



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.<br>Rs. | Cr.<br>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) |     |      |            |            |
|                 |  |     |      |            |            |

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