| | | | Suresh | 2,500 |
| Partners' Salaries | | | | 4,500 |

| | | | | |
|-----------------------------------|--------|----------|--|----------|
| Ramesh | 24,000 | | | |
| Suresh | 36,000 | 60,000 | | |
| Profit Transferred to | | | | |
| Ramesh's Capital {28,000 × (4/7)} | | 16,000 | | |
| Suresh's Capital {28,000 × (3/7)} | | 12,000 | | |
| | | 1,04,800 | | 1,04,800 |
| | | | | |

Partners' Capital Account

| Dr. | | | Cr. | | |
|----------------------|----------|----------|---------------------|----------|----------|
| Particulars | Ramesh | Suresh | Particulars | Ramesh | Suresh |
| Drawings | 40,000 | 50,000 | Cash | 80,000 | 60,000 |
| Interest on Drawings | 2,000 | 2,500 | Interest on Capital | 9,600 | 7,200 |
| Balance c/d | 87,600 | 62,700 | Partners' Salaries | 24,000 | 36,000 |
| | | | Profit & Loss | 16,000 | 12,000 |
| | | | Appropriation | | |
| | 1,29,600 | 1,15,200 | | 1,29,600 | 1,15,200 |
| | | | | | |

$$\begin{array}{rcl}
 \text{Capital Ratio} & = & \text{Ramesh} : \text{Suresh} \\
 & & 80,000 : 60,000 \\
 & & 4 : 3
 \end{array}$$

Q10 :

Sukesh and Vanita were partners in a firm. Their partnership agreement provides that:

- (i) Profits would be shared by Sukesh and Vanita in the ratio of 3:2;**
- (ii) 5% interest is to be allowed on capital;**

(iii) Vanita should be paid a monthly salary of Rs 600.

The following balances are extracted from the books of the firm, on December 31, 2006.

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

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

Answer :

Profit and Loss Appropriation Account

Dr.

| Particulars | Amount Rs | Particulars | Amount Rs |
|--|--------------|-----------------|--------------|
| Interest on Capital | | Profit and Loss | |
| Sukesh | 2,000 | | |
| Vanita | 2,000 | | |
| | 4,000 | | |
| Profit transferred to | | | |
| Sukesh's Current { $5,500 \times (3/5)$ } | 3,300 | | |
| Vanita's Current { $28,000 \times (2/5)$ } | 2,200 | | |
| | 9,500 | | |
| | | | |

Partner's Capital Account

Dr.

| Particulars | Sukesh | Vanita | Particulars | Sukesh | Vanita |
|-------------|--------|--------|-------------|--------|--------|
| Balance c/d | 40,000 | 40,000 | Balance b/d | 40,000 | 40,000 |
| | 40,000 | 40,000 | | 40,000 | 40,000 |
| | | | | | |

Partner's Current Account

Dr.

| Particulars | Sukesh | Vanita | Particulars | Sukesh | Vanita |
|-------------|--------|--------|-------------------------------|--------|--------|
| Drawings | 10,850 | 8,150 | Balance b/d | 7,200 | 7,200 |
| Balance c/d | 1,650 | 6,050 | Partner's Salaries | | |
| | 12,500 | 14,200 | Profit and Loss Appropriation | 3,300 | 3,300 |
| | | | Interest on capital | 2,000 | 2,000 |
| | | | | 12,500 | 12,500 |

Q11 :

Rahul, Rohit and Karan started partnership business on April 1, 2006 with capitals of Rs 20,00,000, Rs 18,00,000 and Rs 16,00,000, respectively. The profit for the year ended March 2007 amounted to Rs1,35,000 and the partner's drawings had been Rahul Rs 50,000, Rohit Rs 50,000 and Karan Rs 40,000. The profits are distributed among partner's in the ratio of 3:2:1. Calculate the interest on capital @ 5% p.a.

Answer :

Interest on Capital

$$\text{Rahul} = 20,00,000 \times \frac{5}{100} = \text{Rs } 1,00,000$$

$$\text{Rohit} = 18,00,000 \times \frac{5}{100} = \text{Rs } 90,000$$

$$\text{Karan} = 16,00,000 \times \frac{5}{100} = \text{Rs } 80,000$$

Q12 :

Sunflower and Pink Rose started partnership business on April 01, 2006 with capitals of Rs 2,50,000 and Rs 1,50,000, respectively. On October 01, 2006, they decided that their capitals should be Rs 2,00,000 each. The necessary adjustments in the capitals are made by introducing or withdrawing cash. Interest on capital is to be allowed @ 10% p.a. Calculate interest on capital as on March 31, 2007.

Answer :

Product Method

Sunflower

| | | |
|---------------------------------|-----------------------|-----------|
| April 2006 to 30 September 2006 | $2,50,000 \times 6 =$ | 15,00,000 |
| Oct. 2006 to 31 March 2007 | $2,00,000 \times 6 =$ | 12,00,000 |
| | Sum of Product | 27,00,000 |

Pink Rose

| | | |
|---------------------------------|-----------------------|-----------|
| April 2006 to 30 September 2006 | $1,50,000 \times 6 =$ | 9,00,000 |
| Oct. 2006 to 31 March 2007 | $2,00,000 \times 6 =$ | 12,00,000 |
| | Sum of Product | 21,00,000 |

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

$$\text{Sunflower} = 27,00,000 \times \frac{10}{100} \times \frac{1}{12} \text{ Rs } 22,500$$

$$\text{Pink Rose} = 21,00,000 \times \frac{10}{100} \times \frac{1}{12} \text{ Rs } 17,500$$

Alternative Method:

Simple Interest Method

Sunflower

| | | |
|-------------------------------------|--|-----------|
| April 01, 2006 to 30 September 2006 | $2,50,000 \times \frac{10}{100} \times \frac{6}{12} =$ | Rs 12,500 |
| Oct. 01, 2006 to 31 March 2007 | $2,00,000 \times \frac{10}{100} \times \frac{6}{12} =$ | Rs 10,000 |
| Interest on Sunflower's Capital | | Rs 22,500 |

Pink Rose

| | | |
|-------------------------------------|--|-----------|
| April 01, 2006 to 30 September 2006 | $1,50,000 \times \frac{10}{100} \times \frac{6}{12} =$ | Rs 7,500 |
| Oct. 01, 2006 to 31 March 2007 | $2,00,000 \times \frac{10}{100} \times \frac{6}{12} =$ | Rs 10,000 |
| Interest on Pink Rose's Capital | | Rs 17,500 |

Q13 :

On March 31, 2006 after the close of accounts, the capitals of Mountain, Hill and Rock stood in the books of the firm at Rs 4,00,000, Rs3,00,000 and Rs 2,00,000, respectively. Subsequently, it was discovered that the interest on capital @ 10% p.a. had been omitted. The profit for the year amounted to Rs 1,50,000 and the partner's drawings had been Mountain: Rs 20,000, Hill Rs 15,000 and Rock Rs 10,000. Calculate interest on capital.

