



Q36. The net profit of X, Y and Z for the year ended March 31, 2015 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.

Solution:

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 13,000	5,300	5,000	2,700	13,000
Less : Wrong distribution of 13,000 (3:1:1)	(7,800)	(2,600)	(2,600)	(13,000)
	(2,500) Dr.	2,400 Cr.	100 Cr.	NIL

Explanation:

Capital has credit balance if it decreases it will be debited and if it increases it will be credited.

Here X has wrongly taken excess Rs.2,500 and hence Rs.2,500 will be deducted from X capital Account i.e., debited. On the other hand, Y and Z have taken less than what they should have been taken hence capital account of Y and Z will be added i.e., credited.

Adjusting entry					
Date	Particulars		L.F.	Dr. Rs.	Cr. Rs.
	X's Capital A/c	Dr.		2,500	
	To Y's Capital A/c				2,400
	To Z's Capital A/c				100
	(Being profit adjusted among partners)				

***** END *****