



Q41. 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 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:

	Rs.	
2012	Profit	59,000
2013	Profit	62,000
2014	Loss	(4,000)
2015	Profit	78,000

Record the necessary journal entries to give effect to the above

Solution:

Calculation of Profit before interest on Chandan's Loan and Salary:

	Profit		Interest on Loan	+	Salary	=	Total
2012	59,000	+	1,800	+	9,000	=	69,800
2013	62,000	+	1,800	+	9,000	=	72,800
2014	(4,000)	+	1,800	+	9,000	=	6,800
2015	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 = 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 × 6% × 4 years= Rs.4,800

Profit after interest on all partners Capital

= Total Profit of four years (before interest on Chanan's loan and Salary) - Interest on Chanan's Capital for four years

= 2,38,200 - 4,800

= Rs.2,33,400

Wrong Distribution - Distribution of 4 years

Profit when Chanan as a Manager		
Kavita [$1,95,000 \times 3/5$]	=	1,17,000
Pradeep [$1,95,000 \times 2/5$]	=	78,000
Chanan received as Manager = Interest on Loan + Salary = 7,200 + 36,000	=	43,200
		2,38,200

Chanan Share of Profit [$2,33,400 \times 1/6$]	38,900
Interest on Capital	4,800
	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	Chanan	=	Total
Distribution of Profit when Chanan as Partner	1,16,700	77,800	43,700	=	2,38,200
Less : Distribution of profit when Chanan as Manager	(1,17,000)	(78,000)	(43,200)	=	(2,38,200)
Right Distribution of 4,140	(300)	(200)	500	=	NIL

Adjusting Entry					
Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	Kavita's Capital A/c	Dr.		300	
	Pradeep's Capital A/c	Dr.		200	
	To Chandan's Capital A/c				500
	(Being adjustment of Profit made)				

***** END *****