Answer :

Generally interest on Capital is calculated on opening balance of capital. If additional capital is not given.

| | Mountain | Hill | Rock |
|-----------------------------|-----------------|-------------|-------------|
| Closing Capital | 4,00,000 | 3,00,000 | 2,00,000 |
| <i>Add:</i> Drawings | 20,000 | 15,000 | 10,000 |
| <i>Less:</i> Profit (1:1:1) | (50,000) | (50,000) | (50,000) |
| Opening Capital | 3,70,000 | 2,65,000 | 1,60,000 |

Interest on Capital

$$\text{Mountain} \quad 3,70,000 \times \frac{10}{100} = \text{Rs } 37,000$$

$$\text{Hill} \quad 2,65,000 \times \frac{10}{100} = \text{Rs } 26,500$$

$$\text{Rock} \quad 1,60,000 \times \frac{10}{100} = \text{Rs } 16,000$$

Q14 :

Answer :

Interest on Capital

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

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

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).

Q15 :

Following is the extract of the Balance Sheet of, Neelkant and Mahdev as on March 31, 2007:

Balance Sheet as at March 31, 2007

| Liabilities | Amount Rs | Assets | Amount Rs |
|--|----------------------|---------------|----------------------|
| Neelkant's Capital | 10,00,000 | Sundry Assets | 30,00,000 |
| Mahadev's Capital | 10,00,000 | | |
| Neelkant's Current Account | 1,00,000 | | |
| Mahadev's Current Account | 1,00,000 | | |
| Profit and Loss Apprpriation (March 2007) | 8,00,000 | | |
| | 30,00,000 | | 30,00,000 |
| | | | |

During the year Mahadev's drawings were Rs 30,000. Profits during 2007 is Rs 10,00,000. Calculate interest on capital @ 5% p.a for the year ending March 31, 2007.

Answer :

Interest on Capital

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

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

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).

Q16 :

The capital accounts of Moli and Golu showed balances of Rs 40,000 and Rs 20,000 as on April 01, 2006. They shared profits in the ratio of 3:2. They allowed interest on capital @ 10% p.a. and interest on drawings, @ 12 p.a. Golu advanced a loan of Rs 10,000 to the firm on August 01, 2006. During the year, Moli withdrew Rs 1,000 per month at the beginning of every month whereas Golu withdrew Rs 1,000 per month at the end of every month. Profit for the year, before the above mentioned adjustments was Rs 20,950. Calculate interest on drawings show distribution of profits and prepare partner's capital accounts.

Answer :

$$\text{Interest on Moli's Drawing} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{13}{2 \times 12}$$

$$= 12,000 \times \frac{12}{100} \times \frac{13}{2 \times 12}$$

= Rs 780

$$\text{Interest on Golu's Drawings} = \text{Total Drawing} \times \frac{\text{Rate}}{100} \times \frac{11}{2 \times 12}$$

$$= 12,000 \times \frac{12}{100} \times \frac{11}{2 \times 12}$$

= Rs 660

Q17 :

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

| Rakesh | Month | Rs |
|--------|--------------------------------|-------|
| | May 31, 2006 | 600 |
| | June 30, 2006 | 500 |
| | August 31, 2006 | 1,000 |
| | November 1, 2006 | 400 |
| | December 31, 2006 | 1,500 |
| | January 31, 2007 | 300 |
| | March 01, 2007 | 700 |
| Rohan | At the beginning of each month | 400 |

Interest is to be charged @ 6% p.a. Calculate interest on drawings, assuming that book of accounts are closed on March 31, 2007, every year.

Answer :

Rakesh's Interest on Drawings

| | Drawings × Period | Product |
|-----------------------------------|--------------------------|----------------|
| 31 May 2006 to 31 March 2007 | 600 × 10 = | 6,000 |
| 30 June 2006 to 31 March 2007 | 500 × 9 = | 4,500 |
| 31 August 2006 to 31 March 2007 | 1,000 × 7 = | 7,000 |
| 1 November 2006 to 31 March 2007 | 400 × 5 = | 2,000 |
| 31 December 2006 to 31 March 2007 | 1,500 × 3 = | 4,500 |
| 31 January 2006 to 31 March 2007 | 300 × 2 = | 6,00 |
| 31 March 2006 to 31 March 2007 | 700 × 1 = | 700 |
| | Sum of Product | 25,300 |

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

$$= 25,300 \times \frac{6}{100} \times \frac{1}{12}$$

$$= \text{Rs } 126.5$$

Interest on Rohan's Capital

$$= \text{Total Drawing} \times \frac{\text{Rate}}{100} \times \frac{13}{2 \times 12}$$

$$= 4,800 \times \frac{6}{100} \times \frac{13}{2 \times 12}$$

$$= \text{Rs } 156$$

Q18 :

Himanshu withdrew Rs 2,500 at the end Month of each month. The Partnership deed provides for charging the interest on drawings @ 12% p.a. Calculate interest on Himanshu's drawings for the year ending 31st December, 2006.

Answer :

$$\text{Total Drawing of Himanshu} = \text{Rs } 2,500 \times 12 = \text{Rs } 30,000$$

$$\text{Interest on Drawing} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{11}{2 \times 12}$$

$$= \text{Rs } 30,000 \times \frac{12}{100} \times \frac{11}{2 \times 12}$$

$$= \text{Rs } 1,650$$

Q19 :

Bharam is a partner in a firm. He withdraws Rs 3,000 at the starting of each month for 12 months. The books of the firm closes on March 31 every year. Calculate interest on drawings if the rate of interest is 10% p.a.

Answer :

$$\text{Total Drawing of Bharam} = \text{Rs } 3,000 \times 12 = \text{Rs } 36,000$$

$$\text{Interest on Drawing} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{13}{2 \times 12}$$

$$= \text{Rs } 36,000 \times \frac{10}{100} \times \frac{13}{2 \times 12}$$

$$= \text{Rs } 1,950$$

Q20 :

Raj and Neeraj are partners in a firm. Their capitals as on April 01, 2005 were Rs 2,50,000 and Rs 1,50,000, respectively. They share profits equally. On July 01, 2005, they decided that their capitals should be Rs 1,00,000 each. The necessary adjustment in the capitals were made by introducing or withdrawing cash by the partners'. Interest on capital is allowed @ 8% p.a. Compute interest on capital for both the partners for the year ending on March 31, 2006.

Answer :

Interest on Capital

Raj

| | Capital × Period | Product |
|------------------------------|-------------------------|----------------|
| 1 April 2005 to 30 June 2006 | 2,50,000 × 3 = | 7,50,000 |
| 1 July 2005 to 31 March 2007 | 1,00,000 × 9 = | 9,00,000 |
| | Sum of Product | 16,50,000 |

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

$$= 16,50,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= \text{Rs } 11,000$$

Neeraj

| | Capital × Period | Product |
|------------------------------|-------------------------|----------------|
| 1 April 2005 to 30 June 2006 | 1,50,000 × 3 = | 4,50,000 |
| 1 July 2005 to 31 March 2007 | 1,00,000 × 9 = | 9,00,000 |
| | Sum of Product | 13,50,000 |

$$\text{Interest} = 13,50,000 \times \frac{8}{100} \times \frac{1}{12} = \text{Rs } 9,000$$

Q21 :

Amit and Bhola are partners in a firm. They share profits in the ratio of 3:2. As per their partnership agreement, interest on drawings is to be charged @ 10% p.a. Their drawings during 2006 were Rs 24,000 and Rs 16,000, respectively. Calculate interest on drawings based on the assumption that the amounts were withdrawn evenly, throughout the year.

