Chapter 1 – Accounting for Partnership Firms-Fundamentals

Question 1.

In the absence of Partnership Deed, what are the rules relating to:

a. Salaries of partners,

b. Interest on partner's capitals,

c. Interest on partner's loan,

d. Division of profit, and

e. Interest on partners' drawings?

Solution:

	Items	Provision in the Absence of Partnership Deed
(a)	Salaries to Partners	No salary will be allowed to partners.
(b)	Interest on Partner's Capital	No interest will be allowed to partners on their capital.
(c)	Interest on Partner's Loan	6% p.a. interest will be allowed on the money given by partners to the firm in the form of loans and advances.
(d)	Distribution of Profit	Profits will be shared equally, irrespective of the amount of capital contributed by partners.
(e)	Interest on Partner's Drawings	No interest will be charged on the drawings of partners.

Question 2.

Following differences have arisen among P, Q and R. State who is correct in each case:

a. P used Rs.20,000 belonging to the firm and made a profit of Rs.5,000. Q and R want the amount to given to the firm?

b. Q used Rs.5,000 belonging to the firm and suffered a loss of Rs.1,000. He wants the firm to bear the loss

c. P and Q want to purchase goods from A Ltd., R does not agree?

d. Q and R want to admit C as partner, P does not agree?

Solution:

a. P is bound to pay Rs.20,000 along with profit of Rs.5,000 to the firm because this amount belongs to the firm. Explanation: According to the principal and agent relationship, P is principal as well as agent to the firm and to Q and R. As per the rule, any profit earned by an agent (P) by using the firm's property is attributable to the firm.

b. Q is liable to pay Rs.5,000 to the firm. According to the Partnership Act, every partner of a partnership firm is liable to the firm for any loss caused by his/her wilful negligence.

Explanation: Here, Q is solely responsible for the loss of Rs.1,000 because he used the property of the firm and also represented himself as a principal rather than an agent to the other partners and to the firm.

c. P and Q may buy goods from A Ltd.

Explanation: According to the Partnership Act, a partner has a right to buy and sell goods without consulting the other partners unless a Public Notice has been given by the partnership firm to restrict the partners to buy and sell.

d. C will not be admitted because one of the partners, P, has not agreed to admit C. Explanation: According to the Partnership Act, a new partner cannot be admitted into a firm unless all the existing partners agree on the same decision. In other words, a new partner can be admitted in a partnership firm with the consent of all the existing partners.

Question 3.

A, B C are partners in a firm. They have no partnership agreement for their guidance. At the end of the first of the commencement of the firm, they have faced the following problems:

a. A wants that interest on capital should be allowed to the partners but B and C do not agree.

b. B wants that the partners should be allowed to draw salary but A and C do not agree.

c. C wants that the loan given by him to the firm should bear interest @ 10% p.a. but A and B do not agree.

d. A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution but C does not agree.

State how you will settle these disputes if the partners approach you for the purpose.

Solution:

	Disputes	Possible Judgements
a.	A wants that interest on capital should be allowed to the partners, but B and C do not agree.	According to the Partnership Act, no interest on capital will be allowed. Reason: There is no partnership agreement among A, B and C regarding interest on capital.
b.	B wants that the partners should be allowed to draw salary, but A and C do not agree.	No salary will be allowed to any partner. Reason: There is no partnership agreement.
c.	C wants that the loan given by him to the firm should bear interest @ 10% p.a., but A and B do not agree.	Interest on partner's loan (C's loan) will be allowed at 6% p.a. Reason: According to the Partnership Act, in the absence of a partnership agreement, interest on a partner's loan is allowed at 6% p.a.
d.	A and B having contributed larger amounts of capital, desire that the profits should be divided in the ratio of their capital contribution, but C does not agree.	Profit will be shared equally and not in the capital ratio. Reason: There is no partnership agreement.

Question 4.

M and N are partners in a firm. M has given a loan of Rs.8,000 to the firm on 1st July, 2016. The Partnership Deed is silent upon the question of provision of interest on partner's loan. Compute the amount of interest payable on the loan advanced by M to the firm, assuming the books are closed on 31st March each year.

Solution:

Amount of loan given by M to the firm (on 1 July 2016) = ₹8,000
Period (from 1 July 2016 to 31 March 2017) = 9 months interest rate = 6% p.a.

$$\therefore \text{ Interest on M's Loan } = 8{,}000 \times \frac{6}{100} \times \frac{9}{12}$$
$$= ₹360$$

Note: In case the partnership agreement is silent, according to the Partnership Act, interest on loan is allowed at 6% p.a. on the amount advanced or loan given by a partner to the firm.

Question 5.

A and B are partners in a firm sharing profits equally. They had advanced to the firm a sum of Rs.30,000 as a loan in their profit-sharing ratio on 1st October, 2015. The Partnership Deed is silent on the question of interest on the loan from partners. Compute the interest payable by the firm to the partners, assuming the firm closes its books on 31st March each year.

Solution:

$$\text{Amount advanced by each partner} = 30{,}000 \times \frac{1}{2}$$
$$= ₹15{,}000$$

Period (from October 01, 2015 to March 31, 2016) = 6 months
Interest rate = 6% p.a. (in the absence of partnership deed)

$$\text{Interest on Loan to each partner} = 15{,}000 \times \frac{6}{100} \times \frac{6}{12}$$
$$= ₹450$$

A and B will get ₹450 individually as interest on loan for 6 months at 6% p.a.

Question 6.

Mahesh and Ramesh are partners with capitals of Rs.50,000 and Rs.60,000 respectively. On 1st January, 2016, Mahesh gives a loan of Rs.10,000 and Ramesh introduced Rs.20,000 as additional capital. Profit for the year ended 31st March, 2016 was Rs.15,200. There is no Partnership Deed. Both Mahesh and Ramesh expect interest @ 10% p.a. on the loan and additional capital advanced by them.

Show how the profits would be divided? Give reasons.

Solution:

Profit and Loss Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Interest on Mahesh's Loan		150	By Net Profit b/d	15,200
To Profit transferred to :				
Mahesh's Capital A/c	7,525			
Ramesh's Capital Ac	7,525	15,050		
		15,200		**15,200**

Working Note:

1 Calculation of Interest on Mahesh's Loan
Amount of Loan given by Mahesh = ₹10,000
Period (from Jan 01 to March 31, 2016) = 3 months

$$\therefore \text{ Interest on Mahesh's Loan} = 10{,}000 \times \frac{6}{100} \times \frac{3}{12}$$
$$= ₹150$$

2: Calculation of Interest on Capital
No interest on Capital will be allowed to the partners

Note: There is no partnership deed between Mahesh and Ramesh. Therefore, as per Partnership Act:

a. Interest on Loan will be allowed at 6% p.a.
b. No interest on Partners' Capital will be allowed and
c. Profit after Interest on Mahesh's loan will be distributed equally between Mahesh and Ramesh.

Question 7.

Black and White are partners with capitals of Rs.30,000 and Rs.20,000 respectively. Profits for the year ended 31st March, 2015 amounted to Rs.27,100. It is agreed that 5% interest on capital as such shall be allowed. There is no agreement regarding sharing of profits or partnership salary. Black is a whole-time partner whereas White does not attend business regularly. Black claims Rs.600 salary per month and 60% of balance profits. White advanced Rs.10,000 as loan and he now claims 10% interest. State how you will settle the accounts.

Solution:

Profit and Loss Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Interest on Partner's Capital:			By Net Profit b/d (27,100 - 600)	26,500
Black	1,500			
White	1,000	2,500		
To Profit transferred to :				
Black's Capital A/c	12,000			
White's Capital Ac	12,000	24,000		
		26,500		**26,500**

Working Notes :

WN 1 Calculation of Interest on Capital

$$\therefore \text{ Interest on Black's Capital } = 30{,}000 \times \frac{5}{100} = ₹1,500$$

$$\therefore \text{ Interest on White's Capital } = 20{,}000 \times \frac{5}{100} = ₹1,000$$

WN 2 Calculation of Interest on White's Loan

$$\therefore \text{ Interest on White's Loan } = 10{,}000 \times \frac{6}{100} = ₹600$$

Notes:

1. As per Partnership Agreement, interest on capital to the partners is to be allowed at 5%.
2. There is no partnership agreement for interest on loan provided by the partner. Hence, interest on loan is allowed at 6%.
3. There is no partnership agreement for salary to the partners, therefore no salary will be provided to any of the partner.
4. Also, in the absence of a partnership agreement regarding sharing of profits and losses, profits will be shared equally by the partners.

Question 8.

Jaspal and Rosy were partners with capital contribution ofRs.10,00,000 and Rs.5,00,000 respectively. They do not have a Partnership Deed. Jaspal wants that profits of the firm should be shared in their capital ratio. Rosy convinced Jaspal that profits should be shared equally. Explain how Rosy would have convinced Jaspal for sharing the profit equally.

Solution:

In the absence of a partnership deed, the provisions of the Indian Partnership Act, 1932, apply. According to the Act, if there is no agreement regarding the ratio in which profits are to be shared, then profits (or losses) are to be shared equally among all the partners. Therefore, in this situation, Jaspal's view of distribution of profits in the capital ratio is not acceptable, and Rosy must have convinced her stating the provisions contained in the Partnership Act, 1932.

Question 9.

Jagmohan and Ramesh were partners with capital contribution of Rs.10,00,000 and Rs.5,00,000 respectively. They do not have a Partnership Deed. Jagmohan wants that the firm should allow interest on capital @ 6% p.a. Ramesh convinced Jagmohan that interest cannot be allowed on capital to which Jagmohan agreed after discussion. What argument must have been put forward by Ramesh that convinced Jagmohan?

Solution:

In the absence of a partnership deed, the provisions of the Indian Partnership Act, 1932, apply. According to the Act, if there is no agreement regarding the interest on capital contributed by the partners, then no interest on capital is allowed to any of the partners. Therefore, in this situation, Jagmohan's view of allowing interest on capital at 6% p.a. is not acceptable, and Ramesh must have convinced him stating the provisions contained in the Partnership Act, 1932.

Question 10.

Sunil and Jatinder were partners in a firm. Their drawings during the year were Rs.1,00,000 and Rs.75,000 respectively. They do not have a Partnership Deed. Jatinder wanted that the firm should charge interest drawings @ 6% p.a. Sunil convinced Jatinder that interest cannot be charged on drawings to which Jatind agreed after discussion. What argument must have been put forward by Sunil that convinced Jatind

Solution:

In the absence of a partnership deed, the provisions of the Indian Partnership Act, 1932, apply. According to the Act, if there is no agreement regarding the interest on drawings withdrawn by the partners, then no interest on drawings is charged from any of the partners. Therefore, in this situation, Jatinder's view of charging interest on drawings is not acceptable, and Sunil must have convinced him stating the provisions contained in the Partnership Act, 1932.

Question 11.

Manpreet and Jaspreet were partners sharing profits and losses in the ratio of 3:2. They decided the from 1st April, 2015 they will share profits and losses equally. On that date, the Balance Sheet of the firm had credit balance of Rs.1,00,000 in General Reserve. Jaspreet was of the opinion that it should be credits to the Capital Accounts equally. Manpreet was of the opinion that it should be credited to the Capital Accounts in their old profit-sharing ratio. Jaspreet agreed to the views of Manpreet. Explain what arguments must have been put forward by Manpreet to which Jaspreet agreed.

Solution:

At the time of change in the profit-sharing ratio, on one hand, some partners gain, while on the other hand, some partners sacrifice. Therefore, to avoid putting any partner to an undue advantage or disadvantage, any balance available in the form of accumulated profits and losses is transferred to the Partners' Capital Accounts in their old profit-sharing ratio. So, the balance of Rs.1,00,000 (General Reserve) will be credited to the capital accounts of Manpreet and Jaspreet in the ratio of 3:2. Manpreet must have stated the above accounting practice to Jaspreet to convince her.

Question 12.

Ayub and Anita were partners sharing profits and losses in the ratio of 3:2. They decided that from 1st April, 2015 they will share profits and losses equally. On that date, Revaluation Account was prepared. It was noticed that an unrecorded asset (Computer Printer) valued at Rs.5,000 existed. Ayub was of opinion that it should be credited to the Revaluation Account. Anita was of the opinion that it should be credited to the Capital Accounts in equal proportion. Anita agreed to the views of Ayub. Explain what arguments must have been put forward by Ayub to which Anita agreed.

Solution:

At the time of change in the profit-sharing ratio, any asset found unrecorded is credited to the Revaluation Account and the net result of the Revaluation Account (revaluation profit or revaluation loss) is debited/credited to the Partners' Capital Accounts in their old profit-sharing ratio. Ayub must have stated the above accounting practice to Anita to convince her.

Question 13.

Abhay and Anirudh were partners sharing profits and losses in the ratio of 2:1. They decided that 1st April, 2015 they will share profits and losses equally. On that date, Revaluation Account was prepa It was noticed that an unrecorded liability towards Leave Encashment of Rs.15,000 existed. Abhay was the opinion that it should be debited to the Revaluation Account. Anirudh was of the opinion that it should not be brought into books but should be accounted when it is paid. Abhay explained to Ani the need for it being accounted now and what effect it will have when it is accounted at the time payment. Anirudh agreed to his view point. Explain what arguments must have been put forward by Abhay to which Anirudh agreed.

Solution:

At the time of change in the profit-sharing ratio, any liability found unrecorded is debited to the Revaluation Account and the net result of the Revaluation Account (revaluation profit or revaluation loss) is debited/credited to the Partners' Capital Accounts in their old profit-sharing ratio. In this manner, the partners are not put to any undue advantage or disadvantage. Also, according to the prudence concept, all probable losses should be anticipated. Abay must have stated the above accounting practice (rationale to account now) to Anirudh to convince him.

Question 14.

A and B are partners. A's Capital is Rs.1,00,000 and B's Capital is Rs.60,000. Interest on capital is payable @ 6% p.a. B is entitled to a salary of Rs.3,000 per month. Profit for the current year before interest and salary to B is Rs.80,000.
Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Interest on Capital:			By Profit and Loss (Net Profit)	80,000
A	6,000			
B	3,600	9,600		
To Salary to B (3,000 × 12)		36,000		
To Profit transferred to :				
A's Capital A/c	17,200			
B's Capital A/c	17,200	34,400		
		80,000		**80,000**

Working Notes :

WN 1: Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 1{,}00{,}000 \times \frac{6}{100} = ₹6,000$$

$$\text{Interest on B's Capital} = 60{,}000 \times \frac{6}{100} = ₹3,600$$

WN 2:

Calculation of Profit Share of each Partner

Divisible Profit = 80,000 - 9,600 - 36,000 = 34,400

$$\text{Profit Share of A and B each} = 34{,}400 \times \frac{1}{2} = ₹17,200$$

Question 15.

X, Y and Z are partners in a firm sharing profits in 2 : 2 : 1 ratio. The fixed capitals of the partners were Rs. 5,00,000; Y Rs.5,00,000 and Z Rs.2,50,000. The Partnership Deed provides that interest on capital should be allowed @ 10% p.a. and that Z should be allowed a salary of Rs.2,000 per month. The profits of the firm form the year ended 31st March, 2015 after debiting Z's salary were Rs.4,00,000.

Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit and Loss A/c (Net Profit after Z's salary)	4,00,000
X	50,000			
Y	50,000			
Z	25,000	1,25000		
To Profit transferred to :				
X's Capital A/c	1,10,000			
Y's Capital A/c	1,10,000			
Z's Capital A/c	55,000	2,75,000		
		4,00,000		**4,00,000**

Working Notes :

1 Salary to Z has not been debited to Profit and Loss Appropriation Account because Profit of ₹4,00,000 is given after adjusting the Z's salary.

2 Calculation of Interest on Capital

$$\text{Interest on X's Capital} = 5{,}00{,}000 \times \frac{10}{100} = ₹50{,}000$$

$$\text{Interest on Y's Capital} = 5{,}00{,}000 \times \frac{10}{100} = ₹50{,}000$$

$$\text{Interest on Z's Capital} = 2{,}50{,}000 \times \frac{10}{100} = ₹25{,}000$$

3 Calculation of Profit Share of each Partner
Divisible of Profit after Interest on Capital = ₹4,00,000 - ₹1,25,000 = ₹ 2,75,000

Profit sharing ratio = 2 : 2: 1

$$\text{X's Profit Share} = 2{,}75{,}000 \times \frac{2}{5} = 1{,}10{,}000$$

$$\text{Y's Profit Share} = 2{,}75{,}000 \times \frac{2}{5} = 1{,}10{,}000$$

$$\text{Z's Profit Share} = 2{,}75{,}000 \times \frac{1}{5} = 55{,}000$$

Question 16.

