



Q11. Ramesh and Suresh were partners in a firm sharing profits in the ratio of their capitals contributed on commencement of business which were Rs.80,000 and Rs.60,000 respectively. The firm started business on April 1, 2013. According to the partnership agreement, interest on capital and drawings are 12% and 10% p.a., respectively. Ramesh and Suresh are to get a monthly salary of Rs.2,000 and Rs.3,000, respectively.

The profits for year ended March 31, 2015 before making above appropriations was Rs.1,00,300. The drawings of Ramesh and Suresh were Rs.40,000 and Rs.50,000, respectively. Interest on drawings amounted to Rs.2,000 for Ramesh and Rs.2,500 for Suresh. Prepare Profit and Loss Appropriation Account and partners' capital accounts, assuming that their capitals are fluctuating.

Sol:

| Profit and Loss Appropriation Account | | | | | |
|---------------------------------------|--------|---------------|-------------------------|-------|---------------|
| Dr. | | | Cr. | | |
| Particulars | | Amount Rs. | Particulars | | Amount Rs. |
| To Interest on Capital | | | By Profit and Loss A/c | | 1,00,300 |
| Ramesh | 9,600 | | | | |
| Suresh | 7,200 | 16,800 | By Interest on Drawings | | |
| | | | Ramesh | 2,000 | |
| To Partner's Salary | | | Suresh | 2,500 | 4,500 |
| Ramesh | 24,000 | | | | |
| Suresh | 36,000 | 60,000 | | | |
| | | | | | |
| To Profit transferred to | | | | | |
| Ramesh Capital [28,000 × 4/7] | 16,000 | | | | |
| Suresh Capital [28,000 × 3/7] | 12,000 | 28,000 | | | |
| | | | | | |
| | | | | | |
| | | 1,04,800 | | | 1,04,800 |
| | | | | | |

| Partner's Capital Account | | | | | |
|---------------------------|----------|----------|--------------------------------------|----------|----------|
| Dr. | | | Cr | | |
| Particulars | Ramesh | Suresh | Particulars | Ramesh | Suresh |
| To Drawings | 40,000 | 50,000 | By Balance b/d | 80,000 | 60,000 |
| To Interest on Drawings | 2,000 | 2,500 | By Interest on Capital | 9,600 | 7,200 |
| | | | By Partner's Salaries | 24,000 | 36,000 |
| To Balance c/d | 87,600 | 62,700 | By Profit and Loss Appropriation A/c | 16,000 | 12,000 |
| | | | | | |
| | 1,29,600 | 1,15,200 | | 1,29,600 | 1,15,200 |
| | | | | | |

Working Note:

1. Calculation of Profit-sharing Ratio.

Profit-sharing Ratio= Capital Ratio.... (Given)

| | | | | |
|---------------|---|--------|---|--------|
| Capital Ratio | = | Ramesh | : | Suresh |
| | | 80,000 | : | 60,000 |
| | | 4 | : | 3 |

Therefore, Profit-sharing Ratio= 4:3.

***** END *****