Answer :

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

$$\text{Amit} = 24,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,200$$

$$\text{Bhola} = 16,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 800$$

Q22 :

Harish is a partner in a firm. He withdrew the following amounts during the year 2006 :

| | Rs |
|-------------|-----------|
| February 01 | 4,000 |
| May 01 | 10,000 |
| June 30 | 4,000 |
| October 31 | 12,000 |
| December 31 | 4,000 |

Interest on drawings is to be charged @ 7.5 % p.a.

Calculate the amount of interest to be charged on Harish's drawings for the year ending December 31, 2006.

Answer :

Calculation of interest on Harish's drawings

| | Drawings × Period | Product |
|--------------------------|--------------------------|-----------------|
| 01 Feb.06 to 31 Dec. 06 | $4,000 \times 11 =$ | 44,000 |
| 01 May 06 to 31 Dec. 06 | $10,000 \times 8 =$ | 80,000 |
| 30 June 06 to 31 Dec. 06 | $4,000 \times 6 =$ | 24,000 |
| 31 Oct. 06 to 31 Dec. 06 | $12,000 \times 2 =$ | 24,000 |
| 31 Dec. to 31 Dec. 06 | $4,000 \times 0 =$ | 0 |
| | Sum of Product | 1,72,000 |

$$\text{Interest on drawings} = 1,72,000 \times \frac{7.5}{100} \times \frac{1}{12} = \text{Rs } 1,075$$

Q23 :

Menon and Thomas are partners in a firm. They share profits equally. Their monthly drawings are Rs 2,000 each. Interest on drawings is to be charged @ 10% p.a. Calculate interest on Menon's drawings for the year 2006, assuming that money is withdrawn: (i) in the beginning of every month, (ii) in the middle of every month, and (iii) at the end of every month.

Answer :

Case (i)

If they withdraw money in the beginning of each month

$$\text{Interest of drawings} = \text{Total drawings} \times \text{Rate} \times \frac{13}{2 \times 12}$$

$$\text{Menon's} = 24,000 \times \frac{10}{100} \times \frac{13}{2 \times 12} = \text{Rs } 1,300$$

$$\text{Thomas's} = 24,000 \times \frac{10}{100} \times \frac{13}{2 \times 12} = \text{Rs } 1,300$$

Case (ii)

If they withdraw in the middle of every month

$$\text{Interest on Drawings} = \text{Total drawings} \times \frac{10}{100} \times \frac{6}{12}$$

$$\text{Menon's} = 24,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,200$$

$$\text{Thomas's} = 24,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs } 1,200$$

Case (iii)

If they withdraw at the end of every month.

$$\text{Interest on drawings} = \text{Total drawings} \times \frac{\text{Rate}}{100} \times \frac{11}{2 \times 12}$$

$$\text{Menon's} = 24,000 \times \frac{10}{100} \times \frac{11}{2 \times 12} = \text{Rs } 1,100$$

$$\text{Thomas's} = 24,000 \times \frac{10}{100} \times \frac{11}{2 \times 12} = \text{Rs } 1,100$$

Q24 :

On March 31, 2003, after the close of books of accounts, the capital accounts of Ram, Shyam and Mohan showed balance of Rs 24,000 Rs 18,000 and Rs 12,000, respectively. It was later discovered that interest on capital @ 5% had been omitted. The profit for the year ended March 31, 2003, amounted to Rs 36,000 and the partner's drawings had been Ram, Rs 3,600; Shyam, Rs 4,500 and Mohan, Rs 2,700. The profit sharing ratio of Ram, Shyam and Mohan was 3:2:1. Calculate interest on capital.

Answer :

| | Ram | Shyam | Mohan |
|------------------------|----------|----------|---------|
| Capital on March 31 | 24,000 | 18,000 | 12,000 |
| Add: Drawings | 3,600 | 4,500 | 2,700 |
| Less: Profit (3:2:1) | (18,000) | (12,000) | (6,000) |
| Capital April 01, 2002 | 9,600 | 10,500 | 8,700 |

$$\text{Here, Interest on Capital} = \text{Opening Capital} \times \frac{\text{Rate}}{100}$$

$$\text{Ram's} = 9,600 \times \frac{5}{100} = \text{Rs } 480$$

$$\text{Shyam's} = 10,500 \times \frac{5}{100} = \text{Rs } 525$$

$$\text{Mohan's} = 8,700 \times \frac{5}{100} = \text{Rs } 435$$

Q25 :

Amit, Sumit and Samiksha are in partnership sharing profits in the ratio of 3:2:1. Samiksha' share in profit has been guaranteed by Amit and Sumit to be a minimum sum of Rs 8,000. Profits for the year ended March 31, 2006 was Rs 36,000. Divide profit among the partners.

Answer :

Guarantee of Profit to the partners

Profit and Loss Appropriation Account

Dr.

| Particulars | | Amount Rs | Particulars |
|--|---------|--------------|-----------------|
| Profit transferred to | | | Profit and Loss |
| Amit's Capital | 18,000 | | |
| Less: Gurantee to Samiksha {2,000 × (3/5)} | (1,200) | 16,800 | |
| Sumit's Capital | 12,000 | | |
| Less: Gurantee to Samiksha {2,000 × (2/5)} | (800) | 11,200 | |
| Samiksha Capital | 6,000 | | |
| Add: Amit's Guarantee | 1,200 | | |
| Add: Sumit's Guarantee | 800 | 8,000 | |
| | | 36,000 | |
| | | | |

Q26 :

Pinki, Deepati and Kaku are partner's sharing profits in the ratio of 5:4:1. Kaku is given a guarantee that his share of profits in any given year would not be less than Rs 5,000. Deficiency, if any, would be borne by Pinki and Deepti equally. Profits for the year amounted to Rs 40,000. Record necessary journal entries in the books of the firm showing the distribution of profit.

Answer :

Profit and Loss Appropriation Account

Dr.

| Particulars | Amount Rs | Particulars |
|--|--------------|---------------|
| Profit transferred to Pinki's Capital 20,000 Less: Gurantee to Kaku { $1,000 \times (1/2)$ } (500) | 19,500 | Profit & Loss |
| Deepti's Capital 16,000 Less: Guarantee to Kaku { $1,000 \times (1/2)$ } (500) | 15,500 | |
| Kaku's Capital 4,000 Add: Deficiency received from Pinki 500 Deepti 500 | 5,000 | |
| | 40,000 | |
| | | |
| | | |

Q27 :

Abhay, Siddharth and Kusum are partners in a firm, sharing profits in the ratio of 5:3:2. Kusum is guaranteed a minimum amount of Rs 10,000 as per share in the profits. Any deficiency arising on that account shall be met by Siddharth. Profits for the years ending March 31, 2006 and 2007 are Rs 40,000 and 60,000 respectively. Prepare Profit and Loss Appropriation Account.