On 1st April, 2013, Jay and Vijay entered into partnership for supplying laboratory equipments' government schools situated in remote and backward areas. They contributed capitals of Rs.80,000 and; Rs.50,000 respectively and agreed to share the profits in the ratio of 3:2. The Partnership Deed provided that interest on capital shall be allowed at 9% per annum. During the year the firm earned a profit of Rs.7,800.

Showing your calculations clearly, prepare 'Profit and Loss Appropriation Account' of Jay and Vijay for the year ended 31st March, 2014.

Solution:

Profit and Loss Appropriation Account
For the year ended March 2014

Dr. Cr.

Particulars		₹	Particulars	₹
To Interest on Capital A/c			By Profit and Loss A/c	7,800
Jay	4,800			
Vijay	3,000	7,800		
		7,800		**7,800**

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on Jay's Capital} = 80{,}000 \times \frac{9}{100} = ₹7{,}200$$

$$\text{Interest on Vijay's Capital} = 50{,}000 \times \frac{9}{100} = ₹4{,}500$$

$$\text{Total Interest} = 7{,}200 + 4{,}500 = ₹11{,}700$$

2 Calculation of Proportionate Interest on Capital

$$\text{Proportionate Interest to Jay} = \frac{7{,}200}{11{,}700} \times 7{,}800 = ₹4{,}800$$

$$\text{Proportionate Interest to Vijay} = \frac{4{,}500}{11{,}700} \times 7{,}800 = ₹3{,}000$$

Note :
Interest on capital is to be treated as an appropriation of profits and is to be provided to the extent of available profits i.e. ₹7,800

Question 17.

Amit and Vijay started a partnership business on 1st April, 2015. Their capital contributions we Rs.2,00,000 and Rs.1,50,000 respectively. The Partnership Deed provided inter alia that:

a. Interest on capital @ 10% pa.

b. Amit to get a salary of Rs.2,000 per month and Vijay Rs.3,000 per month.

c. Profits are to be shared in the ratio of 3:2.

Profit for the year ended 31st March, 2016 before making above appropriations was Rs.2,16,000. Interest on drawings amounted to Rs.2,200 for Amit and Rs.2,500 for Vijay.

Prepare Profit and Loss Appropriation Account.

Solution:

Profit and Loss Appropriation Account

Dr. Particulars		₹	Particulars		Cr. ₹
To Interest on Capital:			By Profit and Loss A/c (Net Profit)		2,16,000
Amit	20,000		By Interest on Drawings A/c		
Vijay	15,000	35,000	Amit	2,200	
Salary to :			Vijay	2,500	4,700
Amit (2,000 × 12)	24,000				
Vijay (3,000 × 12)	36,000	60,000			
To Profit transferred to :					
Amit's Capital A/c	75,420				
Vijay's Capital A/c	50,280	1,25,700			
		2,20,700			**2,20,700**

Working Notes :

WN 1: Calculation of Interest on Capital

$$\text{Interest on Amit's Capital} = 2{,}00{,}000 \times \frac{10}{100} = ₹20{,}000$$

$$\text{Interest on Vijay's Capital} = 1{,}50{,}000 \times \frac{10}{100} = ₹15{,}000$$

WN 2: Calculation of Profit Share of each Partner
Divisible Profit = 2,16,000 + 4,700 - 35,000 - 60,000 = ₹1,25,700
Profit sharing ratio = 3 : 2

$$\text{Amit's Profit Share} = 1{,}25{,}000 \times \frac{3}{5} = ₹75{,}420$$

$$\text{Vijay's Profit Share} = 1{,}25{,}000 \times \frac{2}{5} = ₹50{,}280$$

Question 18.

A, B and C were partners in a firm having capitals of Rs.50,000; Rs.50,000 and Rs.1,00,000 respectively. Their Current Account balances were A: Rs.10,000; B: 5,000 and C: 2,000 (Dr.). According to the Partnership Deed the partners were entitled to an interest on Capital @ 10% p.a. C being the working partner was also entitled to a salary of Rs.12,000 p.a. The profits were to be divided as:

a. The first Rs.20,000 in proportion to their capitals.

b. Next Rs.30,000 in the ratio of 5 : 3 : 2.

c. Remaining profits to be shared equally.

The firm made a profit of Rs.1,72,000 before charging any of the above items.

Prepare Profit and Loss Appropriation Account and pass necessary Journal entry for the appropriation of profits.

Solution:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit and Loss A/c (Net Profit)	1,72,000
A	5,000			
B	5,000			
C	10,000	20,000		
To Salary to C		12,000		
To Profit transferred to :				
A's Capital A/c	50,000			
B's Capital A/c	44,000			
C's Capital A/c	46,000	1,40,000		
		1,72,000		**1,72,000**

Journal Entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Interest on Capital A/c	Dr.		20,000	
	To A's Current A/c				5,000
	To B's Current A/c				5,000
	To C's Current A/c				10,000
	(Being Interest on partner's capital allowed to partners)				
	Salary A/c	Dr.		12,000	
	To C's Current A/c				12,000
	(Being Salary Allowed to C)				
	Profit and Loss Appropriation A/C	Dr.		1,40,000	
	To A's Current A/c				50,000
	To B,s Current A/c				44,000
	To C's Current A/c				46,000
	(Being profit available for distribution transferred to partners' current account)				

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50{,}000 \times \frac{10}{100} = ₹5{,}000$$

$$\text{Interest on B's Capital} = 50{,}000 \times \frac{10}{100} = ₹5{,}000$$

$$\text{Interest on C's Capital} = 1{,}00{,}000 \times \frac{10}{100} = ₹10{,}000$$

2 Calculation of Profit Share of each Partner
Profits available for Distribution = 1,72,000 - 20,000 - 12,000 = ₹ 1,40,000

i. Distribution of first ₹ 20,000 in the Capital ratio i.e. 1:1:2

$$\text{A's Profit Share} = 20{,}000 \times \frac{1}{4} = ₹5{,}000$$

$$\text{B's Profit Share} = 20{,}000 \times \frac{1}{4} = ₹5{,}000$$

$$\text{C's Profit Share} = 20{,}000 \times \frac{2}{4} = ₹10{,}000$$

ii. Distribution of Next ₹ 30,000 in the ratio of 5: 3: 2

$$\text{A's Profit Share} = 30{,}000 \times \frac{5}{10} = ₹15{,}000$$

$$\text{B's Profit Share} = 30{,}000 \times \frac{3}{10} = ₹9{,}000$$

$$\text{C's Profit Share} = 30{,}000 \times \frac{2}{10} = ₹6{,}000$$

iii. Remaining profit available for distribution = 1,40,000 - 20,000 - 30,000 = ₹90,000
This profit of ₹90,000 is to be shared equally by the partners.

$$\text{A, B and C each will get} = 90{,}000 \times \frac{1}{3} = ₹30{,}000$$

Therefore,
Total Profit Share of A = 5,000 + 15,000 + 30,000 = ₹50,000
Total Profit Share of B = 5,000 + 9,000 + 30,000 = ₹44,000
Total Profit Share of C = 10,000 + 6,000 + 30,000 = ₹46,000

Question 19.

X and Y are partners sharing profits in proportion of 3 : 2 with capitals of Rs.80,000 and Rs.60,000 respectively. Interest on capital is agreed @ 5% p.a. Y is to be allowed an annual salary of Rs.6,000 which has not been withdrawn. Profit for the year ended 31st March, 2016 prior to calculation of interest on capital but after charging Y's salary amounted to Rs.24,000.

A provision of 5% of the profit is to be made in respect of commission to the Manager. Prepare an account showing the allocation of profits.

Solution:

Profit and Loss Adjustment Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Manager's Commission (30,000 × 5%)	1,500	By Profit and Loss A/c (Net Profit after Y's salary)	24,000
To Profit transferred to Profit and Loss Appropriation A/c:	28,500	By Y's salary A/c	6,000
	30,000		**30,000**

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		₹	Particulars	₹
To Salary to Y		6,000	By Profit and Loss Adjustment A/c (After manager's commission)	28,500
To Interest on Capital				
X	4,000			
Y	3,000	7,000		
To Salary to A/c		12,000		
To Profit transferred to :				
X's Capital A/c	9,300			
Y'sCapital A/c	6,200	15,500		
		28,500		**28,500**

Working Notes :

1 Calculation of Manager's Commission

Profit for making Managers' Commission = 24,000 + 6,000 (Y's Salary) = ₹30,000

$$\therefore \text{ Manager's Commission } = 30{,}000 \times \frac{5}{100} = ₹1{,}500$$

2 Calculation of Interest on Capital

$$\text{Interest on X's Capital } = 80{,}000 \times \frac{5}{100} = ₹4{,}000$$

$$\text{Interest on Y's Capital } = 60{,}000 \times \frac{5}{100} = ₹3{,}000$$

3 Calculation of Profit Share of each Partner

Profit available for distribution = 28,500 - 6,000 - 7,000 = ₹15,500

$$\text{X's Profit Share } = 15{,}500 \times \frac{3}{5} = ₹9{,}300$$

$$\text{Y's Profit Share } = 15{,}500 \times \frac{2}{5} = ₹6{,}200$$

Question 20.

D, E and F were partners in a firm sharing profits in the ratio of 5:7:8. Their fixed capitals were D Rs.5,00,000; E Rs.7,00,000 and F Rs.8,00,000. Their Partnership Deed provided for the following:

i. Interest on capital @ 10% p.a.

ii. Salary of Rs.10,000 per month of F.

iii. Interest on drawing @ 12% p.a.

D withdrew Rs.40,000 on 31st January, 2009; E withdrew Rs.50,000 on 31st March, 2009 and F withdrew Rs.30,000 on 31st December, 2009.

During the year ended 31st December, 2009 the firm earned a profit of Rs. 3,50,000.

Prepare Profit and Loss Appropriation Account for the year ended 31st December, 2009.

Solution:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		₹	Particulars		₹
To Interest on Capital A/c			By Profit and Loss A/c (Net Profit)		3,50,000
D	50,000		By Interest on Drawings A/c :		
E	70,000		D	4,400	
F	80,000	2,00,000	E	4,500	8,900
To Salary to A/c (10,000 × 12)		1,20,000			
To Profit transferred to :					
D's Capital A/c	9,725				
E's Capital A/c	13,615				
F's Capital A/c	15,560	38,900			
		3,58,900			**3,58,900**

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on D's Capital} = 5{,}00{,}000 \times \frac{10}{100} = ₹50{,}000$$

$$\text{Interest on E's Capital} = 7{,}00{,}000 \times \frac{10}{100} = ₹70{,}000$$

$$\text{Interest on F's Capital} = 8{,}00{,}000 \times \frac{10}{100} = ₹80{,}000$$

2 Calculation of Interest on Drawings

$$\text{Interest on D's drawings} = 40{,}000 \times \frac{12}{100} \times \frac{11}{12} = ₹4{,}400$$

$$\text{Interest on E's drawings} = 50{,}000 \times \frac{12}{100} \times \frac{9}{12} = ₹4{,}500$$

No interest shall be charged on F's drawings. This is because; F withdrew the amount at the end of year (on December 31, 2009).

3 Calculation of Profit Share of each Partner
Profit available for distribution = 3,50,000 + 8,900 - 2,00,000 - 1,20,000 = 38,900
Profit Sharing Ratio = 5 : 7 : 8

$$\text{D's Profit Share} = 38{,}900 \times \frac{5}{20} = ₹9{,}725$$

$$\text{E's Profit Share} = 38{,}900 \times \frac{2}{20} = ₹13{,}615$$

$$\text{F's Profit Share} = 38{,}900 \times \frac{8}{20} = ₹15{,}560$$

Question 21.

Prem and Manoj are partners in a firm sharing profits in the ratio of 3:2. The Partnership Deed provided that Prem was to be paid salary of Rs.2,500 per month and Manoj was to get a commission of Rs.10,000 per year. Interest on capital was to be allowed @ 5% p.a. and interest on drawings was to be charged @ 6% p.a. Interest on Prem's drawings was Rs.1,250 and on Manoj's drawings was Rs.425. Capitals of the partners were Rs.2,00,000 and Rs.1,50,000 respectively, and were fixed. The firm earned a profit of Rs.90,575 for the year ended 31st March, 2016.

Prepare Profit and Loss Appropriation Account of the firm.

Solution:

Profit and Loss Appropriation Account

Dr. Particulars		₹	Particulars		Cr. ₹
To Salary to Prem (2,500 × 12)		30,000	By Profit and Loss A/c (Net Profit)		90,575
Commission to Manoj		10,000	By Interest on Drawings A/c :		
To Interest on Capital:			Prem	1,250	
Prem	10,000		Manoj	425	1,675
Manoj	7,500	17,500			
To Profit transferred to :					
Prem's Capital A/c	20,850				
Manoj's Capital A/c	13,900	34,750			
		92,250			92,250

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on Prem's Capital} = 2{,}00{,}000 \times \frac{5}{100} = ₹10{,}000$$

$$\text{Interest on Manoj's Capital} = 1{,}50{,}000 \times \frac{5}{100} = ₹7{,}500$$

2
Calculation of Profit Share of each Partner
Profit available for distribution = 90,575 + 1,675 - 30,000 -10,000 - 17,500 = ₹34,750
Profit Sharing Ratio = 3 : 2

$$\text{Prem's Profit Share} = 34{,}750 \times \frac{3}{5} = ₹20{,}850$$

$$\text{Manoj's Profit Share} = 34{,}750 \times \frac{2}{5} = ₹13{,}900$$

Question 22.

Ram and mohan, two partners, drew for private use Rs.1,20,000 and Rs.80,000. Interest is chargeable @6% p.a. on the drawings. What is the total interest?

Solution:

Date of drawings made by the partners is not given. Therefore, interest on drawings is calculated on average basis for a period of six months.

$$\text{Interest on Ram's Drawings} = 1{,}20{,}000 \times \frac{6}{100} \times \frac{6}{12} = ₹3{,}600$$

$$\text{Interest on Mohan's Drawings} = 80{,}000 \times \frac{6}{100} \times \frac{6}{12} = ₹2{,}400$$

Question 23.

B and M are partners in a firm. They withdrew Rs.48,000 and Rs.36,000 respectively during the year evenly at the middle of every month. According to the partnership agreement, interest on drawings is to be charged @ 10% p.a.

Calculate interest on drawings of the partners using the appropriate formula.

Solution:

Drawings are made evenly at the middle of every month, therefore, interest on drawings is calculated for a period of six months.

$$\text{Interest on B's Drawings} = 48{,}000 \times \frac{10}{100} \times \frac{6}{12} = ₹2{,}400$$

$$\text{Interest on M's Drawings} = 36{,}000 \times \frac{10}{100} \times \frac{6}{12} = ₹1{,}800$$

Question 24.

A and B are partners sharing profits equally. A drew regularly Rs.4,000 in the beginning of every month for six months ended 30th September, 2013. Calculate interest on drawings @ 5% p.a.

Solution:

$$\text{Amount of Drawings} = 4{,}000$$
$$\text{No. of Drawings} = 6$$
$$\text{Total Drawings} = 4{,}000 \times 6 = 24{,}000$$
$$\text{Rate of Interest} = 5\% \text{ p.a.}$$
$$\text{Time} = \frac{\text{Time left after 1st Drawing} + \text{Time left after last Drawing}}{2}$$
$$= \frac{6+1}{2}$$
$$= 3.5 \text{Months}$$
$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Time}}{12}$$
$$= 24{,}000 \times \frac{5}{100} \times \frac{3.5}{12}$$
$$= ₹350$$

Question 25.

A and B are partners sharing profits equally. A drew regularly Rs.4,000 at the end of every month for months ended 30th September, 2013. Calculate interest on drawings @ 5% pa.

Solution:

$$\text{Amount of Drawings} = 4{,}000$$
$$\text{No. of Drawings} = 6$$
$$\text{Total Drawings} = 4{,}000 \times 6 = 24{,}000$$
$$\text{Rate of Interest} = 5\% \text{ p.a.}$$
$$\text{Time} = \frac{\text{Time left after 1st Drawing} + \text{Time left after last Drawing}}{2}$$
$$= \frac{5+1}{2}$$
$$= 2.5 \text{Months}$$
$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{\text{Time}}{12}$$
$$= 24{,}000 \times \frac{5}{100} \times \frac{2.5}{12}$$
$$= ₹250$$

Question 26.

Calculate interest on drawings of Mr. Ashok @ 10% p.a. for the year ended 31st March, 2014, in each of the following alternative cases:

Case 1. If he withdrew Rs.7,500 in the beginning of each quarter.

