



Q40. 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.

Sol:

Interest on Capital

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

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

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

Adjusting Entry					
Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Azad's Capital A/c	Dr		1,000	
	To Benny Capital A/c				1,000
	(Baing adjustment of Profit made)				

***** END *****