Answer :

Profit and Loss Appropriation Account as on March 31, 2006

Dr.

| Particulars | Amount Rs | Particulars |
|--|--------------|-----------------|
| Profit transferred to Abhay's Capital | 20,000 | Profit and Loss |
| Siddharth's Capital 12,000 Less: Guarantee to Kusum's (2,000) | 10,000 | |
| Kusum's Capital 8,000 Add: Deficiency received from Siddharth 2,000 | 10,000 | |
| | 40,000 | |
| | | |

Profit and Loss Appropriation Account as on March 31, 2007

Dr.

| Particulars | Amount Rs | Particulars |
|--|----------------------------|-----------------|
| Profit transferred to Abhay's Capital Siddharth's Capital Kusum's Capital | 30,000 18,000 12,000 | Profit and Loss |
| | 60,000 | |

Q28 :

Radha, Mary and Fatima are partners sharing profits in the ratio of 5:4:1. Fatima is given a guarantee that her share of profit, in any year will not be less than Rs 5,000. The profits for the year ending March 31, 2006 amounts to Rs 35,000. Shortfall if any, in the profits guaranteed to Fatima is to be borne by Radha and Mary in the ratio of 3:2. Record necessary journal entry to show distribution of profit among partner.

Answer :

Profit and Loss Appropriation Account

Dr.

| Particulars | Amount Rs | Particulars |
|---|--------------|-----------------|
| Profit transferred to Radha's Capital 17,500 Less: Fatima's Deficiency $\{1,500 \times (3/5)\}$ (900) | 16,600 | Profit and Loss |
| Mary's Capital 14,000 Less: Fatima's Deficiency $\{1,500 \times (2/5)\}$ (600) | 13,400 | |
| Fatima's Capital 3,500 Add: Deficiency born by Radha 900 Mary 600 | 5,000 | |
| | 40,000 | |

Journal

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|------|--|------|-----------------------|---------------------------|
| | Profit and Loss Appropriation A/c Dr. To Radha's Capital A/c To Mary's Capital A/c To Fatima's Capital A/c (Profit distributed among Partners) | | 35,000 | 16,600 13,400 5,000 |

Alternative Method

Journal

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|------|--|------|-----------------------|---------------------------|
| | Profit and Loss Appropriation A/c Dr. To Radha's Capital A/c To Mary's Capital A/c To Fatima's Capital A/c (Profit distributed among Partners) | | 35,000 | 17,500 14,000 3,500 |
| | Radha's Capital A/c Dr. Mary's Capital A/c Dr. To Fatima's Capital A/c (Deficiency of Fatima's Share taken from Radha and Mary) | | 900 600 | 1,500 |

Q29 :

X, Y and Z are in Partnership, sharing profits and losses in the ratio of 3 : 2 : 1, respectively. Z's share in the profit is guaranteed by X and Y to be a minimum of Rs 8,000. The net profit for the year ended March 31, 2006 was Rs 30,000. Prepare Profit and Loss Appropriation Account, indicating the amount finally due to each partner.

Answer :

Profit and Loss Appropriation Account as on March 31, 2006

Dr.

| Particulars | Amount Rs | Particulars | A |
|---|--------------|-----------------|---|
| Profit transferred to | | Profit and Loss | |
| X's Capital | 15,000 | | |
| Less: Z's Deficiency $\{3,000 \times (3/5)\}$ | (1,800) | | |
| | 13,200 | | |
| Y's Capital | 10,000 | | |
| Less: Z's Deficiency $\{3,000 \times (2/5)\}$ | (1,200) | | |
| | 8,800 | | |
| Z's Capital | 5,000 | | |
| Add: Share of Deficiency born by | | | |
| Radha | 1,800 | | |
| Mary | 1,200 | | |
| | 8,000 | | |
| | 30,000 | | |

Q30 :

Arun, Boby and Chintu are partners in a firm sharing profit in the ratio or 2:2:1. According to the terms of the partnership agreement, Chintu has to get a minimum of Rs 60,000, irrespective of the profits of the firm. Any Deficiency to Chintu on Account of such

guarantee shall be borne by Arun. Prepare the profit and loss appropriation account showing distribution of profits among partners in case the profits for year 2006 are: (i) Rs 2,50,000; (ii) 3,60,000.

Answer :

Case (i)

Profit and Loss Appropriation Account as on March 31, 2006

| Dr. | | | Cr. | |
|--------------------------|----------|----------|-----------------|----------|
| Particulars | Amount | | Particulars | Amount |
| | Rs | | | Rs |
| Profit transferred to | | | Profit and Loss | 2,50,000 |
| Arun's Capital | 1,00,000 | | | |
| Less: Chintu's share of | | | | |
| deficiency | (10,000) | 90,000 | | |
| | | | | |
| Bobby's Capital | | 1,00,000 | | |
| | | | | |
| Chintu's Capital | 50,000 | | | |
| Add: Deficiency received | 10,000 | 60,000 | | |
| from Arun | | | | |
| | | | | |
| | | 2,50,000 | | 2,50,000 |
| | | | | |

Case (ii)

Profit and Loss Appropriation Account as on March 31, 2006

| Dr. | | Cr. | |
|-------------|--------|-------------|--------|
| Particulars | Amount | Particulars | Amount |
| | Rs | | Rs |

| | | | |
|--|-----------------|-----------------|-----------------|
| Profit transferred to | | Profit and Loss | 3,60,000 |
| Arun's Capital $\{3,60,000 \times (2/5)\}$ | 1,44,000 | | |
| Bobby's Capital $\{3,60,000 \times (2/5)\}$ | 1,44,000 | | |
| Chintu's Capital $\{3,60,000 \times (1/5)\}$ | 72,000 | | |
| | <u>3,60,000</u> | | <u>3,60,000</u> |
| | | | |

Q31 :

Ashok, Brijesh and Cheena are partners sharing profits and losses in the ratio of 2 : 2 : 1. Ashok and Brijesh have guaranteed that Cheena share in any year shall be less than Rs 20,000. The net profit for the year ended March 31, 2006 amounted to Rs 70,000. Prepare Profit and Loss Appropriation Account.