Case 2. If he withdrew Rs.7,500 at the end of each quarter.

Case 3. If he withdrew Rs.7,500 during the middle of each quarter.

Solution:

Total Drawings = 7,500 × 4 = ₹30,000
Interest Rate = 10% p.a.
Case (a)
When equal amount is withdrawn in the beginning of each quarter, the interest on drawings is calculated for an average period of 7.5 months

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{7.5}{12}$$

$$\therefore \text{Interest on Ashok's Drawings} = 30{,}000 \times \frac{10}{100} \times \frac{7.5}{12}$$
$$= ₹1,875$$

Case (b)
When equal amount is withdrawn at the end of each quarter, the interest on drawings is calculated for an average period of 4.5 months

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{4.5}{12}$$

$$\therefore \text{Interest on Ashok's Drawings} = 30{,}000 \times \frac{10}{100} \times \frac{4.5}{12}$$
$$= ₹1,125$$

Case (c)
When equal amount is withdrawn in the middle of each quarter, the interest on drawings is calculated for an average period of 6 months

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

$$\therefore \text{Interest on Ashok's Drawings} = 30{,}000 \times \frac{10}{100} \times \frac{6}{12}$$
$$= ₹1,500$$

Question 27.

Solution:

Kanika and Gautam are partners doing a dry cleaning business in Lucknow, sharing profits in the ratio 2 : 1 with capitals ₹5,00,000 and ₹4,00,000 respectively. Kanika withdrew the following amounts during the year to pay the hostel expenses of her son.

	₹
1st April	**10,000**
1st June	**9,000**
1st November	**14,000**
1st December	**5,000**

Gautam withdrew ₹15,000 on the first day of April, July, October and January to pay rent for the accommodation of his family. He also paid ₹ 20,000 per month as rent for the office of partnership which was in a nearby shopping complex.
Calculate interest on drawings @ 6% pa.

Interest on Kanika's Drawings = ₹1,500
Interest on Gautam's Drawings = ₹2,250

Working Notes :
1 : Calculation of Interest on Kanika's Drawings

By Product Method			
Date	**₹ (I)**	**Months (II)**	**Product (I × II)**
Apr. 01	10,000	12	1,20,000
June 01	9,000	10	90,000
Nov. 01	14,000	5	70,000
Dec. 01	5,000	4	20,000
Sum of Product			**3,00,000**

$$\text{Interest on Drawings} = \text{Total Drawings} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 3{,}00{,}000 \times \frac{6}{100} \times \frac{1}{12}$$

$$= ₹1{,}500$$

2 : Calculation of Interest on Gautam's Drawings
Gautam withdrew ₹ 15,000 in the beginning of every quarter.

$$\text{Interest on Drawings} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{7.5}{12}$$

$$= (15{,}000 \times 4) \times \frac{6}{100} \times \frac{7.5}{12}$$

$$= ₹2{,}250$$

Question 28.

A and B are partners sharing Profit and Loss in the ratio of 3:2 having Capital Account balances of Rs.50,000 and Rs.40,000 on 1st April, 2015. On 1st July, 2015, A introduced Rs.10,000 as his additional capital whereas B introduced only Rs.1,000. If the interest on capital is allowed to partners @ 10% p.a.

Calculate interest on capital if the financial year closes on 31st March.

Solution:

Calculation of Interest on A's Capital

Date	Capital	×	Period	=	Product
April 01, 2015 to June 30, 2015	50,000	×	3	=	1,50,000
July 01, 2015 to March 31, 2016	60,000	×	9	=	5,40,000
Sum of Product					**6,90,000**

$$\text{Interest on A's Capital} = 6{,}90{,}000 \times \frac{10}{100} \times \frac{1}{12} = ₹5{,}750$$

Calculation of Interest on B's Capital

Date	Capital	×	Period	=	Product
April 01, 2015 to June 30, 2015	40,000	×	3	=	1,20,000
July 01, 2015 to March 31, 2016	41,000	×	9	=	3,69,000
Sum of Product					**4,89,000**

$$\text{Interest on B's Capital} = 4{,}89{,}000 \times \frac{10}{100} \times \frac{1}{12} = ₹4{,}075$$

Question 29.

X and Y contribute Rs.20,000 and Rs.10,000 respectively. They decide to allow interest on capital @ 6%p a. Their respective share of profits is 2:3 and the business profit (before interest) for the year is Rs.1,500. Show distribution of profits (i) where there is no agreement except for interest on capitals and (ii) where there is a clear agreement that the interest on capitals will be allowed even if it involves the firm in loss.

Solution:

Calculation of Interest on Capital

$$\text{Interest on X's Capital} = 20{,}000 \times \frac{6}{100} = ₹1{,}200$$

$$\text{Interest on Y's Capital} = 10{,}000 \times \frac{6}{100} = ₹600$$

$$\text{Total amount of interest on capital} = 1{,}200 + 600 = ₹1{,}800$$

Case (a)

Where there is no clean agreement except for interest on capitals
Profit for the year ended = ₹1,500
Total amount of interest = ₹1,800
Here, total amount of interest on capital is more than the profit available for distribution. Therefore, profit of ₹ 1,500 is distributed between X and Y in the ratio of their interest on capital.

Particulars	X	:	Y
Interest on Capital or	1,200	:	600
Ratio of interest on Capital	2	:	1

$$\text{X will get interest on Capital} = 1{,}500 \times \frac{2}{3} = ₹\,1{,}000$$

$$\text{Y will get interest on Capital} = 1{,}500 \times \frac{1}{3} = ₹\,500$$

Case (b)

In case, there is a clear agreement that the interest on capital will be allowed even if the firm has incurred loss, then the whole amount of interest on capital is to be allowed to the partners.

$$\text{Interest on X's Capital} = 20{,}000 \times \frac{6}{100} = ₹\,1{,}200$$

$$\text{Interest on Y's Capital} = 10{,}000 \times \frac{6}{100} = ₹\,600$$

Total Profit of the firm = ₹1,500
Total amount of Interest on Capital = ₹1,800 (i.e. ₹1,200 + ₹600). Therefore, loss to the firm amounts to ₹ 300. This loss is to be shared by X and Y in their profit sharing ratio that is 2:3.

$$\text{Loss to X} = 300 \times \frac{2}{5} = ₹\,120$$

$$\text{Loss to Y} = 300 \times \frac{3}{5} = ₹\,180$$

Question 30.

A and B started business on 1st April, 2015 with capitals of Rs.15,00,000 and Rs. 9,00,000 respectively. On 1st October, 2015, they decided that their capitals should be Rs.12,00,000 each. The necessary adjustments in capitals were made by introducing or withdrawing by cheque. Interest on capital is allowed @ 8% p a. Compute interest on capital on 31st March, 2016.

Solution:

Calculation of Interest on A's Capital

Date	Capital	×	Period	=	Product
April 01, 2015 to Sept 30, 2015	15,00,000	×	6	=	90,00,000
Oct. 01, 2015 to March 31, 2016	12,00,000	×	6	=	72,00,000
Sum of Product					**1,62,00,000**

$$\text{Interest on Capital} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 1,62,00,000 \times \frac{8}{100} \times \frac{1}{12}$$

$$= ₹\ 1,08,000$$

Calculation of Interest on B's Capital

Date	Capital	×	Period	=	Product
April 01, 2015 to Sept 30, 2015	9,00,000	×	6	=	54,00,000
Oct. 01, 2015 to March 31, 2016	12,00,000	×	6	=	72,00,000
Sum of Product					**1,26,00,000**

$$\text{Interest on B's Capital} = \text{Sum of Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12}$$

$$= 1,26,00,000 \times \frac{8}{100} \times \frac{1}{12} = ₹\ 84,000$$

Question 31.

Ram and Mohan are partners in a business. Their capitals at the end of the year were Rs.24,000 and Rs.18,000 respectively. During the year 2015-16, Ram's drawings and Mohan's drawings were Rs.4,000 and Rs.6,000 respectively. Profit (before charging interest on capital) during the year was Rs.16,000. Calculate interest on capital @ 5% pa. for the year ended 31st March, 2016.

Solution:

Interest on capital is calculated on the opening balance of partner's capital.

Calculation of Capital balance at the beginning

Particulars	Ram	Mohan
Capital at the end	24,000	18,000
Less : Profit already credited (1 : 1)	(8,000)	(8,000)
Add : Drawings already debited	4,000	6,000
Capital at the beginning	**20,000**	**16,000**

$$\text{Interest on Ram's Capital} = 20,000 \frac{5}{100} = ₹\ 1,000$$

$$\text{Interest on Mohan's Capital} = 16,000 \frac{5}{100} = ₹\ 800$$

Question 32.

Solution:

From the following Balance Sheet of X and Y, calculate interest on capital @ 6% p.a. payable to Y for the year ended 31st March,2016

Liabilities	₹	Assets	₹
X's Capital A/c Y's Capital A/c Profit and Loss Appropriation A/c : 2015 - 16	50,000 40,000 20,000	Sundry Assets	1,10,000
	1,10,000		1,10,000

During the year, Y's drawings were ₹15,000 and profit during 2015 - 16 was ₹30,000.

Calculation of Interest on Y's Capital

Particulars	₹
Y's Capital balance as on March 31,2016	40,000
Less : Profit adjusted in Y's Capital $(30,000 - 20,000) \times \frac{1}{2}$	(5,000)
	15,000
Capital Balance at the beginning (as on April 01,2015)	50,000

$$\text{Interest on Y's Capital} = \text{Capital at the beginning} \times \frac{\text{Rate}}{100}$$

$$\text{Interest on Y's Capital} = 50,000 \times \frac{6}{100}$$

$$= ₹3,000$$

Question 33.

Solution:

From the following Balance Sheet of Long and Short, calculate interest on capital @ 8% p.a. for the year ended 31st March, 2015

BALANCE SHEET as at 31st March, 2015

Liabilities	₹	Assets	₹
Long's Capital A/c Short's Capital A/c Profit and Loss Appropriation A/c (2014 - 15)	1,60,000 1,40,000 1,00,000	Fixed Assets Drawings - Long Other Assets	3,00,000 40,000 60,000
	4,00,000		4,00,000

During the year Long's drawings were ₹40,000 and Short's drawings were ₹50,000. Profit for the year was ₹1,50,000

Calculation of Capital at the beginning (as on April 01,2014)

Particulars	Long ₹	Short ₹
Capital at the end	1,60,000	1,40,000
Less : Adjusted Profit (1,50,000 - 1,00,000) in 1 : 1 ratio	(25,000)	(25,000)
Add : Adjusted Drawings	-	50,000
Capital in the beginning	1,35,000	1,35,000

$$\text{Interest on Long's Capital} = 1,35,000 \times \frac{8}{100} = ₹10,800$$

$$\text{Interest on Short's Capital} = 1,65,000 \times \frac{8}{100} = ₹13,200$$

Question 34.

A, B and C are partners sharing profits and losses in the ratio of 2: 2: 1 respectively. A is entitled to a commission of 10% on the net profit before charging such commission. The net profit before charging commission is Rs.1, 10,000.

Find out commission payable to A.

Solution:

Net Profit before charging commission = ₹1,10,000
Commission to A = 10% of on Net Profit before charging such commission

$$\therefore \text{Commission to A} = \text{Net Profit} \times \frac{\text{Rate}}{100}$$
$$= 1,10,000 \times \frac{10}{100}$$
$$= ₹11,000$$

Question 35.

X, Y and Z are partners sharing profits and losses equally. As per Partnership Deed, Z is entitled to a commission of 10% on the net profit after charging such commission. The net profit before charging commission is Rs.2,20,000.

Find out commission payable to Z.

Solution:

Net Profit before charging Commission = 2,20,000
Commission to Z = 10% of on Net Profit after charging such commission

$$\therefore \text{Commission to Z} = \text{Net Profit} \times \frac{\text{Rate}}{100 + \text{Rate}}$$
$$= 2,20,000 \times \frac{10}{100}$$
$$= ₹20,000$$

Question 36.

X and Y are partners in a firm. X is entitled to a salary of Rs.10,000 per month together with a commission of 10% of the net profit after partners’ salaries but before charging any commission. Y is entitled to a salary of Rs.25,000 p.a. together with a commission of 10% of the net profit after charging all commission and partners’ salaries. The net profit before providing for partners’ salaries and commission for the year ended 31st March, 2016 was Rs.4, 20,000.

Show distribution of profit.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr. Cr.

Particulars		₹	Particulars	₹
To Partner's Salary			By Profit and Loss A/c (Net Profit)	4,20,000
X (10,000 × 12)	1,20,000			
Y	25,000	1,45,000		
To Partner's Commission				
X	27,500			
Y	22,500	50,000		
To Profit transferred to :				
X's Capital A/c	1,12,500			
Y's Capital A/c	1,12,500	2,25,000		
		4,20,000		4,20,000

Working Notes :

1 Calculation of Commission

Commission to X = 10 % of Net Profit after partner's salaries but before charging such commission Profit after Partner's Salaries = ₹4,20,000 - ₹1,45,000 = ₹2,75,000

$$\therefore \text{ Commission to X} = \text{Profit after Salaries} \times \frac{10}{100}$$

$$= 2,75,000 \times \frac{10}{100}$$

$$= 27,500$$

Commission to Y = 10% of Net Profit after charging Commission and Partner's Salaries

Profit after commission and partner's salaries = ₹4,20,000 - ₹1,45,000 - ₹27,500 = ₹2,47,500

$$\text{Commission to Y} = \text{Profit after Commission and Partner's Salaries} \times \frac{10}{100 + \text{Rate}}$$

$$= 2,47,500 \times \frac{10}{100}$$

$$= 22,500$$

2 Calculation of Profit Share of each Partner

Profit available for distribution = ₹4,20,000 - ₹1,45,000 - ₹50,000 = ₹2,25,000

Profit sharing ratio = 1 : 1

$$\text{Profit Share of X and Y each} = 2,25,000 \times \frac{1}{2} = ₹1,12,500$$

Question 37.

A, B, C and D are partners in a firm sharing profits as 4:3:2:1 respectively. They earned a profit Rs.1,80,000 for the year ended 31st March, 2016. As per the Partnership Deed, they are to charge commission @ 20% of the profit after charging such commission which they will share as 2:3:2:3. You are required to show appropriation of profits among the partners.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Cr.

Particulars		Amount ₹	Particulars	Amount ₹
To Partner's Commission			By Profit and Loss A/c (Net Profit)	1,80,000
A	6,000			
B	9,000			
C	6,000			
D	9,000	30,000		
To Profit transferred to :				
A's Capital A/c	60,000			
B's Capital A/c	45,000			
C's Capital A/c	30,000			
D's Capital A/c	15,000	1,50,000		
		1,80,000		1,80,000

Working Notes :

1 Calculation of Partner's Commission

Partners Commission = 20 % On Net Profit after charging such commission

$$\text{Profit Commission} = \text{Net Profit} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

$$= 1,80,000 \times \frac{20}{100+20}$$

$$= 1,80,000 \times \frac{20}{120} = 30,000$$

This Commission is to be shared by the partners in the ratio of 2 : 3 : 2 : 3

$$\therefore \text{ Commission to A} = 30,000 \times \frac{2}{10} = 6,000$$

$$\text{Commission to B} = 30,000 \times \frac{3}{10} = 9,000$$

$$\text{Commission to C} = 30,000 \times \frac{2}{10} = 6,000$$

$$\text{Commission to D} = 30,000 \times \frac{3}{10} = 9,000$$

2 Calculation of Profit Share of each Partner

Profit available for Distribution = 1,80,000 - 30,000 = ₹1,50,000

Profit sharing ratio = 4 : 3 : 2 : 1

$$\text{A's Profit Share} = 1,50,000 \times \frac{4}{10} = 60,000$$

$$\text{B's Profit Share} = 1,50,000 \times \frac{3}{10} = 45,000$$

$$\text{C's Profit Share} = 1,50,000 \times \frac{2}{10} = 30,000$$

$$\text{D's Profit Share} = 1,50,000 \times \frac{1}{10} = 15,000$$

Question 38.

A and B are partners in a firm sharing profits in the ratio of 3: 2. They had advanced to the firm a sum Rs.30,000 as a loan in their profit-sharing ratio on 1st October, 2015. The Partnership Deed is silent on the question of interest on loans from partners. Compute interest payable by the firm to the partner assuming the firm closes its books on 31st March.

