



Q5. 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 2014-15 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.

Solution.

If interest on capital and Partner's salaries is provided even if there is a loss.

Profit and Loss Appropriation Account					
Dr.			Cr.		
Particular		Amount Rs.	Particular		Amount Rs.
To Partner's Salaries		60,000	By Profit and Loss A/c		23,200
			By Loss transferred to		
To Interest on Capital			Rakhi Capital	34,720	
Rakhi	20,000		Shikha Capital	52,080	86,800
Shikha	30,000	50,000			
		1,10,000			1,10,000

Partner's Capital Account					
Dr.			Cr		
Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
To Drawings	7,000	10,000	By Balance b/d	2,00,000	3,00,000
To Profit and Loss Appropriation	34,720	52,080	By Partner's Salaries		60,000
			By Interest on Capital	20,000	30,000
To Balance c/d	1,78,280	3,27,920			
	2,20,000	3,90,000		2,20,000	3,90,000

If interest on Capital and salaries is provided out of profit of the firm

Profit and Loss Appropriation Account			
Dr.		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.
To Partner's Salaries		By Profit and Loss A/c	23,200
Shikha (WN 1)	12,655		
To Interest on Capital			
Rakhi (WN 1)	4,218		
Shikha (WN 1)	6,327		
	23,200		23,200

Partner's Capital Account

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

Working Note 1:

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

Partners Salaries	Amount	Ratio		
Shikha	60,000	6	$23,200 \times (6/11)$	12,655
Interest on Capital				
Rakhi	20,000	2	$23,200 \times (2/11)$	4,218
Shikha	30,000	1	$23,200 \times (3/11)$	6,327
		11		23,200

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