Answer :

Profit and Loss Appropriation Account as on March 31, 2006

| Dr. | | | Cr. | |
|---|----------------|--------|-----------------|--------|
| Particulars | Amount | | Particulars | Amount |
| | Rs | | | Rs |
| Profit transferred to | | | Profit and Loss | 70,000 |
| Ashok's Capital | 28,000 | | | |
| Less: Cheena's share of deficiency $\{6,000 \times (1/2)\}$ | <u>(3,000)</u> | 25,000 | | |
| Brijesh's Capital | 28,000 | | | |
| Less: Cheena's share of deficiency $\{6,000 \times (1/2)\}$ | <u>(3,000)</u> | 25,000 | | |

| | | | | |
|-------------------------------------|--------|--------|--|--------|
| Cheena's Capital | 14,000 | | | |
| Add: Deficiency received from Ashok | 3,000 | | | |
| Brijesh | 3,000 | 20,000 | | |
| | | 70,000 | | 70,000 |
| | | | | |

Q32 :

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

Ram 1/2 , Mohan 1/3 Sohan 1/6 . But Ram and Mohan have guaranteed that Sohan's share in the profit shall not be less than Rs 25,000, in any year. The net profit for the year ended March 31, 2007 is Rs 2,00,000, before charging interest on capital. You are required to show distribution of profit.

Answer :

Profit and Loss Appropriation A/c as on 31 March 2007

Dr.

| Particulars | | Amount | Particulars | |
|-----------------------|--------|--------|-----------------|--|
| | | Rs | | |
| Interest on Capital | | | Profit and Loss | |
| Ram | 50,000 | | | |
| Mohan | 25,000 | | | |
| Sohan | 20,000 | 95,000 | | |
| Profit Transferred to | | | | |

| | | |
|---|---------|----------|
| Ram's Capital | 52,500 | |
| Less: Share of deficiency {7,500 × (3/5)} | (4,500) | 48,000 |
| Mohan's Capital | 35,000 | |
| Less: Share of deficiency {7,500 × (2/5)} | (3,000) | 32,000 |
| Sohan's Capital | 17,500 | |
| Add: Deficiency received from | | |
| Ram | 4,500 | |
| Mohan | 3,000 | 25,000 |
| | | 2,00,000 |
| | | |

Q33 :

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

- Sona's share in the profits, guaranteed to be not less than Rs 15,000 in any year.
- Babita gives guarantee to the effect that gross fee earned by her for the firm shall be equal to her average gross fee of the proceeding five years, when she was carrying on profession alone (which is Rs 25,000). The net profit for the year ended March 31, 2007 is Rs 75,000. The gross fee earned by Babita for the firm was Rs 16,000.

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

Answer :

Profit and Loss Appropriation Account as on March 31, 2007

Dr.

Cr.

| Particulars | | Amount | Particulars | | Amount |
|---|--------|--------|---|--|--------|
| | | Rs | | | Rs |
| Profit Transferred to | | | Profit and Loss | | 75,000 |
| Amit's Capital { $84,000 \times (3/6)$ } | 42,000 | | Babita's Capital | | 9,000 |
| Less: Sona's share of deficiency { $1,000 \times (3/5)$ } | (600) | 41,400 | (Deficiency of Fees $25,000 - 16,000$) | | |
| Babita's Capital { $84,000 \times (2/6)$ } | 28,000 | | | | |
| Less: Sona's share of deficiency { $1,000 \times (2/5)$ } | (400) | 27,600 | | | |
| Sona's Capital { $84,000 \times (1/6)$ } | 14,000 | | | | |
| Add: Deficiency received from | | | | | |
| Amit | 600 | | | | |
| Babita | 400 | 15,000 | | | |
| | | 84,000 | | | 84,000 |
| | | | | | |

Q34 :

The net profit of X, Y and Z for the year ended March 31, 2006 was Rs 60,000 and the same was distributed among them in their agreed ratio of 3 : 1 : 1. It was subsequently discovered that the under mentioned transactions were not recorded in the books :

- (i) Interest on Capital @ 5% p.a.
- (ii) Interest on drawings amounting to X Rs 700, Y Rs 500 and Z Rs 300.
- (iii) Partner's Salary : X Rs 1000, Y Rs 1500 p.a.

The capital accounts of partners were fixed as : X Rs 1,00,000, Y Rs 80,000 and Z Rs 60,000. Record the adjustment entry.

Answer :

Past Adjustment

| | X | Y | Z | | Total |
|---|-------------|----------|----------|---|--------------|
| Interest on Capital | 5,000 | 4,000 | 3,000 | = | 12,000 |
| Less: Interest on Drawings | (700) | (500) | (300) | = | (1,500) |
| Add: Partner's Salaries | 1,000 | 1,500 | NIL | = | 2,500 |
| Right distribution of Rs 13,000 | 5,300 | 5,000 | 2,700 | = | 13,000 |
| Less: Wrong distribution of Rs 13,000 (3:1:1) | (7,800) | (2,600) | (2,600) | = | (13,000) |
| | (2,500) Dr. | 2,400 Cr | 100 Cr | = | NIL |

Explanation:

Capital have credit balance if it deducted will be debited and if it is added it will be credited.

Here X wrongly taken excess Rs 2,500 hence Rs 2,500 will be deducted from X capital Account on the other hand Y and Z taken less amount as they should have been taken, hence capital account of Y and Z will be added.

| Date | Particulars | | L.F | Debit Amount Rs | Credit Amount Rs |
|-------------|---|-----|------------|--------------------------------|---------------------------------|
| | X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Profit adjusted among partners) | Dr. | | 2,500 | 2,400 100 |

Q35 :

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

Answer :

Distribution of Profit

| Old Ratio (2:2:1) Year | Harry | Porter | Ali | | Total |
|---|----------|----------|----------|---|----------|
| 2003 – 04 | (8,800) | (8,800) | (4,400) | = | (22,000) |
| 2004 – 05 | (9,600) | (9,600) | (4,800) | = | (24,000) |
| 2005 – 06 | (11,600) | (11,600) | (5,800) | = | (29,000) |
| | | | | = | |
| Total Profit of 3 years in old ratio | (30,000) | (30,000) | (15,000) | = | (75,000) |
| Distribution of 3 years profit in new Ratio (1:1:1) | 25,000 | 25,000 | 25,000 | = | 75,000 |
| Adjusted Profit | (5,000) | (5,000) | 10,000 | | NIL |

Journal (Adjusting entry)

| Date | Particulars | L.F | Debit Amount Rs | Credit Amount Rs |
|------|--|-----|-----------------------|------------------------|
| | Harry's Capital A/c Dr. Porter's Capital t A/c Dr. To Ali's Capital A/c (Profit adjusted due to change in profit sharing ratio) | | 5,000 5,000 | 10,000 |

Q36 :

Mannu and Shristhi are partners in a firm sharing profit in the ratio of 3:2. Following is the balance sheet of the firm as on March 31, 2006.

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

Profit for the year ended March 31, 2006 was Rs 5,000 which was divided in the agreed ratio, but interest @ 5% p.a. on capital and @ 6% p.a. on drawings was inadvertently enquired. Adjust interest on drawings on an average basis for 6 months. Give the adjustment entry.