Solution:

Amount advanced by the partners = ₹30,000
Profit sharing ratio = 3 :2

$$\text{Advance provided by A} = 30,000 \times \frac{3}{5} = ₹18,000$$

$$\text{Advance provided by B} = 30,000 \times \frac{2}{5} = ₹12,000$$

Period (from October 01, 2015 to March 31, 2016) = 6 months
Interest rate = 6% p.a.
Calculation of Interest on Advances

$$\text{Interest on Advances given by A} = 18,000 \times \frac{6}{100} \times \frac{6}{12} = ₹540$$

$$\text{Interest on Advances given by B} = 12,000 \times \frac{6}{100} \times \frac{6}{12} = ₹360$$

<u>Note</u>: In the absence of a partnership agreement regarding rate of Interest on loans and advances interest is provided at 6% p.a.

Question 39.

X and Y are partners sharing profits and losses in the ratio of 2: 3 with capitals of Rs.2, 00,000 and Rs.3, 00,000 respectively. On 1st October, 2015, X and Y granted loans of Rs.80,000 and Rs.40,000 respectively to the firm. Show distribution of profits/losses for the year ended 31st March, 2016 in each of the following alternative cases:

Case 1. If the profits before any interest for the year amounted to Rs.21,000.

Case 2. If the profits before any interest for the year amounted to Rs.3,000.

Case 3. If the profits before any interest for the year amounted to Rs.5,000.

Solution:

Calculation of Interest on Loan

$$\text{Interest on X's Loan for 6 months} = 80,000 \times \frac{6}{100} \times \frac{6}{12}$$
$$= 2,400$$

$$\text{Interest on Y's Loan for 6 months} = 40,000 \times \frac{6}{100} \times \frac{6}{12}$$
$$= 1,200$$

Case 1 - If profits before any interest for the year amounted to Rs 21,000

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Particulars		₹	Particulars	Cr ₹
To Interest on X's Loan		2,400	By Profit b/d (before interest)	21,000
To Interest on Y's Loan		1,200		
To Profit transferred to				
X's Capital A/c (17,400 × 2/5)	6,960			
Y's Capital A/c (17,400 × 3/5)	10,440	17,400		
		21,000		21,000

Case 2 - If Profits before any interest for the year amounted to ₹3,000

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Particulars	₹	Particulars		Cr ₹
To Interest on X's Loan	2,400	By Profit b/d (before interest)		3,000
To Interest on Y's Loan	1,200	By Loss transferred to -		
		X's Capital A/c (600 ×2/5)	240	
		Y's Capital A/s (600 × 3/5)	360	600
	3,600			3,600

Case 3 - If Profits before any interest for the year amounted to ₹5,000

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Particulars		₹	Particulars	Cr ₹
To Interest on X's Loan		2,400	By Profit b/d (before interest)	5,000
To Interest on Y's Loan		1,200		
To Profit transferred to				
X's Capital A/c (1400 × 2/5)	560			
Y' Capital A/c (1400 × 3/5)	840	1,400		
		5,000		5,000

Question 40.

Bat and Ball are partners sharing the profits in the ratio of 2: 3 with capitals of Rs.1, 20,000 and Rs.60,000 respectively. On 1st October, 2015, Bat and Ball granted loans of Rs.2, 40,000 and Rs.1, 20,000 respectively the firm. The losses for the year ended 31st March, 2016 before any interest amounted to Rs.9,000. Show distribution of profit/loss.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Particulars		₹	Particulars		Cr ₹
To Loss b/d (before interest)		9,000	By Loan transferred to :		
To Interest on Bat's Loan		7,200	Bat's Capital	7,920	
To Interest on Ball's loan		3,600	Ball's Capital	11,880	19,800
		19,800			19,800

Working notes :

1 Interest on Partner's Loan

$$\text{Interest on Bat's Loan for 6 months} = 2,40,000 \times \frac{6}{100} \times \frac{6}{12} = 7,200$$

$$\text{Interest on Ball's Loan for 6 months} = 1,20,000 \times \frac{6}{100} \times \frac{6}{12} = 3,600$$

2 Distribution of Loss to the Partners

$$\text{Bat's Share of Loss} = 19,800 \times \frac{2}{5} = 7,920$$

$$\text{Ball's Share of Loss} = 19,800 \times \frac{3}{5} = 11,880$$

Question 41.

A and B are partners from 1st April, 2015, without any partnership agreement and they introduce capitals of Rs.35,000 and Rs.20,000 respectively. On 1st October, 2015, A advances Rs.8,000 by way of loan the firm without any agreement as to interest. The Profit and Loss Account for the year end 31st March, 2016 discloses a profit Rs.15,000 but the partners cannot agree upon the question interest or upon the basis of division of profits.

You are required to divide the profits between them giving reasons for your method.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Particulars		₹	Particulars	Cr ₹
To Interest on A's Loan		240	By Profit b/d (before Interest)	15,000
To Profit transferred to :				
A's Capital A/c	7,380			
B's Capital A/c	7,380	14,760		
		15,000		15,000

Working notes :

1 Calculation of interest on Loan

As per the Partnership Act, If there is no partnership agreement regarding rate of interest on loan, it is provided at 6% p.a.

Amount of Loan = ₹8,000

Period (from October 01 to March 31) = 6 Months

$$\text{Interest on A's Loan} = 8,000 \times \frac{6}{100} \times \frac{6}{12} = 240$$

2 Calculation of Profit Share of each partner

In the absence of partnership deed, profits of a firm are distributed equally among all the partners.

Profit after Interest on A's loan = ₹15,000 - ₹240 = ₹14,760

$$\therefore \text{Profit Share of A and B each} = 14,760 \times \frac{1}{2} = 7,380$$

Question 42.

C and D are partners in a firm; C has contributed Rs.10,000 as capital and D Rs.6,000. Interest is pay @ 6% p.a. and D is entitled to a salary of Rs.300 per month. In 2015-16, the profits were 8,000 before interest and salary. Divide the amount between C and D.

Solution:

Profit and Loss Appropriation Account
for the year ended 2015 - 2016

Dr | Cr

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit and Loss A/c (Net Profit)	8,000
C	600			
D	360	960		
To Salary to D (300 × 12)		3,600		
To Profit transferred to :				
C's Capital A/c	1,720			
D's Capital A/c	1,720	3,440		
		8,000		8,000

Working note
1 Calculation of Interest on Capital

$$\text{Interest on C's Capital} = 10,000 \times \frac{6}{100} = 600$$

$$\text{Interest on D's Capital} = 6,000 \times \frac{6}{100} = 360$$

2 Calculation of Profit Share of each Partner
Profit available for distribution =₹8,000 - ₹960 -₹3,600 = ₹3,440

$$\text{Profit Share of C and D each} = 3,440 \times \frac{1}{2} = 1,720$$

Total amount received by C =
Interest on Capital + Profit Share
=₹600 + ₹1,720
=₹2,320
Total amount received by D
= Interest on Capital + Salary + Profit Share
= ₹360 + ₹3,600 + ₹1,720
= ₹5,680

Question 43.

Solution:

A and B are partners sharing profits in the ratio of 3: 2 with capitals of ₹50,000 and ₹30,000 respectively. Interest on capital is agreed @ 6% p.a. B is to be allowed an annual salary of ₹2,500. During 2015-16, the profits of the year prior to calculation of interest on capital but after charging B's salary amounted to ₹12,500. A provision of 5% of the profits is to be made in respect of Manager's Commission.
Prepare an account showing the allocation of profits and the Partners' Capital Accounts.
[Hint: Manager's Commission is a charge against the profit. Hence, it must be provided before making any appropriation (such as partner's salary, interest on capital).

PROFIT AND LOSS ACCOUNT

Dr | Cr

Particulars	₹	Particulars	₹
To Manager's Commission (5/100 × 15,000)	750	By Profit before B's Salary (₹12,500 + ₹2,500)	15,000
To Net Profit trfd. To P and L App A/c	14,250		
	15,000		15,000

Profit and Loss Account
for the year ended March 31,2016

Dr			Cr
Particulars	₹	Particulars	₹
To Manager's Commission A/c (5% of 15,000)	750	By Profit b/d (before B's Salary) (12,500 + 2,500)	15,000
To Profit transferred to Profit and Loss Appropriation A/c	14,250		
	15,000		15,000

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr				Cr
Particulars		₹	Particulars	₹
To Interest on Capital A/c			By Profit and Loss A/c	14,250
A	3,000			
B	1,800	4,800		
To B's Salary		2,500		
To Profit transferred to				
A's Capital A/c	4,170			
B's Capital A/c	2,780	6,950		
		14,250		14,250

Partner's Capital Account

Dr					Cr
Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
To Balance c/d	57,170	37,080	By Balance c/d	50,000	30,000
			By Interest on Capital A/c	3,000	1,800
			By Salary A/c		2,500
			By PandL Appropriation A/c	4,170	2,780
	57,170	37,080		57,170	37,080

Working Note :

1 Calculation of Manager's Commission

Manager's Commission = 5% on Net Profit (before Salary)

Profit before Salary = Profit after Salary + Salary = ₹12,500 + ₹2,500 = ₹15,000

$$\therefore \text{ Manager's Commission} = 15,000 \times \frac{5}{100} = 750$$

2 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{6}{100} = 3,000$$

$$\text{Interest on B's Capital} = 30,000 \times \frac{6}{100} = 1,800$$

3 Calculation of Profit Share of each Partner

Profit available for distribution = ₹12,500 - ₹750 - ₹3,000 - ₹1,800 = ₹6,950

Profit sharing ratio = 3 : 2

$$\text{A's Profit Share} = 6,950 \times \frac{3}{5} = 4,170$$

$$\text{B's Profit Share} = 6,950 \times \frac{2}{5} = 2,750$$

Question 44.

Solution:

Show how the following will be recorded in the Capital Accounts of the Partners Sohan and Mohan when their capitals are fluctuating :

	Sohan (₹)	Mohan(₹)
Capitals on 1st April, 2015	4,00,000	3,00,000
Drawings during 2015 - 16	50,000	30,000
Interest on Capital	5%	5%
Interest on Drawings	1,250	750
Share of Profit for 2015 - 16	60,000	50,000
Partner's Salary	36,000	....
Commission	5,000	3,000

Partner's Capital Account

Dr Cr

Particulars	Sohan ₹	Mohan ₹	Particulars	Sohan ₹	Mohan ₹
To Drawings A/c	50,000	30,000	By Balance c/d	4,00,000	3,00,000
To Interest on Drawings A/c	1,250	750	By Interest on Capital A/c	20,000	15,000
			By P and L Appropriation A/c	60,000	50,000
To Balance c/d	4,69,750	3,37,250	By Partner's Salary A/c	36,000	-
			By Commission A/c	5,000	3,000
	5,21,000	3,68,000		5,21,000	3,68,,000

Working Note :

1 Calculation of Interest on Capital

$$\text{Interest on Sohan's Capital} = 4,00,000 \times \frac{5}{100} = 20,000$$

$$\text{Interest on Mohan's Capital} = 3,00,000 \times \frac{5}{100} = 15,000$$

Question 45.

Sajal and Kajal are partners sharing profits and losses in the ratio of 2: 1. On 1st April, 2015 their Capitals were: Sajal – Rs.50,000 and Kajal – Rs. 40,000.

Prepare Profit and Loss Appropriation Account and the Partners' Capital Accounts at the end of the year after considering the following items:

a. Interest on Capital is to be allowed @ 5% p.a.

b. Interest on the loan advanced by Kajal for the whole year, the amount of loan being 30,000.

c. Interest on partners' drawing @ 6% p.a. Drawings: Sajal 10,000 and Kajal 8,000.

d. 10% of the divisible profits is to be transferred to Reserve.

They earned profit of `70,260 for the year ended 31st March, 2016.

Solution:

Profit and Loss Account

Dr Particulars	₹	Particulars	Cr ₹
To Interest on Kajal's loan @ 6% p.a.	1,800	By Profit b/d	70,260
To Profit transferred to P/L Appropriation A/c	68,460		
	70,260		70,260

Profit and Loss Appropriation Account

Dr Particulars		₹	Particulars		Cr ₹
To Interest on Capital A/c			By Profit and Loss A/c		68,460
Sajal	2,500		By Interest on Drawings A/c		
Kajal	2,000	4,500	Sajal	300	
To Reserve A/c		6,450	Kajal	240	540
To Profit transferred to :					
Sajal's Capital; A/c	38,700				
Kajal's Capital A/c	19,350	58,050			
		69,000			69,000

Partner's Capital Account

Dr Particulars	Sajal ₹	Kajal ₹	Particulars	Sajal ₹	Cr Kajal ₹
To Drawings A/c	10,000	8,000	By Balance b/d	50,000	40,000
To Interest on Drawings A/c	300	240	By Interest on Capital A/c	2,500	2,000
			By P and L Appropriation A/c	38,700	19,350
To Balance c/d	80,900	53,110			
	91,200	61,350		91,200	61,350

Working Note :

1 Calculation of Interest on Capital

$$\text{Interest on Sajal's Capital} = 50,000 \times \frac{5}{100} = 2,500$$

$$\text{Interest on Kajal's Capital} = 20,000 \times \frac{5}{100} = 2,000$$

2 Calculation of Interest on Drawings

$$\text{Interest on Sajal's Drawings} = 10,000 \times \frac{6}{100} \times \frac{6}{12} = 300$$

$$\text{Interest on Kajal's Drawings} = 8,000 \times \frac{6}{100} \times \frac{6}{12} = 240$$

3 Calculation of Amount to be transferred to Reserve

Amount for Reserve = 10% of Divisible Profit

Divisible Profit

= Profit + Interest on Drawings - Interest on Capital

= ₹68,460 + ₹540 - ₹4,500

= ₹64,500

$$\therefore \quad \text{Amount for Reserve} = 64,500 \times \frac{10}{100}$$

$$= 6,450$$

4 Calculation of Profit Share of each Partner

Profit available for Distribution

= 68,460 + 540 - 4,500 - 6,450

= ₹58,050

Profit sharing ratio = 2:1

$$\text{Sajal's Profit Share} = 58,050 \times \frac{2}{3} = 38,700$$

$$\text{Kajal's Profit Share} = 58,050 \times \frac{1}{3} = 19,350$$

Question 46.

On 1st April, 2015, A and B entered into partnership contributing Rs.60,000 and Rs.45,000 respectively. They agreed to share profits and losses in the ratio of 3: 2. B is allowed a salary of Rs.12,000 per year. Interest on capital is to be allowed @

10% p.a. During the year, A withdrew Rs.9,000 and Rs.18,000 as drawings. The interest on drawings paid by A and B was Rs.150 and Rs.210 respectively. Profit as at 31st March, 2016 before the above mentioned adjustment was 35,000. Show distribution of profits by preparing Profit and Loss Appropriation Account of the firm. Prepare Partners' Capital Accounts also.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Particulars		₹	Particulars		Cr ₹
To Salary to B		12,000	By Profit and Loss A/c (Net Profit)		35,000
To Interest on Capital			By Interest on Drawings A/c		
A	6,000		A	150	
B	4,500	10,500	B	210	360
To Profit transferred to :					
A's Capital A/c	7,716				
B's Capital A/c	5,144	12,860			
		35,360			35,360

Partner's Capital Accounts

Dr Particulars	A ₹	B ₹	Particulars	A ₹	Cr B ₹
To Drawings A/c	9,000	18,000	By Balance b/d	60,000	45,000
To Interest on Drawings A/c	150	210	By Interest Capital A/c	6,000	4,500
			By Salary A/c	-	12,000
			By P and L Appropriation A/c	7,716	5,144
To Balance c/d	64,566	48,434			
	73,716	66,644		73,716	66,644

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 60,000 \times \frac{10}{100} = 6,000$$

$$\text{Interest on B's Capital} = 45,000 \times \frac{10}{100} = 4,500$$

2 Calculation of Profit Share of each Partner

Profit available for Distribution = ₹35,000 + ₹360 - ₹12,000 - ₹10,500 = ₹12,860

$$\text{A's Profit Share} = 12,860 \times \frac{3}{5} = 7,716$$

$$\text{B's Profit Share} = 12,860 \times \frac{2}{5} = 5,144$$

Question 47.

Amal and Bimal are partners of a firm sharing profits in the ratio of 4: 1 respectively. On 1st April, 2015, their Capitals stood at: Amal Rs.50,000 and Bimal Rs.40,000. The firm earned a Net Profit of Rs.1,75,000 in the year ended 31st March, 2016. Draw Profit and Loss Appropriation Account for the year ended 31st March, 2015 after considering the following adjustments: Interest on Capital @ 5% p.a.; Interest @ 6% p.a. on Bimal's Loan (to the firm) of Rs.50,000; Interest Partners' drawings being: Amal Rs.15,000 and Bimal Rs.10,000.

