



Q3. Harshad and Dhiman are in partnership since April 01, 2015. No Partnership agreement was made. They contributed Rs.4,00,000 and Rs.1,00,000 respectively as capital. In addition, Harshad advanced an amount of Rs.1,00,000 to the firm, on October 01, 2015. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2015. The profits for the year ended March 31, 2015 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:

Profits should be distributed equally;

He should be allowed Rs.2,000 p.m. as remuneration for the period he managed the business in the absence of Harshad;

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.

Sol:

DISTRIBUTION OF PROFITS

Harshad Claims:

Decisions

- i. Harshad's claim is not justified on the matter of interest on capital and loan as there is no agreement between the partners. According to the Partnership Act, 1932, no interest on capital will be allowed to partners whereas; interest on loan will be allowed only upto 6% p.a.
- ii. In the absence of Partnership agreement, profit shall be shared equally according to Partnership Act, 1932. Therefore, his claim cannot be justified.

Dhiman Claims:

- i. Dhiman's claim is justified according to Partnership Act 1932 if there is no agreement on the matter of profit distribution, profit shall be distributed equally.
- ii. No salary will be allowed to any partner as there is no agreement on matter of remuneration.
- iii. Dhiman's claim is not justified on the matter of interest on capital but justified on the matter of interest on loan. If there is no agreement on interest on partner's loan, interest on loan shall be provided at 6% p.a.

Profit and Loss Adjustment Account

Dr.			Cr.
Particulars	Amount Rs.	Particulars	Amount Rs.
To Interest on Partner's Loan		By Profit and Loss A/c	1,80,000
Harshad $[1,00,000 \times 6\% \times 6/12]$	3,000		
To Profit and Loss Appropriation A/c	1,77,000		
	1,80,000		1,80,000

Profit and Loss Account			
Dr.			Cr.
Particulars	Amount Rs.	Particulars	Amount Rs.
To Profit transferred to		By Profit and Loss Adjustment A/c	1,77,000
Harshad's Capital	88,500		
Shama's Capital	88,500		
	1,77,000		1,77,000

***** END *****