Answer :

Adjustment of Profit

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

Adjusting Journal Entry

| Date | Particulars | L.F | Debit Amount Rs | Credit Amount Rs |
|-------------|---|------------|--------------------------------|---------------------------------|
| | Shrishti's Capital A/c Dr. To Mannu's Capital A/c (Adjustmnet of profit made) | | 288 | 288 |

Q37 :

On March 31, 2006 the balance in the capital accounts of Eluin, Monu and Ahmed, after making adjustments for profits, drawing, etc; were Rs 80,000, Rs 60,000 and Rs 40,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 5% p.a. The drawings during the year were Eluin Rs 20,000; Monu, Rs 15,000 and Ahmed, Rs 9,000. Interest on drawings chargeable to partners were Eluin Rs 500, Monu Rs 360 and Ahmed Rs 200. The net profit during the year amounted to Rs 1,20,000. The profit sharing ratio was 3 : 2 : 1. Pass necessary adjustment entries.

Answer :

In this question interest on capital shall be calculated on opening capital

| | Eluin | Monu | Ahmed |
|---|--------------|-------------|--------------|
| Capital on 31 Mar. 2006 (Closing Capital) | 80,000 | 60,000 | 40,000 |
| <i>Add:</i> Drawings | 20,000 | 15,000 | 9,000 |
| <i>Less:</i> Profit Rs 120,000 (3:2:1) | (60,000) | (40,000) | (20,000) |
| Capital on April 01, 2005 (Opening Capital) | 40,000 | 35,000 | 29,000 |

Adjustment of Profit

| | Eluin | Monu | Ahmed | | Total |
|---|--------------|-------------|--------------|---|--------------|
| Interest on Capital (on Opening Capital) | 2,000 | 1,750 | 1,450 | = | 5,200 |
| Less: Interest on Drawings | (500) | (360) | (200) | = | (1,060) |
| Right distribution of Rs 4,140 | 1,500 | 1,390 | 1,250 | = | 4,140 |
| Less: Wrong distribution of Rs 4,140 (in the ratio 3:2:1) | (2,070) | (1,380) | (690) | = | (4,140) |
| | (570) | 10 | 560 | = | NIL |

Adjusting Journal Entry

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|-------------|---|-------------|----------------------------|-----------------------------|
| | Eluin's Capital A/c Dr. To Monu's Capital A/c To Ahmed's Capital A/c (Adjustment of Profit made) | | 570 | 10 560 |

Q38 :

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

Answer :

Interest on Capital

$$\text{Azad} = 40,000 \times \frac{5}{100} = \text{Rs } 2,000$$

$$\text{Benny} = 80,000 \times \frac{5}{100} = \text{Rs } 4,000$$

Adjustment of Profit

| | Azad | Benny | | Total |
|--|-------------|--------------|---|--------------|
| Interest on Capital | 2,000 | 4,000 | = | 6,000 |
| Less: Wrong distribution of Profit Rs 6,000 (1: 1) | (3,000) | (3,000) | = | (6,000) |
| Adjusted Profit | (1,000) | (1,000) | = | NIL |

Adjusting Journal Entry

| Date | Particulars | L.F | Debit Amount Rs | Credit Amount Rs |
|-------------|--------------------|------------|-------------------------------------|--------------------------------------|
|-------------|--------------------|------------|-------------------------------------|--------------------------------------|

| | | | | |
|--|---|-----|-------|-------|
| | | | | |
| | Azad's Current A/c To Benny's Current A/c (Adjustment of profit made) | Dr. | 1,000 | 1,000 |

Q39 :

Kavita and Pradeep are partners, sharing profits in the ratio of 3 : 2. They employed Chandan as their manager, to whom they paid a salary of Rs 750 p.m. Chandan deposited Rs 20,000 on which interest is payable @ 9% p.a. At the end of 2001 (after the division of profit), it was decided that Chandan should be treated as partner w.e.f. Jan. 1, 1998 with 1/6 th share in profits. His deposit being considered as capital carrying interest @ 6% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

Answer :

| Interest on | | | | | | | |
|-------------|----------|---|-------|---|--------|---|----------|
| | | | Loan | + | Salary | = | Total |
| 2001 | 59,000 | + | 1,800 | + | 9,000 | = | 69,800 |
| 2002 | 62,000 | + | 1,800 | + | 9,000 | = | 72,800 |
| 2003 | (4,000) | + | 1,800 | + | 9,000 | = | 6,800 |
| 2004 | 78,000 | + | 1,800 | + | 9,000 | = | 88,800 |
| | 1,95,000 | + | 7,200 | + | 36,000 | = | 2,38,200 |

Chandan received as Manager = Interest on Loan + Salary = 7,200 + 36,000 = Rs 43,200

Total Profit of 4 years before interest on Chandan's Loan and Salary = 2,38,200

Interest on Chandan's Capital for 4 years = $\{20,000 \times (6/100) = 1,200\}$

= $1,200 \times 4 = \text{Rs } 4,800$

Profit after interest on all partners Capital

= Total Profit of four years before interest on Chandan's loan and Salary – Interest on Chandan's Capital for four years

= $2,38,200 - 4,800$

= Rs 2,33,400

Wrong Distribution – Distribution of 4 years

Profit when Chandan as a Manager

| | | |
|---|---|-----------------|
| Kavita $\{1,95,000 \times (3/5)\}$ | = | 1,17,000 |
| Pradeep $\{1,95,000 \times (2/5)\}$ | = | 78,000 |
| Chandan received as manager = Interest on Loan + Salary | | |
| = $7,200 + 36,000$ | = | <u>43,200</u> |
| | | <u>2,38,200</u> |

Right Distribution – Division of Profit when Chandan as Partner

| | |
|---|--------------|
| Chandan Share of Profit $\{2,33,400 \times (1/6)\}$ | 38,900 |
| Interest on Capital | <u>4,800</u> |

| | |
|--|--------|
| | 43,700 |
|--|--------|

Kavita's Share of Profit $\{(2,33,400 - 38,900) \times (3/5)\} = 1,16,700$
 Pradeep's share of Profit $\{(2,33,400 - 38,900) \times (2/5)\} = 77,800$

Adjustment of Profit

| | Kavita | | Pradeep | | Chandan | = | |
|--|------------|--|----------|--|----------|---|---|
| Distribution of profit when Chandan as partner | 1,16,700 | | 77,800 | | 43,700 | = | 2 |
| Less: Distribution of profit when Chandan as manager | (1,17,000) | | (78,000) | | (43,200) | = | (|
| Right distribution of Rs 4,140 | (300) | | (200) | | (500) | = | |

Note: As per solution the answer is different from answer given in NCERT book.

| Date | Particulars | L.F. | Debit Amount Rs | Credit Amount Rs |
|------|---|------|--------------------|---------------------|
| | Kavita's Capital A/c Dr. | | 300 | |
| | Pradeep's Capital A/c Dr. | | 200 | |
| | To Chandan's Capital A/c (Adjustment of profit made) | | | 500 |

Q40 :

Mohan, Vijay and Anil are partners, the balance on their capital accounts being Rs 30,000, Rs 25,000 and Rs 20,000 respectively. In arriving at these figures, the profits for the year

ended March 31, 2007 amounting to Rupees 24,000 had been credited to partners in the proportion in which they shared profits. During the year their drawings for Mohan, Vijay and Anil were Rs 5,000, Rs 4,000 and Rs 3,000, respectively. Subsequently, the following omissions were noticed:

- (a) Interest on Capital, at the rate of 10% p.a., was not charged.
- (b) Interest on Drawings: Mohan Rs 250, Vijay Rs 200, Anil Rs 150 was not recorded in the books.