Solution:

Profit and Loss Account
for the year ended March 31, 2016

Dr | | | Cr

Particulars	₹	Particulars	₹
To Interest on Bimal's Loan (50,000 × 6%)	3,000	By Profit and Loss (Net Profit)	1,75,000
To Profit transferred to P/L Appropriation A/c	1,72,000		
	1,75,000		1,75,000

Profit and Loss Appropriation Account
for the year ended March 31, 2016

Dr | | | Cr

Particulars		₹	Particulars		₹
To Interest on Capital			By Profit and Loss A/c (after Interest on loan)		1,72,000
Amal	2,500		By Interest on Drawings A/c		
Bimal	2,000	4,500	Amal	450	
To Profit transferred to :			Bimal	300	750
Amal Capital A/c	1,34,600				
Bimal Capital A/c	33,650	1,68,250			
		1,72,750			1,72,750

Partner's Capital Accounts

Dr | | | Cr

Particulars	Amal ₹	Bimal ₹	Particulars	Amal ₹	Bimal ₹
To Drawings A/c	15,000	10,000	By Balance b/d	50,000	40,000
To Interest on Drawings	450	300	By Interest on Capital A/c	2,500	2,000
To Balance c/d	1,71,650	65,350	By P/L Appropriation A/c	1,34,600	33,650
	1,87,100	75,650		1,87,100	75,650

Working notes :

1 Calculation of Interest on Capital

$$\text{Interest on Amal's Capital} = 50,000 \times \frac{5}{100} = 2,500$$

$$\text{Interest on Bimal's Capital} = 40,000 \times \frac{5}{100} = 2,000$$

2 Calculation of Interest on Drawings

$$\text{Interest on Amal's Drawings} = 15,000 \times \frac{6}{100} \times \frac{6}{12} = 450$$

$$\text{Interest on Bimal's Drawings} = 10,000 \times \frac{6}{100} \times \frac{6}{12} = 300$$

3 Calculation of Profit Share of each Partner

Profit available for distribution = 1,72,000 + 750 - 4,500 = ₹1,68,250

Profit sharing ratio = 4:1

$$\text{Amal's Profit Share} = 1,68,250 \times \frac{4}{5} = 1,34,600$$

$$\text{Bimal's Profit Share} = 1,68,250 \times \frac{1}{5} = 33,650$$

*There is misprint in the book, Profit and Loss Appropriation is to be prepared on March 31, 2016 and not on March 31,2015

Question 48.

Ali and Bahadur are partners in a firm sharing profits and losses as Ali 70% and Bahadur 30%.The respective capitals as at 1st April, 2015 stand as Ali Rs.25,000 and Bahadur Rs.20,000. The partners allowed 5% p.a. by way of interest on capitals. The drawings of the partners during the year ended 31 March, 2016 amounted to Rs.3,500 and Rs.2,500 respectively.

The profit during the year, before charging interest on capital and annual salary of Bahadur @ 3,000 amounted to Rs.40,000, 10% of this profit is to be kept in Reserve.

You are asked to show Partners' Current Accounts and Capital Accounts recording the above transaction.

Solution:

Partner's Capital Accounts

Dr | | | | | Cr

Particulars	Ali ₹	Bahadur ₹	Particulars	Ali ₹	Bahadur ₹
			By Balance b/d	25,000	20,000
To Balance c/d	25,000	20,000			
	25,000	20,000		25,000	20,000

Partner's Current Accounts

Dr | | | | | Cr

Particulars	Ali ₹	Bahadur ₹	Particulars	Ali ₹	Bahadur ₹
To Drawings A/c	3,500	2,500	By Interest on Capital A/c	1,250	1,000
			By Bahadur's Capital A/c		3,000
To Balance c/d	19,275	10,725	By P/L Appropriation A/c	21,525	9,225
	22,775	13,225		22,775	13,225

Working Notes:

1

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr | | | | Cr

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit and Loss A/c	40,000
Ali	1,250			
Bahadur	1,000	2,250		
To Reserve		4,000		
To Bahadur's Salary		3,000		
To Profit transferred to				
Ali's Capital A/c	21,525			
Bahadur's Capital	9,225	30,750		
		40,000		40,000

2 Calculation of Interest on Capital

$$\text{Interest on Ali's Capital} = 25,000 \times \frac{5}{100} = 1,250$$

$$\text{Interest on Bahadur's Capital} = 20,000 \times \frac{5}{100} = 1,000$$

3 Calculation of Amount to be transferred to Reserve

$$\text{Amount for Reserve} = 10\,\%\ \text{Profit}$$

$$= 40,000 \times \frac{10}{100} = 4,000$$

4 Calculation of Profit Share of each Partner

Profit available for distribution

=₹40,000 - ₹2,250 - ₹4,000 - ₹3,000

= ₹30,750

$$\text{Ali's Profit Share} = 30,750 \times \frac{70}{100} = 21,525$$

$$\text{Bahadur Profit Share} = 30,750 \times \frac{30}{100} = 9,225$$

Question 49.

P, Q and R are in a partnership and as at 1st April, 2015 their respective capitals were: Rs.40,000, Rs.30,000, and Rs.30,000. Q is entitled to a salary of Rs.6,000 and R Rs.4,000 p.a. payable before division of profits. Interest allowed on capital @ 5% p.a. and is not charged on drawings. Of the net divisible profits, P is entitled to of the first 50% Rs.10,000, Q to 30% and R to 20%, rest of the profits are shared equally. The profits for the ended 31st March, 2016, after debiting partners' salaries but before charging interests on capital were Rs.21,000 and the partners had drawn Rs.10,000 each on account of salaries, interest and profit.

Prepare Profit and loss Appropriation Account showing the distribution of profit and the Capital Accounts of the Partners

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Particulars		₹	Particulars	Cr ₹
To Interest on capital			By Profit b/d (after Salary)	21,000
P	2,000			
Q	1,500			
R	1,500			
To Profit transferred to				
P's Capital A/c	7,000			
Q's Capital A/c	5,000			
R's Capital A/c	4,000	16,000		
		21,000		21,000

Partner's Capital Account

Dr Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	Cr R ₹
To Drawings A/c	10,000	10,000	10,000	By Balance b/d	40,000	30,000	30,000
				By Salaries A/c	-	6,000	4,000
				By Interest Capital A/c	2,000	1,500	1,500
To Balance c/d	39,000	31,500	29,500	By P/L Appropriation A/c	7,000	5,000	4,000
	49,000	32,500	39,500		49,000	42,500	39,500

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on P's Capital} = 40,000 \times \frac{5}{100} = 2,000$$

$$\text{Interest on Q's Capital} = 30,000 \times \frac{5}{100} = 1,500$$

$$\text{Interest on R's Capital} = 30,000 \times \frac{5}{100} = 1,500$$

2 Calculation of Profit Share of each Partner

Profit available for distribution = ₹21,000 - ₹5,000 =₹ 16,000

i. Distribution of first ₹10,000 (50% 30% and 20%)

$$\text{P's Profit Share} = 10,000 \times \frac{50}{100} = 5,000$$

$$\text{Q's Profit Share} = 10,000 \times \frac{30}{100} = 3,000$$

$$\text{R's Profit Share} = 10,000 \times \frac{20}{100} = 2,000$$

ii. Distribution of Reaming Profit i.e. ₹6,000 (₹16,000 - ₹10,000) equally

$$\text{Profit Share of each} = 6,000 \times \frac{1}{3} = 2,000$$

Therefore

Total Profit Share of P = ₹5,000 + ₹2,000 = ₹7,000

Total Profit Share of Q = ₹3,000 + ₹2,000 = ₹5,000

Total Profit Share of R = ₹2,000 + ₹2,000 = ₹4,000

Question 50.

A, B and C are partners sharing profits and losses in the ratio of A 1/2, B 3/10, C 1/5 after providing for interest @ 5% on their respective capitals, viz., A Rs.50,000; B Rs.30,000 and C Rs.20,000 and allowing B and Ca salary of Rs.5,000 each per annum. During the year ended 31st March, 2015, A has drawn Rs.10,000an B and C in addition to their salaries have drawn Rs.2,500 and Rs.1,000 respectively. The Profit and Loss Account for the year ended 31st March, 2015 showed a net profit of Rs.45,000 before charging (a) interest on capital and (b) partners' salaries. On 1st April, 2014, the balances in the Current Accounts of the partners were A (Credit) `4,500; B (Credit) Rs.1,500 and C (Credit) Rs.1,000. Interest is not charged on Drawings Current Account balances. Show Partners' Capital and Current Accounts as at 31st March, 2015 after division of profits in accordance with the partnership agreement.

Solution:

Profit and Loss Appropriation Account

Dr | Cr

Particulars		₹	Particulars	₹
To Interest on capital			By Profit and Loss A/c	45,000
A	2,500			
B	1,500			
C	1,000	5,000		
To Salary to				
B	5,000			
C	5,000	10,000		
To Profit transferred to				
P's Current A/c	15,000			
Q's Current A/c	9,000			
R's Current A/c	6,000	30,000		
		45,000		45,000

Partner's Capital Account

Dr | Cr

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
				By Balance b/d	50,000	30,000	20,000
To Balance c/d	50,000	30,000	20,000				
	50,000	30,000	20,000		50,000	30,000	20,000

Partner's Current Account

Dr | Cr

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Drawings A/c	10,000	7,500	6,000	By Balance b/d	4,500	1,500	1,000
				By Interest on Capital A/c	2,500	1,500	1,000
				By Salaries A/c	-	5,000	5,000
To Balance c/d	12,000	9,500	7,000	By P/L Appropriation A/c	15,000	9,000	6,000
	22,000	17,000	13,000		22,000	17,000	13,000

Working Notes

1 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{5}{100} = 2,500$$

$$\text{Interest on B's Capital} = 30,000 \times \frac{5}{100} = 1,500$$

$$\text{Interest on C's Capital} = 20,000 \times \frac{5}{100} = 1,000$$

2 Calculation of Profit Share of each Partner

Profit available for Distribution = ₹45,000 - ₹15,000 = ₹30,000

$$\text{A's Share of Profit} = 30,000 \times \frac{1}{2} = 15,000$$

$$\text{B's Share of Profit} = 30,000 \times \frac{3}{10} = 9,000$$

$$\text{C's Share of Profit} = 30,000 \times \frac{1}{5} = 6,000$$

Question 51.

A and B are partners sharing profits and losses in the ratio of 3: 1. On 1st April, 2015, their capitals were A Rs.50,000 and B

Rs.30,000. During the year ended 31st March, 2016 they earned a net profit of Rs.50,000.The terms of partnership are:

a. Interest on capital is to be charged @ 6% p.a.

b. A will get a commission @ 2% on turnover.

c. B will get a salary of Rs.500 per month.

d. B will get commission of 5% on profits after deduction of all expenses including such commission

Partners' drawings for the year were: A Rs.8,000 and Rs.6,000. Turnover for the year wasRs. 3, 00,000.

After considering the above facts, you are required to prepare Profit and Loss Appropriation Account and Partners' Capital Accounts.

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2016

Dr | Cr

Particulars		₹	Particulars	₹
To Interest on Capital			By Profit and Loss A/c (Net Profit)	50,000
A	3,000			
B	1,800	4,800		
To B's Salary (500 × 12)		6,000		
To Partner's Commission				
A	6,000			
B	1,581	7,581		
To Profit transferred to :				
A's Capital A/c	23,714			
B's Capital A/c	7,905	31,619		
		50,000		50,000

Partner's Current Account

Dr | Cr

Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
To Drawings A/c	8,000	6,000	By Balance b/d	50,000	30,000
			By Interest on Capital A/c	3,000	1,800
			By Commission A/c	6,000	1,581
To Balance c/d	74,714	35,286	By P/L Appropriation A/c	23,714	7,905
	82,714	47,286		82,714	47,286

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{6}{100} = 3,000$$

$$\text{Interest on B's Capital} = 30,000 \times \frac{6}{100} = 1,800$$

2 Calculation of Commission to Partners

Commission to A = 2% on Turnover

$$= \frac{2}{100} \times 3,00,000 = 6,000$$

Commission to B = 5% on Profits after all Expense including such Commission

Profits after all expense

= ₹50,000 - ₹4,800 - ₹6,000 - ₹6,000

= ₹33,200

$$\text{Commission to B} = \text{Profit after all Expenses} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

$$= 33,200 \times \frac{5}{105} = 1,581 (\text{App.})$$

3 Calculation of Profit Share of each Partner

Profit available for Distribution

= ₹50,000 - ₹4,800 - ₹6,000 - ₹7,581

= ₹31,619

Profit sharing ratio = 3 : 1

$$\text{A's Profit Share} = 31,619 \times \frac{3}{4} = 23,714$$

$$\text{B's Profit Share} = 31,619 \times \frac{1}{4} = 7,905$$

Question 52.

Amal, Bimal and Kamal are three partners. On 1st April, 2015, their Capitals stood as: Amal Rs.40,000, Bimal Rs.30,000 and KamalRs.25,000. It was decided that:

a. they would receive interest on Capital @ 5% p.a.,

b. Amal would get a salary of 250 per month,

c. Bimel would receive commission kJ, 4% on the net profit after deduction of the commission from it interest on capital and salary and

d. After deducting all of these 10% of the profits should be transferred to the General Reserve.

Before the above items were taken Into account, the profits for the year ended 31st March, 2016 were Rs.33,360 Prepare Profit and Loss Appropriation Account and the Capital Accounts of the Partners.

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2016

Dr Particulars		₹	Particulars	Cr ₹
To Interest on Capital			By Profit and Loss A/c (Net Profit)	33,360
Amal	2,000			
Bimal	1,500			
Kamal	1,250	4,750		
To Salary to Amal A/c (250 × 12)		3,000		
To Commission A/c (Bimal)		985		
To General Reserve A/c		2,462		
To Profit transferred to :				
Amal's Capital A/c	7,388			
Bimal's Capital A/c	7,388			
Kamal's Capital A/c	7,387	22,163		
		33,360		33,360

Partner's Current Account

Dr Particulars	Amal ₹	Bimal ₹	Kamal ₹	Particulars	Amal ₹	Bimal ₹	Cr Kamal ₹
				By Balance b/d	40,000	30,000	25,000
				By Interest on Capital A/c	2,000	1,500	1,250
				By Salary A/c	3,000	-	-
				By Commission	-	985	-
To Balance c/d	53,388	39,873	33,637	By P/L Appropriation A/c	7,388	7,388	7,388
	52,388	39,873	33,637		52,388	39,873	33,637

Working Note :

1 Calculation of Interest on Capital

$$\text{Interest on Amal's Capital} = 40,000 \times \frac{5}{100} = 2,000$$

$$\text{Interest on Bimal's Capital} = 30,000 \times \frac{5}{100} = 1,500$$

$$\text{Interest on Kamal's Capital} = 25,000 \times \frac{5}{100} = 1,250$$

2 Calculation of Commission to Bimal

Commission to Bimal = 4% on Net Profits after Commission

Profit after expenses = ₹33,360 - ₹4,750 - ₹3,000 = ₹25,610

$$\therefore \text{Commission to Bimal} = \text{Profit after Expenses} \times \frac{\text{Rate}}{100 + \text{Rate}}$$

$$= 25,610 \times \frac{4}{104} = 985$$

3 Calculation of Amount to be transferred to General Reserve

Amount for General Reserve

= 10 % of Profit

$$= (33,360 - 4,750 - 3,000 - 985) \times \frac{10}{100}$$

$$= 24,625 \times \frac{10}{100} = 2,462$$

4 Calculation of Profit Share of each Partner

Profit available for Distribution

= ₹33,360 - ₹4,750 - ₹3,000 - ₹985 - ₹2,462

= ₹22,163

$$\text{Profit Share of Amal, Bimal and Kamal each} = 22,163 \times \frac{1}{3} = 7,388$$

Question 53.

Anshul and Asha are partners sharing profits and losses in the ratio of 3 : 2. Anshul being a non working partner contributed Rs.8, 00,000 as her capital. Asha being a working partner agreed to work for the firm. The Partnership Deed provides for interest on capital @ 5% and salary to every working partner Rs Rs.2,000 per month. The net profit before providing for interest on capital and partner's salary for the year ended 31st March, 2016 was Rs.32,000. Show distribution of profits. [Hint : Since, both interest on capital and salary to partner are appropriations and the available profits are less than the amount of appropriations to be made, the available profits have been distributed In the ratio of appropriations to be made. Rs.40.000 (interest on capital) 24,000 (salary) or 10:6.]

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr | Cr

Particulars	₹	Particulars	₹
To Interest on Anshul's Capital A/c	20,000	By Profit and Loss A/c	32,000
To Anshu's Salary A/c	12,000		
	32,000		32,000

Working Note

$$\text{Interest on Anshul's Capital} = 8,00,000 \times \frac{5}{100} = 40,000$$

Salary to Asha = ₹24,000
Total appropriation to be made = ₹40,000 + ₹24,000 = ₹64,000
Profit earned during the year = ₹32,000
Here, profit available for distribution (i.e ₹32,000) is less than the sum of total of interest on Capital and Salary (i.e. ₹64,000)
Therefore, profit will be distributed in the ratio of interest on Capital and Salary.

	Interest on Anshul's Capital	:	Asha's Salary
	40, 000		24, 000
Ratio	5		3

$$\text{Interest on Anshul's Capital} = 32,000 \times \frac{5}{8} = 20,000$$

$$\text{Asha's Salary} = 32,000 \times \frac{3}{8} = 12,000$$

Question 54.

Sita and Geeta were partners in a firm. On 1st April, 2011 they admitted Neha as a partner for 1/3 share in the profits of the firm. She is differently abled. The new Partnership Deed provides for the following:

a. 5% of the trading profit will be donated to Red Cross Society.

b. 10% of the trading profit will be donated to the Prime Ministers Relief Fund.

c. Products will be sold to people below poverty line at a discount of 15 % on maximum retail price

d. New retail shops will be opened in the backward areas of the country

e. New recruitment of salespersons will be reserved for the girls belongings to Scheduled Castes and Scheduled Tribes, The trading profit of the firm fur the year ended 31.3.2012 was Rs.12,00,000.

Identify any four values that were kept in mind by Sita, Geeta and Neha while preparing new Partnership Deed. Also, prepare Profit and Loss Appropriation Account of the firm for the year ended 31.3.2012.

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr | Cr

Particulars		₹	Particulars	₹
To Donation to Red Cross Society A/c		60,000	By Profit and Loss A/c (Net Profit)	12,00,000
To Donation to Prime Minister Relief Fund A/c (12,00,000 × 10%)		1,20,000		
To Profit transferred to				
Sita Capital A/c	3,40,000			
Geeta Capital A/c	3,40,000			
Neha Capital A/c	3,40,000	10,20,000		
		12,00,000		12,00,000

The four values that should be kept in mind by the three partners while preparing partnership Deed are

i. Equality and Equity
ii. Social Welfare
iii. Mutual Trust and Honesty
iv. Integration of individual efforts to achieve common goals

Question 55.

Reya, Mona and Nisha shared profits in the ratio of 3: 2: 1. The profits for the last three years were 1.40, 000: Rs.84,000 and Rs.1.06.000 respectively. These profits were by mistake shared equally for all the three years. It is now decided to correct the error. Give necessary Journal entry for the same.

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
Nisha's Capital A/c	Dr.		55,000	
To Reya's Capital A/c				55,000
(Being adjustment of profit made)				

Working Note :
Total Profits for Last 3 years
= 1,40,000 + 84,000 + 1,06,000
= 3,30,000

Statement Showing Adjustment

Particulars	Reya ₹	Mona ₹	Nisha ₹	Total ₹
Right Distribution of Profit (3 :2 :1)	1,65,000	1,10,000	55,000	3,30,000
Less: Wrong Distribution of Profit	(1,10,000)	(1,10,000)	(1,10,000)	(3,30,000)
Net Effect	55,000	NIL	(55,000)	NIL

Question 56.

Profits earned by a partnership firm for the year ended 31st March, 2016 were distributed equally between the partners – Pankaj and Anu – without allowing interest on capital (Rs.3,000 due to Pankaj and Rs.1,000 due to Anu). Pass necessary adjustment entry/entries.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Anu's Capital A/c	Dr.		1,000	
	To Pankaj's Capital A/c				1,000
	(Being adjustment of Commission of Interest on Capital				

Working Note :

Statement Showing Adjustment

Particulars	Pankaj ₹	Anu ₹	Total ₹
Interest on Capital to be credited	3,000	1,000	4,000
Less:Profit wrongly distributed equality to be debited	(2,000)	(2,000)	(2,000)
Net Effect	1,000 (Credit)	1,000 (Debit)	NIL

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Ram's Capital A/c	Dr.		100	
	To Mohan's Capital A/c				100
	(Being Interest on Capital was Omitted, now adjusted)				

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on Ram's Capital} = 4,000 \times \frac{5}{100} = 200$$

$$\text{Interest on Mohan's Capital} = 8,000 \times \frac{5}{100} = 400$$

$$\text{Total Interest Amount} = 200 + 400 = 600$$

Particulars	Ram ₹	Mohan ₹	Total ₹
Interest on Capital to be credited	200	400	600
For sharing above Loss (1:1)	(300)	(300)	(600)
Net Effect	(100) (Debit)	(100) (Credit)	Nil

Question 57.

Ram and Mohan are equal partners. Their capitals are Rs.4,000 and Rs.8.000 respectively. After the accounts for the year are prepared it is discovered that interest @ 5% p.a. as provided in the partnership agreement has not been credited to the Capital Accounts before distribution of profits. It Is decided to make an adjusting entry in the beginning of the next year. Give necessary adjustment entry

Solution:

Question 58.

The Capital Accounts of A and B stood at Rs.4, 00,000 and Rs.3, 00,000 respectively after necessary adjustments in respect of the drawings and the net profits for the year ended 31st March, 2016. It subsequently ascertained that 5% p.a. interest on capital and drawings was not taken into account in arriving at the net profit. The drawings of the partners had been: A Rs.12,000 drawn at the end of quarter and B – Rs.18,000 drawn at the end of each half year.

The profits for the year as adjusted amounted to Rs.2, 00,000. The partners share profits in the ratio of 3:2

You are required to pass Journal entries and show adjusted Capital Accounts of the partners.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Pand:L Adjustment A/c	Dr		29,200	
	To A's Capital A/c				16,800
	To B's Capital A/c				12,800
	(Being Interest on capital omitted, now provided				
	A's Capital A/c	Dr		900	
	B's Capital A/c	Dr		450	
	To Pand L Adjustment A/c				1,350
	(Being Interest on drawings omitted, now charged)				
	A's Capital A/c	Dr		16,,710	
	B's Capital A/c	Dr		11,140	
	To PandL Adjustment A/c (29,200 - 1,350)				27,850
	(Being Loss on adjustment is distributed between the partner)				

Partner's Current Account

Dr | Cr

Particulars	A ₹	B ₹	Particulars	A ₹	B ₹
To B's Capital A/c	1,210		By Balance b/d	4,00,000	3,00,000
			By A's Capital A/c	-	1,210
To Balance c/d	3,98,790	3,01,210			
	4,00,000	3,01,210		4,00,000	3,01,210

Working Notes :

1 Calculation of Capital as on April 01,2015 (Opening Capital)

Particulars	A ₹	B ₹	Total ₹
Capital as on March 31,2016 (Closing)	4,00,000	3,00,000	7,00,000
Add : Drawings	48,000	36,000	84,000
Less : Profit	(1,20,000)	(80,000)	(2,00,000)
Capital as on April 01,2015 (Opening)	**3,28,000**	**2,56,000**	**5,84,000**

2 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 3,28,000 \times \frac{5}{100} = 16,400$$

$$\text{Interest on B's Capital} = 2,56,000 \times \frac{5}{100} = 12,800$$

3 Calculation of Interest on Drawings

$$\text{Interest on A's Drawings} = 48,000 \times \frac{5}{100} \times \frac{4.5}{12} = 900$$

$$\text{Interest on B's Drawings} = 36,000 \times \frac{5}{100} \times \frac{3}{12} = 450$$

If instead of all entries, adjustment entry is asked in the question

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	A's Capital A/c		1,210	
	To B's Capital A/c			1,210
	(Being amount of interest on Capital and interest on drawings adjusted)			

Working Notes :

Statement Showing Adjustment

Particulars	A ₹	B ₹	Total ₹
Interest on Capital (to be credited)	16,400	12,800	29,200
Less : Interest on Drawings	(900)	(450)	(1,350)
Right distribution of 27,850	15,500	12,350	27,850
Less : Wrong Distribution of 27,850 (3:2)	(16,710)	(11,140)	(27,850)
Net Effect	**(1,210)**	**1,210**	**NIL**

Question 59.

P, Q and R were partners in a firm sharing profits in the ratio of 1: 2:2. After division of the profits for year ended 31st March, 2015, their capitals were: P Rs.1, 50,000; Q Rs.1, 80,000 and R Rs.2,10,000. During the year, they withdrew Rs.20,000 each. The profit for the year was Rs.60,000. The Partnership Deed provides that the interest on capital will be allowed @ 10% p.a. While preparing final accounts, interest partners' capital was not allowed.

You are required to calculate capital of P, Q and R as at 1st April, 2014 and pass necessary adjustment entry for providing interest on capital. Show your working clearly.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Q's Capital A/c	Dr		4,000	
	R's Capital A/c	Dr		1,000	
	To P's Capital A/c				5,000
	(Being Interest on Capital was omitted, now adjusted)				

Partner's Current Account

Dr Cr

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To P's Capital A/c		4,000	1,000	By Balance b/d	1,50,0000	1,80,000	2,10,000
				By Q's Capital A/c	4,000		
				By R's Capital A/c	1,000		
To Balance c/d	1,55,000	1,76,000	2,09,000				
	1,55,000	1,80,000	2,10,000		1,55,000	1,80,000	2,10,000

Working Notes :
1 Calculation of Capital as on April 01,2014 (Opening capital)

Particulars	P ₹	Q ₹	R ₹	Total ₹
Capital as on March 31, 2015(Closing) Add : Drawings Less : Profit (1:2:2)	1,50,000 20,000 (12,000)	1,80,000 20,000 (24,000)	2,10,000 20,000 (24,000)	5,40,000 20,000 (60,000)
Capital as April 01,2014 (Opening)	1,58,000	1,76,000	2,06,000	5,40,000

2 Calculation of Interest on Capital

$$\text{Interest on P's Capital} = 1{,}58{,}000 \times \frac{10}{100} = 15{,}800$$

$$\text{Interest on Q's Capital} = 1{,}76{,}000 \times \frac{10}{100} = 17{,}600$$

$$\text{Interest on R's Capital} = 2{,}06{,}000 \times \frac{10}{100} = 20{,}600$$

3

Statement Showing Adjustment

Particulars	P ₹	Q ₹	R ₹	Total ₹
Interest on Capital to be credited For sharing above Loss (1 : 2: 2)	15,800 (10,800)	17,600 (21,600)	20,600 (21,600)	54,000 (54,000)
Net Effect	5,000	(4,000)	(1,000)	(NIL)

Question 60.

Mohan, Vijay and Anil are partners, the balances of their Capital Accounts being Rs.30,000, Rs.25,000 and Rs.20,000 respectively. In arriving at these figures, the profits for the year ended 31st March, 2016, Rs.24000 had already been credited to partners in the proportion in which they shared profits. Their drawings were Rs.5,000 (Mohan), Rs.4,000 (Vijay) and Rs.3,000 (Anil) during the year. Subsequently, the follow omissions were noticed and it was decided to bring them into account:

a. Interest on capital @ 10% p.a.

b. Interest on drawings: Mohan Rs.250, Vijay Rs.200 and Anil Rs.150.

Make necessary corrections through a Journal entry and show your workings clearly.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Ani's Capital A/c	Dr		550	
	To Mohan's Capital A/c				550
	(Being Interest on Capital and inters on drawings was omitted, now adjusted)				

Working Notes

1 Calculation of Capital at the beginning

Particulars	Mohan ₹	Vijay ₹	Anil ₹	Total ₹
Capital at the end	30,000	25,000	20,000	75,000
Add : Drawings	5,000	4,000	3,000	12,000
Less : Profit (1:1:1)	(8,000)	(8,000)	(8,000)	(24,000)
Capital in the beginning	27,000	21,000	15,000	63,000

2 Calculation of Interest on Capital

$$\text{Interest on Mohan's Capital} = 27,000 \times \frac{10}{100} = 2,700$$

$$\text{Interest on Vijay's Capital} = 21,000 \times \frac{10}{100} = 2,100$$

$$\text{Interest on Anil's Capital} = 25,000 \times \frac{10}{100} = 1,500$$

3

Statement Showing Adjustment

Particulars	Mohan ₹	Vijay ₹	Anil ₹	Total ₹
Interest on Capital to be credited	2,700	2,100	1,500	6,300
Less : Interest on Drawings	(250)	(200)	(150)	(600)
Right Distribution of ₹5,700	2,450	1,900	1,350	5,700
Less: Wrong Distribution of ₹5,700 (1:1:1)	(1,900)	(1,900)	(1,900)	(5,700)
Net Effect	550	NIL	(550)	NIL

4 Calculation of Final Profit Share of Partners

Total Corrected Profit Available for Distribution

= Profit - Interest On Capital + Interest on Drawings

= ₹24,000 - ₹6,300 + ₹600

= ₹18,300

So, Connected profit share of Mohan, Vijay and Anil $= 18,300 \times \frac{1}{3} = 6,100$ each

Question 61.

Ram, Mohan and Sohan sharing profits and losses equally have capitals of Rs.1,20,000, Rs.90,000, Rs.60,000. For the year 2009, interest was credited to them @ 6% instead of 5%.

Give adjustment Journal entry.

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
Ram's Capital A/c	Dr		300	
To Sohan's Capital A/c				300
(Being Interest on Capital was wrongly credited now adjusted)				

Working Notes :

1 Calculation of Interest on Capital at 6% p.a.

$$\text{Interest on Ram's Capital} = 1,20,000 \times \frac{6}{100} = ₹7,200$$

$$\text{Interest on Mohan's Capital} = 90,000 \times \frac{6}{100} = ₹5,400$$

$$\text{Interest on Sohan's Capital} = 60,000 \times \frac{6}{100} = ₹3,600$$

2 Calculation of Interest on Capital at 5% p.a.

$$\text{Interest on Ram's Capital} = 1,20,000 \times \frac{5}{100} = ₹6,000$$

$$\text{Interest on Mohan's Capital} = 90,000 \times \frac{5}{100} = ₹4,500$$

$$\text{Interest on Sohan's Capital} = 60,000 \times \frac{5}{100} = ₹3,000$$

3

Statement Showing Adjustment

Particulars	Ram ₹	Mohan ₹	Sohan ₹	Total ₹
Interest on Capital wrongly credited at 6% p.a. reversed	(7,200)	(5,400)	(3,600)	(16,200)
Interest on Capital credited at 5% p.a.	6,000	4,500	3,000	13,500
Wrong Distribution	(1,200)	(900)	(600)	(2,700)
Right Distribution of 2,700 (1:1:1)	900	900	900	900
Net Effect	(300)	NIL	300	NIL

Question 62.

Ram, Shyam and Mohan were partners in a firm sharing profits and losses in the ratio of 2: 1: 2. Their capitals were fixed at Rs.3, 00,000, Rs.1, 00,000, Rs.2,00,000. For the year 2009, interest on capital was credited to them @ 9% instead of 10% p.a. The profit for the year before charging interest Rs.2, 50,000.

Show your working notes clearly and pass necessary adjustment entry.

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
Shyam's Current A/c	Dr		200	
Mohan's Current A/c	Dr		400	
To Ram's Current A/c				600
(Being Interest on Capital adjusted)				

Working Notes :

1 Calculation of Interest on Capital 10% p.a.

$$\text{Interest on Ram's Capital} = 3,00,000 \times \frac{10}{100} = ₹30,000$$

$$\text{Interest on Shyam's Capital} = 1,00,000 \times \frac{10}{100} = ₹10,000$$

$$\text{Interest on Mohan's Capital} = 2,00,000 \times \frac{10}{100} = ₹20,000$$

2 Calculation of Interest on Capital 9% p.a.

$$\text{Interest on Ram's Capital} = 3,00,000 \times \frac{9}{100} = ₹27,000$$

$$\text{Interest on Shyam's Capital} = 1,00,000 \times \frac{9}{100} = ₹9,000$$

$$\text{Interest on Mohan's Capital} = 2,00,000 \times \frac{9}{100} = ₹18,000$$

3

Statement Showing Adjustment

Particulars	Ram ₹	Mohan ₹	Sohan ₹	Total ₹
Interest on Capital wrongly credited at 10% p.a.	30,000	10,000	20,000	60,000
Less: Interest on Capital Wrongly credited at 9% p.a. reversed	(27,000)	(9,000)	(18,000)	(54,000)
Right Distribution	3,000	1,000	2,000	6,000
Wrong distribution of 6,000 (2:1:2)	(2,400)	(1,200)	(2,400)	(6,000)
Net Effect	**600**	**(200)**	**(400)**	**NIL**

Question 63.