Record necessary corrections through journal entries.

Answer :

Interest on Capital shall be calculated on opening capital.

| | Mohan | Vijay | Anil |
|----------------------|--------------|--------------|-------------|
| Closing Capital | 30,000 | 25,000 | 20,000 |
| Add: Drawings | 5,000 | 4,000 | 3,000 |
| Less: Profit (1:1:1) | (8,000) | (8,000) | (8,000) |
| Opening Capital | 27,000 | 21,000 | 15,000 |

Interest on Capital

$$\text{Mohan} = 27,000 \times \frac{10}{100} = \text{Rs } 2,700$$

$$\text{Vijay} = 21,000 \times \frac{10}{100} = \text{Rs } 2,100$$

$$\text{Anil} = 15,000 \times \frac{10}{100} = \text{Rs } 1,500$$

Adjustment of Profit

| | Mohan | Vijay | Anil | | Total |
|--|---------|---------|---------|---|---------|
| Interest on Capital (on Opening Capital) | 2,700 | 2,100 | 1,500 | | 6,300 |
| Interest on Drawings | (250) | (200) | (150) | | (600) |
| | 2,450 | 1,900 | 1,350 | | 5,700 |
| Wrong distribution | (1,900) | (1,900) | (1,900) | = | (5,700) |
| | 550 | NIL | (550) | | |

Adjusting Journal Entry

| Date | Particulars | L.F | Debit Amount Rs | Credit Amount Rs |
|------|---|-----|-----------------------|------------------------|
| | Anil's Capital A/c Dr. To Vijay's Capital A/c (Adjustment of profit made) | | 550 | 550 |

Note: As per solution adjustment has been done for Rs 550 however book shows Rs 450.

Q41 :

Anju, Manju and Mamta are partners whose fixed capitals were Rs 10,000, Rs 8,000 and Rs 6,000, respectively. As per the partnership agreement, there is a provision for allowing

interest on capitals @ 5% p.a. but entries for the same have not been made for the last three years. The profit sharing ratio during these years remained as follows:

| Year | Anju | Manju | Mamta |
|------|------|-------|-------|
| 2004 | 4 | 3 | 5 |
| 2005 | 3 | 2 | 1 |
| 2006 | 1 | 1 | 1 |

Make necessary and adjustment entry at the beginning of the fourth year i.e. Jan. 2007.

Answer :

Interest on Capital

$$\text{Anuj} = 10,000 \times \frac{5}{100} = \text{Rs } 500$$

$$\text{Manju} = 8,000 \times \frac{5}{100} = \text{Rs } 400$$

$$\text{Mamta} = 6,000 \times \frac{5}{100} = \text{Rs } 300$$

Adjustment of profit

Year 2004

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

Year 2005

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

Year 2006

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

Final Adjustment

| | | | | | |
|------|-------|--|-------|--|-------|
| | Anuj | | Manju | | Mamta |
| 2005 | 100 | | 100 | | (200) |
| 2006 | (100) | | NIL | | 100 |
| 2007 | 100 | | NIL | | (100) |
| | 100 | | 100 | | (200) |

Adjusting Journal Entry

| Date | Particulars | L.F | Debit Amount Rs | Credit Amount Rs |
|------|---|-----|-----------------------|------------------------|
| | Mamta's Capital A/c Dr. To Anuj's Capital A/c To Manju Capital A/c (Adjustment of profit made) | | 200 | 100 100 |

Q42 :

Dinker and Ravinder were partners sharing profits and losses in the ratio of 2:1. The following balances were extracted from the books of account, for the year ended December 31, 2005.

| | Debit | Credit |
|--------------------------------------|-----------------|-----------------|
| | Amount | Amount |
| Account Name | Rs | Rs |
| Capital | | |
| Dinker | | 2,35,000 |
| Ravinder | | 1,63,000 |
| Drawings | | |
| Dinker | 6,000 | |
| Ravinder | 5,000 | |
| Opening Stock | 35,100 | |
| Purchases and Sales | 2,85,000 | 3,75,800 |
| Carriage inward | 2,200 | |
| Returns | 3,000 | 2,200 |
| Stationery | 1,200 | |
| Wages | 12,500 | |
| Bills receivables and Bills payables | 45,000 | 32,000 |
| Discount | 900 | 400 |
| Salaries | 12,000 | |
| Rent and Taxes | 18,000 | |
| Insurance premium | 2,400 | |
| Postage | 300 | |
| Sundry expenses | 1,100 | |
| Commission | | 3,200 |
| Debtors and creditors | 95,000 | 40,000 |
| Building | 1,20,000 | |
| Plant and machinery | 80,000 | |
| Investments | 1,00,000 | |
| Furniture and Fixture | 26,000 | |
| Bad Debts | 2,000 | |
| Bad debts provision | | 4,600 |
| Loan | | 35,000 |
| Legal Expenses | 200 | |
| Audit fee | 1,800 | |
| Cash in Hand | 13,500 | |
| Cash at Bank | 23,000 | |
| | 8,91,200 | 8,91,200 |

| | | |
|--|--|--|
| | | |
|--|--|--|

Prepare final accounts for the year ended December 31,2005, with following adjustment:

- (a) Stock on December 31,2005, was Rs 42,500.
- (b) A Provision is to be made for bad debts at 5% on debtors
- (c) Rent outstanding was Rs 1,600.
- (d) Wages outstanding were Rs 1,200.
- (e) Interest on capital to be allowed on capital @ 4% per annum and interest on drawings to be charged @ 6% per annum.
- (f) Dinker and Ravinder are entitled to a Salary of Rs 2,000 per annum
- (g) Ravinder is entitled to a commission Rs 1,500.
- (h) Depreciation is to be charged on Building @ 4%, Plant and Machinery, 6%, and furniture and fixture, 5%.
- (i) Outstanding interest on loan amounted to Rs 350.

Answer :

Financial Statement as on December 31, 2005

Trading Account

| Dr. | | Cr. | |
|------------------------|--------------|--------------------|--------------|
| Particulars | Amount Rs | Particulars | Amount Rs |
| Opening Stock | 35,100 | Sales | 3,75,800 |
| Purchases | 2,85,000 | Less: Sales Return | (3,000) |
| Less: Purchases Return | (2,200) | | |
| | 2,82,800 | Closing Stock | 42,500 |

| | | | | |
|------------------|--------|----------|--|----------|
| Carriage Inwards | | 2,200 | | |
| Wages | 12,500 | | | |
| Add: Outstanding | 1,200 | 13,700 | | |
| | | | | |
| Gross Profit | | 81,500 | | |
| | | | | |
| | | 4,15,300 | | 4,15,300 |
| | | | | |

Profit and Loss Account

Dr.