A, B and C were partners in a firm. On 1st April, 2015 their capitals stood at Rs.50,000, `25,000 and Rs.25,000 respectively.

As per the provisions of the Partnership Deed:

a. C was entitled for a salary of Rs.1,500 per month.

b. Partners were entitled to interest on capital @ 5% p.a.

c. Profits were to be shared in the ratio of capitals.

The net profit for the year 2015-16 of Rs.45,000 was divided equally without providing for the above terms.

Pass an adjustment entry to rectify the above error.

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
A's Capital A/c	Dr.		1,500	
B's Capital A/c	Dr.		8,250	
To C's Capital A/c				9,750
(Being Adjustment of profit made)				

Working Notes:

1 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{5}{100} = ₹2,500$$

$$\text{Interest on B's Capital} = 25,000 \times \frac{5}{100} = ₹1,250$$

$$\text{Interest on C's Capital} = 25,000 \times \frac{5}{100} = ₹1,250$$

$$\text{Total Amount of Interest} = 2,500 + 1,250 + 1,250 = ₹5,000$$

2 Calculation of Profit available for Distribution

Profit available for distribution
= Net Profit - Interest on Capital - Salary to C
= ₹45,000 - ₹5,000 - ₹18,000
= ₹22,000

$$\text{A's Profit Share} = 22,000 \times \frac{2}{4} = ₹11,000$$

$$\text{B's Profit Share} = 22,000 \times \frac{1}{4} = ₹5,500$$

$$\text{C's Profit Share} = 22,000 \times \frac{1}{4} = ₹5,500$$

3 Right Distribution of ₹45,000

Particulars	A ₹	B ₹	C ₹	Total ₹
Interest on Capital to be credited	2,500	1,250	1,250	5,000
Salary to be credited			1,8000	18,000
Distribution of Profit 22,000	11,000	5,500	5,500	22,000
Total Profit	**13,500**	**6,750**	**24,750**	**45,000**

4 Wrong Distribution of 45,000 in equal Ratio

$$\text{Profit Share of A, B and C each} = 45,000 \times \frac{1}{3} = ₹15,000$$

Statement Showing Adjustment

Particulars	A ₹	B ₹	C ₹	Total ₹
Right Distribution of Profit (WN 3)	13,500	6,750	24,750	45,000
Less: Wrong Distribution of Profit (WN 4)	(15,000)	(15,000)	(15,000)	(45,000)
Net Effect	**(1,500)**	**(8,250)**	**9,750)**	**NIL**

Question 64.

Solution:

After the accounts of a partnership have been drawn up, and the books closed, it is discovered that interest on capitals for the year 2014-15 and 2015-16 has been credited to partners though there is no such provision in the Partnership Deed. The amounts involved are:

Partners	Interest Credited	
	2014 - 15 (₹)	2015 - 16 (₹)
A	350	360
B	200	210
C	110	110

You are required to put through adjustment entries as on 1st April, 2016, if the profits were shared as follows:
2014-15 - 1 : 1 : 1; 2015-16-3 : 4 : 3
It may be assumed that capitals are fixed.

Journal

Particulars		L.F.	Debit. ₹	Credit ₹
A's Current A/c	Dr		286	
To B's Current A/c				82
To C's Current A/c				204
(Being Internet On Capital wrong credited now adjusted)				

Working Notes :
1 Adjustment of Profit

Year 2014 - 15	A ₹	B ₹	C ₹	=	Total ₹
Wrong Distribution Interest on Capital (to be debited) For sharing above profit (1 :1 : 1)	(350) 220	(200) 220	(110) 220	= =	(660) 660
	(130)	**20**	**110**	=	**NIL**

Year 2015 - 16	A ₹	B ₹	C ₹	=	Total ₹
Wrong Distribution Interest on Capital (to be debited) For sharing above profit (3:4;3)	(360) 204	(210) 272	(110) 204	= =	(680) 680
	(156)	**62**	**94**	=	**NIL**

Adjustment of Profit	A	B	C
For 2014 - 2015	(130)	20	110
For 2015 - 2016	(156)	62	94
Net Effect	(286)	82	204

Question 65.

On 31st March, 2016, after the closing of the accounts, the Capital Accounts of P, Q and R stood in the books of the firm at Rs.40,000; Rs.30,000 and Rs.20,000 respectively. Subsequently, it was discovered that interest on capital @ 5% had been omitted. Profit for the year ended 31st March, 2016 amounted to Rs.60,000 and the partners' drawings had been P- Rs.10,000, Q – Rs.7,500 and R- Rs.4,500. The profit-sharing ratio of P, Q and R is 3: 2: 1. Give necessary adjustment entries

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
P's Current A/c	Dr		300	
To Q's Capital A/c				8
To R's Capital A/c				292
(Being interest on capital was omitted, now adjusted)				

Working Notes :

1 Calculation of Capital at the beginning (as on April 01,2015)

Particulars	P ₹	Q ₹	R ₹
Capital as in March 31,2016 (Closing)	40,000	30,000	20,000
Add : Drawings	10,000	7,500	4,500
Less : Profit 60,000 (3 :2 :1)	(30,000)	(20,000)	(10,000)
Capital as on April 01, 2015 (Opening)	**20,000**	**17,500**	**14,500**

2 Calculation of Interest on Capital

$$\text{Interest on P's Capital} = 20,000 \times \frac{5}{100} = 1,000$$

$$\text{Interest on Q's Capital} = 17,500 \times \frac{5}{100} = 875$$

$$\text{Interest on R's Capital} = 14,500 \times \frac{5}{100} = 725$$

3

Statement Showing Adjustment

Particulars	P ₹	Q ₹	R ₹	Total
Interest on Capital (to be credited)	1,000	875	725	2,600
For Sharing above Loss (3 :2 :1)	(1,300)	(867)	(433)	(2,600)
Net Effect	**(300)**	**8**	**292**	**NIL**

Question 66.

A, B and C were partners. Their capitals were A- Rs.30,000; B – Rs.20,000 and C – Rs.10,000 respectively. According to the Partnership Deed, they were entitled to an interest on capital @ 5% p.a. In addition B was also entitled to draw a salary of Rs.500 per month. C was entitled to a commission of 5% on the profits after charging the interest on capital, but before charging the salary payable to B. The net profits for the year were Rs.30,000 distributed in the ratio of capitals without providing for any of the above adjustments. The profits were to be shared in the ratio of 5: 3: 2.

Pass necessary adjustment entry showing the workings clearly.

Solution:

Journal

Particulars		L.F.	Debit ₹	Credit ₹
A's Current A/c	Dr		3,675	
To B's Current A/c				2,895
To C's Current a/c				780
(Being Adjustment of profit made)				

Working Notes :

1 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 30,000 \times \frac{5}{100} = ₹1,500$$

$$\text{Interest on B's Capital} = 20,000 \times \frac{5}{100} = ₹1,000$$

$$\text{Interest on C's Capital} = 10,000 \times \frac{5}{100} = ₹500$$

2 Salary to B = 500 × 12 = 6,000

3 Calculation of Commission to C

Commission to C = 5% on Profit after interest on capital but before salary

Profit after Interest on Capital but before Salary = ₹30,000 - ₹3,000 = ₹27,000

$$\therefore \text{ C's Commission} = 27,000 \times \frac{5}{100} = ₹1,350$$

4 Calculation of Profit Share of each Partner

Profit available for Distribution = ₹30,000 - ₹3,000 - ₹6,000 - ₹1,350 = ₹19,650

$$\text{A's Profit Share} = 19,650 \times \frac{5}{10} = 9,825$$

$$\text{B's Profit Share} = 19,650 \times \frac{3}{10} = 5,895$$

$$\text{C's Profit Share} = 19,650 \times \frac{2}{10} = 3,930$$

5

Statement Showing Adjustment

Particulars	A ₹	B ₹	C ₹	Total
Interest on Capital (to be credited	1,500	1,00	500	3,000
Salary Commission (to be credited)	-	6,00	1,350	7,350
Profit (to be credited)	9,825	5,895	3,930	19,650
Right Distribution	11,325	12,895	5,780	30,000
Wrong Distribution of 30,000 (3 :2 :1)	(15,000)	(10,000)	(5,000)	(30,000)
Net Effect	**(3,675)**	**2,895**	**780**	**NIL**

Question 67.

A, B and C are partners in a firm. Net profit of the firm for the year ended 31st March, 2016 is Rs.30,000, which has been duly distributed among the partners, in their agreed ratio of 3: 1: 1 respectively. It is discovered on 10th April, 2016 that the under mentioned transactions were not passed through the books of accounts of the firm for the year ended 31st March, 2016.

a. Interest on Capital @ 6% per annum, the capital of A, B and C being Rs.50.000; `40,000 and Rs.30,000 respectively.

b. Interest on drawings: A Rs.350: BRs.250; CRs.150.

c. Partnership Salaries: A Rs.5,000; BRs.7,500.

d. Commission due to A (for some special transaction)? Rs.3,000.

You are required to pass a Journal entry, which will not affect Profit and loss Account of the firm rectify the position of partners interest.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	A's Capital A/c	Dr.		2,520	
	C's Capital A/c	Dr.		2,740	
	To B's Capital A/c				5,260
	(Being Adjustment of Profit Made)				

Working Note

1 Calculation of Interest on Capital

$$\text{Interest on A's Capital} = 50,000 \times \frac{6}{100} = ₹3,000$$

$$\text{Interest on B's Capital} = 40,000 \times \frac{6}{100} = ₹2,400$$

$$\text{Interest on C's Capital} = 30,000 \times \frac{6}{100} = ₹1,800$$

2 Interest on drawing
For A - ₹350
For B - ₹250
For C - ₹150

3 Salaries
To A - ₹5,000, and
To B - ₹7,500

4 Commission to A ₹3,000

5 Calculation of Profit share of each partner
Profit available for distribution
= ₹30,000 - ₹7,200 + ₹750 - ₹12,500 - ₹3,000
= ₹8,050

$$\text{A's Profit Share} = 8,050 \times \frac{3}{5} = 4,830$$

$$\text{B's Profit Share} = 8,050 \times \frac{1}{5} = 1,610$$

$$\text{C's Profit Share} = 8,050 \times \frac{1}{5} = 1,610$$

6

Statement Showing Adjustment

Particulars	A ₹	B ₹	C ₹	Total
Interest On Capital (to be credited)	3,000	2,400	1,800	7,200
Interest on Drawings (to Be debited	(350)	(250)	(150)	(750)
Salaries to A and B (to be credited)	5,000	7,500		12,500
Commission to A (to be credited)	3,000			3,000
Profits to be credited	4,830	1,610	1,610	8,050
Right Distribution of Profits	15,480	11,260	3,260	30,000
Less: Wrong Distribution of Profits (3:1:1)	(18,000)	(6,000)	(6,000)	(30,000)
Net Effect	**2,520 Debit**	**5260 Credit**	**2,740 Debit**	-

Question 68.

On 31st March, 2014, the balances in the Capital Accounts of Saroj, Mahinder and Umar after mail adjustments for profits and drawings, etc, were Rs.80,000, Rs.60,000 and Rs.40,000 respectively. Subsequently it was discovered that the interest on capital and drawings has been omitted.

a. The profit for the year ended 31st March, 2014 was Rs.80,000.

b. During the year Saroj and Mahinder each withdrew a sum of Rs.24,000 in equal installments in the end of each month and Umar withdrew Rs.36,000.

c. The interest on drawings was to be charged @ 5% p.a. and interest on capital was to be allowed 10% p.a.

d. The profit-sharing ratio among partners was 4:3:1.

Showing your workings clearly, pass the necessary rectifying entry.

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Saroj's Capital A/c	Dr.		2,350	
	Mahinder's Capital A/c	Dr.		1,300	
	To Umar's Capital A/c				3,650
	(Being Profits wrongly distributed without providing interest on capital and drawings, now adjusted)				

Working Note

1 Calculating of Opening Capital

Particulars	Saroj ₹	Mahinder ₹	Umar ₹
Closing Capital	80,000	60,000	40,000
Add : Drawings	24,000	24,000	24,000
Less : Profits (80,000 in 4:3:1)	(40,000)	(30,000)	(10,000)
Opening Capital	**64,000**	**54,000**	**66,000**

2 Calculation of Interest on Capital

$$\text{Interest on Saroj's Capital} = 64,000 \times \frac{10}{100} = 6,400$$

$$\text{Interest on Mahinder's Capital} = 54,000 \times \frac{10}{100} = 5,400$$

$$\text{Interest on Umar's Capital} = 66,000 \times \frac{10}{100} = 6,600$$

3 Calculation of Interest on Drawings

$$\text{Interest on Drawings (at the end)} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{5.5}{12}$$

$$\text{Interest on Saroj's Drawings} = 24,000 \times \frac{5}{100} \times \frac{5.5}{12} = 550$$

$$\text{Interest on Mahinder's Drawings} = 24,000 \times \frac{5}{100} \times \frac{5.5}{12} = 550$$

$$\text{Interest on Umar's Drawings} = 36,000 \times \frac{5}{100} \times \frac{6*}{12} = 900$$

* Since date of drawings is not mentioned, thus, interest is calculated for an average period of six months

4: Calculation of Profit Share to be credited

Profit available for distribution among partners = ₹80,000 - ₹18,400 + ₹2,000 = ₹63,600

$$\text{Saroj's Profit Share} = 63,600 \times \frac{4}{8} = ₹31,800$$

$$\text{Mahinder's Profit Share} = 63,600 \times \frac{3}{8} = ₹23,850$$

$$\text{Umar's Profit Share} = 63,600 \times \frac{1}{8} = ₹7,950$$

5 : Statement showing adjustment

Statement Showing Adjustment

Particulars	Saroj ₹	Mahinder ₹	Umar ₹	Total
Interest on Capital	6,400	5,400	6,600	18,400
Interest on Drawings	(550)	(550)	(900)	(2,000)
Profits to be distributed	31,800	23,850	7,950	63,600
Total (A)	37,650	28,700	13,650	80,000
Less : Profits wrongly distributed	(40,000)	(30,000)	(10,000)	(80,000)
Net Effect (A - B)	(2,350) Dr	(1,300) Dr	3,650 Cr	NIL

Question 69.

On 31st March, 2014, the balances in the Capital Accounts of Ekta, Ankit and Chahat after making adjustments for profits and drawings were Rs.1,50,000, `2,10,000 and Rs.2,70,000 respectively Subsequently, it was discovered that the interest on capital and drawings had been omitted.

a. The profit for the year ended 31st March, 2014 was Rs.1,20,000.

b. During the year Ekta withdrew Rs.24,000 and Ankit and Chahat each withdrew a sum of Rs.24,000 equal installments In the middle of each quarter.
c. The interest on drawings was to be charged As @ 5% p.a. and interest on capital was to be allwed @10% p.a.
d. The profit-sharing ratio among the partners was 1:2:3.
Showing your working notes clearly, pass the necessary rectifying entry.
Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Chahat's Capital A/c	Dr.		5,400	
	To Ekta's Capital A/c				5,400
	(Being Profits wrongly distributed without providing interest on capital and drawings, now adjusted)				

Working Note :

1: Calculation of Opening Capital

Particulars	Ekta ₹	Ankit ₹	Chahat ₹
Closing Capital	1,50,000	2,10,000	2,70,000
Add : Drawings	24,000	24,000	24,000
Les : Profits (80,000 in 4:3:1)	20,000	40,000	60,000
Opening Capital	1,54,000	1,94,000	2,34,000

2 : Calculation of Intrest on Capital

$$\text{Interest on Ekta's Capital} = 1,54,000 \times \frac{10}{100} = 15,400$$

$$\text{Interest on Ankit's Capital} = 1,94,000 \times \frac{10}{100} = 19,400$$

$$\text{Interest on Chahat's Capital} = 2,34,000 \times \frac{10}{100} = 23,400$$

3 : Calculation of Interest on Drawings

$$\text{Interest on Ekta's Drawings} = 24,000 \times \frac{5}{100} \times \frac{6^*}{12} = 600$$

$$\text{Interest on Drawings(in the middle)} = \text{Total Drawings} \times \frac{\text{Rate}}{100} \times \frac{6}{12}$$

$$\text{Interest on Ankit's Drawings} = 24,000 \times \frac{5}{100} \times \frac{6}{12} = 600$$

$$\text{Interest on Chahat's Drawings} = 24,000 \times \frac{5}{100} \times \frac{6}{12} = 600$$

* Since date of drawings is not mentioned thus, interest is calculated for an average period of six months

4 : Calculation of Profit Sharee to be credited
Profit available for distribution among partners

$$= 1,20,000 - 58,200 + 1,800 = 63,600$$

$$\text{Saroj's Profit Share} = 63,400 \times \frac{1}{6} = 10,600$$

$$\text{Mahinder's Profit Share} = 63,600 \times \frac{2}{3} = 21,200$$

$$\text{Umar's Profit Share} = 63,400 \times \frac{3}{6} = 31,800$$

5 : Statement showing adjustment

Particulars	Ekta ₹	Ankit ₹	Chahat ₹	Total ₹
Interest on Capital	15,400	19,400	23,400	58,200
Interest on Drawings	(600)	(600)	(600)	(1,800)
Profits to be distributed	10,600	21,200	31,800	63,800
Total (A)	25,400	40,000	54,600	1,20,000
Less : Profits wrongly distributed (B)	(20,000)	(40,000)	(60,000)	(1,20,00)
Net Effect (A - B)	5,400 Cr	-	(5,400) Dr	NIL

Question 70.