Cr.

| Particulars | | Amount | Particulars | | Amount |
|------------------------------|---------|--------|-------------------|--|--------|
| | | Rs | | | Rs |
| Stationery | | 1,200 | Gross Profit | | 81,500 |
| Discount Allowed | | 900 | Discount Received | | 400 |
| Salaries | | 12,000 | Commission | | 3,200 |
| Rent & Taxes | 18,000 | | | | |
| Add: Outstanding | 1,600 | 19,600 | | | |
| | | | | | |
| Insurance Premium | | 2,400 | | | |
| Postage | | 300 | | | |
| Sundry Expenses | | 1,100 | | | |
| Depreciation on | | | | | |
| Building | | 4,800 | | | |
| Plant and | | 4,800 | | | |
| Machinery | | | | | |
| Fixtures and Fittings | | 1,300 | | | |
| | | | | | |
| Provision for Bad Debts | 4750 | | | | |
| Add: Bad Debt | 2,000 | | | | |
| | 6,750 | | | | |
| Less: (Old) Provision for | (4,600) | 2,150 | | | |
| Bad Debt | | | | | |
| | | | | | |
| Legal Expenses | | 200 | | | |
| Audit Fee | | 1,800 | | | |
| Outstanding Interest on Loan | | 350 | | | |
| Profit and Loss | | 32,200 | | | |
| Appropriation | | | | | |

| | | | |
|--|--------|--|--------|
| | 85,100 | | 85,100 |
| | | | |

Profit and Loss Appropriation Account

Dr.

Cr.

| | Amount | | |
|-------------|--------|-------------|--|
| Particulars | Rs | Particulars | |

Q43 :

Kajol and Sunny were partners sharing profits and losses in the ratio of 3:2. The following Balances were extracted from the books of account for the year ended March 31, 2006.

| Account Name | Debit Amount Rs | Credit Amount Rs |
|--------------------------------------|-----------------------|------------------------|
| Capital | | |
| Kajol | | 1,15,000 |
| Sunny | | 91,000 |
| Current accounts [on 1-04-2005] | | |
| Kajol | | 4,500 |
| Sunny | 3,200 | |
| Drawings | | |
| Kajol | 6,000 | |
| Sunny | 3,000 | |
| Opening stock | 22,700 | |
| Purchases and Sales | 1,65,000 | 2,35,800 |
| Freight inward | 1,200 | |
| Returns | 2,000 | 3,200 |
| Printing and Stationery | 900 | |
| Wages | 5,500 | |
| Bills receivables and Bills payables | 25,000 | 21,000 |
| Discount | 400 | 800 |
| Salaries | 6,000 | |

| | | |
|------------------------------|----------|----------|
| Rent | 7,200 | |
| Insurance premium | 2,000 | |
| Traveling expenses | 700 | |
| Sundry expenses | 1,100 | |
| Commission | | 1,600 |
| Debtors and Creditors | 74,000 | 78,000 |
| Building | 85,000 | |
| Plant and Machinery | 70,000 | |
| Motor car | 60,000 | |
| Furniture and Fixtures | 15,000 | |
| Bad debts | 1,500 | |
| Provision for doubtful debts | | 2,200 |
| Loan | | 25,000 |
| Legal expenses | 300 | |
| Audit fee | 900 | |
| Cash in hand | 7,500 | |
| Cash at bank | 12,000 | |
| | 5,78,100 | 5,78,100 |
| | | |

Prepare final accounts for the year ended March 31,2006, with following adjustments:

- (a) Stock on March 31,2006 was Rs37,500.
- (b) Bad debts Rs3,000; Provision for bad debts is to be made at 5% on debtors
- (c) Rent Prepaid were Rs1,200.
- (d) Wages outstanding were Rs 2,200.
- (e) Interest on capital to be allowed on capital at 6% per annum and interest on drawings to be charged @ 5% per annum.
- (f) Kajol is entitled to a Salary of Rs 1,500 per annum.
- (g) Prepaid insurance was Rs 500.
- (h) Depreciation was charged on Building, @ 4%; Plant and Machinery, @ 5%; Motor car, @ 10% and furniture and fixture, @ 5%.
- (i) Goods worth Rs 7,000 were destroyed by fire on January 20,2005. The Insurance company agreed to pay Rs 5,000 in full settlement of the claim.

Answer :

Financial Statement as on December 31, 2005

Trading Account

| Dr. | | Cr. | |
|--------------------------|----------------------|--------------------|----------------------|
| Particulars | Amount Rs | Particulars | Amount Rs |
| Opening Stock | 22,700 | Sales | 2,35,800 |
| Purchases | 1,65,000 | Less: Sales Return | (2,000) |
| Less: Purchases Return | (3,200) | | 2,33,800 |
| Less: Goods Lost by Fire | (7,000) | Closing Stock | 37,500 |
| | 1,54,800 | | |
| Freight Inward | 1,200 | | |
| Wages | 5,500 | | |
| Add: Outstanding | 2,200 | | |
| | 7,700 | | |
| Gross Profit | 84,900 | | |
| | 2,71,300 | | 2,71,300 |
| | | | |

Note: There is mistake in adjustment (i) in order to match the answer the date of goods lost by fire has been assumed January 20, 2005, in place of Jan. 20, 2006.

Profit and Loss Account

| Dr. | | Cr. | |
|-------------------------|----------------------|--------------------|----------------------|
| Particulars | Amount Rs | Particulars | Amount Rs |
| Printing and Stationery | 900 | Gross Profit | 84,900 |
| Discount Allowed | 400 | Discount Received | 800 |
| Salaries | 6,000 | Commission | 1,600 |

| | | | | |
|---|----------------|-------|-----------------------|-------|
| Rent | 7,200 | | Insurance Co. (Claim) | 5,000 |
| <i>Less: Prepaid</i> | <u>(1,200)</u> | 6,000 | | |
| Insurance Premium | 2,000 | | | |
| <i>Less: Prepaid</i> | <u>(500)</u> | 1,500 | | |
| Travelling Expenses | | 700 | | |
| Sundry Expenses | | 1,100 | | |
| Bad Debt | 1,500 | | | |
| <i>Add: Further Bad debt</i> | 3,000 | | | |
| <i>Add: Provision for Bad Debts</i> | 3,550 | | | |
| | <u>8,050</u> | | | |
| <i>Less: Provision for Bad Debt (Old)</i> | <u>(2,200)</u> | 5,850 | | |
| Legal Expenses | | 300 | | |
| Audit Fee | | 900 | | |
| Goods Lost by Fire | | 7,000 | | |
| Depreciation on Building | | 3,400 | | |
| Plant and Machinery | | 3,500 | | |
| Motor Car | | | | |