Anil. Vineet and Vipul were partners in a firm manufacturing food Items. They were sharing profits In ratio of 5:3: 2. Their capitals on 1st April, 2012 were Rs.4,00,000; Rs.5,00,000 and Rs.9,00,000 respectively. After the floods in Uttaranchal, all partners decided to help the flood victims personally.

For this Anil withdrew Rs.30,000 from the firm on 30th September, 2012. Vineet instead of withdrawing cash from the firm took some food items amounting to Rs.25,000 from the firm and distributed those to flood victims. On the other hand. Vipul withdrew Rs.2,50,000 from his capital on 1st January. 2013 and built a shelter-home to help flood victims.

The Partnership Deed provides for charging interest on drawings @ 6% pa. After the final accounts were prepared it was discovered that interest on drawings had not been charged. Give necessary adjustor entry and show working notes clearly. Also, state any two values that the partners wanted to communicate to the society.

Note : No Interest is charged on Vipul drawings as it is a withdrawal from capital

Values :

1. Help toward needy flood victims

2. Medical Aid in flood affected areas

Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Anil's Capital A/c	Dr		75	
	Vineet's Capital A/c	Dr		255	
	To Vipul's Capital A/c				330
	(Being Omission of interest on drawings, now adjusted)				

Adjusting Table

Particulars	Anil ₹	Vineet ₹	Vipul ₹	Total ₹
Interest on Drawings (Dr)	900	750	-	1,650
Profit of 1,650 shared in ratio 5:3:2 (Cr)	825	495	330	1,650
Difference	75 (Dr)	255 (Dr)	330 (Cr)	Nil

Working Notes :

Calculation of Interest on Drawings :

$$\text{Interest on Anil's Drawings} = 30,000 \times \frac{6}{100} \times \frac{6}{12} = 900$$

$$\text{Interest on Vineet's Drawings} = 25,000 \times \frac{6}{100} \times \frac{6}{12} = 750$$

Note: The amount withdrawn by Vipul (₹2,50,000) is withdrawal of capital and not on drawings.

Values involved in the above scenario are as follows:

Duty for Nation

Upliftment of Victims

Question 71.

X and Y are partners sharing profits and losses in the ratio of 3: 2. They employed Z as their Manager to whom they paid a salary of Rs.7,500 per month. Z had deposited Rs.2, 00,000 on which interest was payable @ 9% p.a. At the end of the accounting year (i.e., 31st March, 2016) 2015-16 (after division of the year's profits), it was decided that Z should be treated as a partner with effect from 1st April, 2012 with 1/6th share of profits, his deposit being considered as capital carrying interest @ 6% p.a. like capitals of other partners. The firm's profits and losses after allowing interest on capitals were – 2012-13: Profit Rs.5, 90,000; 2013-14: Profit Rs.6, 26,000; 2014-15: Loss Rs.40,000 and 2015-16: Profit. `7, 80,000.

Record necessary Journal entries to give effect to the above.

Note: Interest on capital is to be allowed as a charge.

[Hint: Amount paid to Z as a Manager for 4 years = Rs.3,60,000 (Salary) + Rs.72,000 (Interest) = Rs.4,32,000 As a Partner Z will get = Rs.3,90,000 (Share of Profit) + Rs.48,000 (Interest on Capital) = Rs.4,38,000]

Solution:

2 Calculation of Interest on Capital

$$\text{Interest on Z's Capital} = 2,00,000 \times \frac{6}{100} = 12,000 \text{p.a.}$$

$$\text{Interest on Z's Capital for 4 years} = 12,000 \times 4 = 48,000$$

3 Calculation of Z's Share of Profit as a Partner
Profit after Interest on Z's Capital = Profit before Interest on Z's Capital - Interest on Z's Capital = ₹23,88,000 - ₹48,000 = ₹23,40,000
Z's Profit Share as a Partner for 4 years

$$= 23,40,000 \times \frac{1}{6} = 3,90,000$$

∴Z's Share of Interest on Capital and Profit Share as a Partner = ₹48,000 + ₹3,90,000 = ₹4,38,000
Z's Salary and Interest on Loan as Manager = ₹72,000 + ₹3,60,000 = ₹4,32,000

Adjusting Table

Z's Share as a Partner	4,38,000
Less : Z's Share as a Manager	(4,32,000)
Z will get from X and Y in their profit sharing ratio	6,000

Profit to be transferred by X and Y in Favour of Z

$$X = 6,000 \times \frac{3}{5} = 3,600$$

$$Y = 6,000 \times \frac{2}{5} = 2,400$$

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Z's Loan A/c	Dr		2,00,000	
	To Z's Capital A/c				2,00,000
	(Being Z's Loan transferred to his Capital Account)				
	X's Capital A/c	Dr		3,600	
	Y's Capita; A/c	Dr		2,400	
	To Z's Capital A/c				6,000
	(Being Z's excess credit balance paid to him by X and Y in the ratio of 3 : 2)				

Working Notes :

1 Profit before Z's Salary and Interest on Loan

Year	Profit/Loss	+	Salary	+	Interest on Z's loan	=	Profit before Z's Salary and Interest on Loan
2012 - 2013	5,90,000	+	90,000	+	18,000	=	6,98,000
2013 - 2014	6,26,000	+	90,000	+	18,000	=	7,34,000
2014 - 2015	(40,000)	+	90,000	+	18,000	=	68,000
2015 - 2016	7,80,000	+	90,000	+	18,000	=	8,88,000
Profit before Interest on Z's Capital (for 4 years)							

Question 72.

A B and C were in partnership sharing profits and losses in the ratio of 4: 2: 1 respectively. It was provided that in no case C's share in profits should be less than Rs.7,500. The profits for the year 2014-15 amounted to Rs.31,500. You are required to show the appropriation among the partners. The Profit and Loss Appropriation Account is not required.

Solution:

Profit and Loss Appropriation Account
For the year ended 2015

Dr Cr

Particulars		₹	Particulars	₹
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	31,500
A's Capital A/c	16,000			
B's Capital A/c	8,000			
C's Capital A/c	7,500	31,500		
		31,500		31,500

Working Notes :
Profit for the year = ₹31,500
Profit sharing ratio = 4:2:1
C's is given a gurantee of minimum profit of ₹7,500

$$\text{A's Profit share} = 31,500 \times \frac{4}{7} = 18,000$$

$$\text{B's Profit share} = 31,500 \times \frac{2}{7} = 9,000$$

$$\text{C's Profit share} = 31,500 \times \frac{1}{7} = 4,500$$

C's Actual Profit Share (i.e. ₹4,500) is less than his Minimum Guaranteed Profit (i.e. 7,500)
∴ Deficiency in C's Profit Share = ₹7,500 -₹ 4,500 = ₹3,000
This deficiency is to be borne by A and B in their profit sharing ratio i.e. 4:2

$$\text{Deficiency borne by A} = 3,000 \times \frac{4}{6} = 2,000$$

$$\text{Deficiency borne by B} = 3,000 \times \frac{2}{6} = 1,000$$

Therefore,
Final Profit Share of A = ₹18,000 - ₹2,000 = ₹16,000
Final Profit Share of B = ₹9,000 - ₹1,000 = ₹8,000
Final Profit Share of C = ₹4,500 + ₹3,000 = ₹7,500

Question 73.

A, Band C are partners in a firm. Their profit-sharing ratio is 2: 2: 1. However, C is guaranteed a minimum amount of Rs.10,000 as share of profits every year. Any deficiency arising on that amount shall be met by B. The profits for the two years ended 31st March, 2015 and 2016 were Rs.40,000 and Rs.60,000 respectively. Prepare Profit and Loss Appropriation Account for the two years.

Solution:

Profit and Loss Appropriation Account
For the year ended 2015

Dr Cr

Particulars		₹	Particulars	₹
To Profit transferred to : (WN 1)			By Profit and Loss A/c (Net Profit)	40,000
A's Capital A/c	16,000			
B's Capital A/c	14,000			
C's Capital A/c	10,000	40,000		
		40,000		40,000

Profit and Loss Appropriation Account
For the year ended 2016

Dr Cr

Particulars		₹	Particulars	₹
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	60,000
A's Capital A/c	24,000			
B's Capital A/c	24,000			
C's Capital A/c	12,000	60,000		
		60,000		60,000

Working Notes :
1 Distribution of Profit for the year 2015
Profit for 2015 = ₹40,000
Profit sharing ratio = 2 : 2 :1
C is a given a guarantee of minimum profit of ₹10,000

$$A\text{'s Profit Share} = 40,000 \times \frac{2}{5} = 16,000$$

$$B\text{'s Profit Share} = 40,000 \times \frac{2}{5} = 16,000$$

$$C\text{'s Profit Share} = 40,000 \times \frac{1}{5} = 8,000$$

Deficiency in C's Profit Share = ₹10,000 - ₹8,000 = ₹2,000
This deficiency is to be borne by B
Therefore
Final Profit Share of A =₹ 16,000
Final Profit Share of B = ₹16,000 - ₹2,000 = ₹14,000
Final Profit Share of C = ₹8,000 + ₹2,000 = ₹10,000
2 Distribution of Profit for the year 2016
Profit for 2016
Profit sharing ratio = 2:2 : 1
C is given a guarantee of minimum profit of ₹10,000

$$A\text{'s Profit Share} = 60,000 \times \frac{2}{5} = 24,000$$

$$B\text{'s Profit Share} = 60,000 \times \frac{2}{5} = 24,000$$

$$C\text{'s Profit Share} = 60,000 \times \frac{1}{5} = 12,000$$

Note: There is misprint in the book. Profit and Loss Appropriation Account is to be prepared for the year 2015 and 2016. However in the answer the years are mentioned as 2012 and 2013.

Question 74.

A and B are partners sharing profits in the ratio of 3:2. C was admitted for 1/6th share of profit with a minimum guaranteed amount of Rs.10,000. At the close of the first financial year the firm earned a profit of Rs.54,000. Find out the share of profit which A, B and C will get.

Solution:

Profit and Loss Appropriation Account

Dr | Cr

Particulars		Amount ₹	Particulars	Amount ₹
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	54,000
A	26,400			
B	17,600			
C	10,000	54,000		
		54,000		54,000

Working Note
C will get higher of the two :

(i) Share of Profit as per profit sharing ratio, i.e. $\frac{1}{6} \times 54,000 = 9,000$

(ii) Minimum guranteed profit i.e. 10, 000
Thus from net profit of 54, 000 minimum guranteed profit to C of 10, 000 is to be adjusted first.
And The balance profit of 44, 000 (54, 000 - 10, 000) is to be shared by A and B in the ratio 3 : 2
So Final Profit Share of

$$A = \frac{3}{5} \times 44,000 = 26,400$$

$$B = \frac{2}{5} \times 44,000 = 17,600$$

C = 10, 000 (minimum guranteed profit)

Question 75.

A, B and C are partners sharing profits in the ratio of 5:4:1. C is given a guarantee that his minimum share of profits in any given year would be Rs.5,000. Deficiency, if any, would be borne by A and B equally. The profits for the year 2015-16 amounted to Rs.40,000.

Pass necessary Journal entries in the books of the firm.

Solution:

Profit and Loss Appropriation Account
For the year ended 2015-16

Dr Particulars		₹	Particulars	Cr ₹
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	40,000
A's Capital A/c	19,500			
B's Capital A/c	15,500			
C's Capital A/c	5,000	40,000		
		40,000		40,000

Working Notes :

Profit for the year = ₹ 40, 000

Profit sharing ratio = 5 : 4 : 1

C is given a guarantee of minimum profit of ₹5, 000

A's Profit Share = $40,000 \times \frac{5}{10}$ = ₹20, 000

B's Profit Share = $40,000 \times \frac{4}{10}$ = ₹16, 000

C's Profit Share = $40,000 \times \frac{1}{10}$ = ₹4, 000

Deficiency in C's Share = 5, 000 - 4000 = ₹1, 000

This deficiency is to be borne by A and B equally.

Deficiency borne by A = $1,000 \times \frac{1}{2}$ = ₹500

Deficiency borne by B = $1,000 \times \frac{1}{2}$ = ₹500

Therefore,

Final Profit Share of A = 20, 000 - 500 = ₹9, 500

Final Profit Share of B = 16, 000 - 500 = ₹15, 500

Final Profit Share of C = 4, 000 + 1, 000 = ₹5, 000

Question 76.

Pranshu and Himanshu are partners sharing profits and losses in the ratio of 3:2 respectively. They admit Anshu as partner with 1/6 share in the profits of the firm. Pranshu personally guaranteed that Anshu's share of profit would not be less than Rs.30,000 in any year. The net profit of the firm for the year ending 31st March, 2013 was Rs.90,000.

Prepare Profit and Loss Appropriation Account

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2013

Dr Particulars		₹	Particulars	Cr Amount ₹
To Profit transferred to :			By Profit and Loss A/c (Net Profit)	90,000
Pranshu's Capital A/c	30,000			
Himanshu's Capital A/c	30,000			
Anshu's Capital A/c	30,000	90,000		
		90,000		90,000

WorkingNotes:

1: Calculation of New Profit Sharing Ratio

Old ratio = 3 : 2

Let the total share of the firm be Re 1

Anshu is admitted for $1/6^{th}$ share in profits

Remaining Share $= 1 - \frac{1}{6} = \frac{5}{6}$

Pranshu's New Share $= \frac{3}{5} \times \frac{5}{6} = \frac{15}{30}$

Himanshu's New Share $= \frac{2}{5} \times \frac{5}{6} = \frac{10}{30}$

Anshu's Share $= \frac{1}{6}$ or $\frac{5}{30}$

New Profit Sharing Ratio = 15 : 10 : 5 or 3 : 2 : 1

2 : Distribution of Profit

Ans's Share of Profit $= 90,000 \times \frac{1}{6} =$ ₹15,000

Deficiency of Rs 15,000 in Anshu's share of profit will be borne by Pranshu

Pranshu's Share of Profit $= 90,000 \times \frac{3}{6} =$ ₹45,000

Pranshu's actual share of profit (after bearing deficiency) = ₹30,000 (45,000 - 15,000)

Himanshu's Share of Profit $= 90,000 \times \frac{2}{6} =$ ₹30,000

Question 77.

A, B and C entered into partnership on 1st April, 2009 to share profits and losses in the ratio of 5:3:2. A guaranteed that C's share of profits, after charging Interest on capital @5% pa., would not be less than Rs.15,000 in any year.

The capitals were provided as follows: A- Rs.1, 60,000: B-2 Rs.1,00,000 and C-2 Rs.80,000.

The profits for the year ended 31st March, 2015 amounted to Rs.79,500 before providing for interest capital. Show Profit and Loss Appropriation Account

Solution:

Profit and Loss Appropriation Account
For the year ended March 31,2015

Dr | | | | Cr

Particulars		₹	Particulars	₹
To Interest on Capital			By Net Profit b/d	79,500
A	8,000			
B	5,000			
C	4,000	17,000		
To Profit transferred to				
A Capital A/c (31,250 - 2,500)	28,750			
B Capital A/c (18,750)	18,750			
C Capital A/c (12,500 + 2,500)	15,000	62,500		
		79,500		79,500

Question 78.

A, B and C are partners in a firm sharing profits in the ratio of 3: 2: 1. They earned a profit of Rs.30,000 during 2015-16. Distribute profit among A, 8 and C if:

a. C's share of profit is guaranteed to be Rs.26,000 minimum.

b. Minimum profit payable to C amounting to Rs.26,000 is guaranteed by A.

c. Guaranteed minimum profit of Rs.6,000 payable to C is guaranteed by B.

d. Any deficiency after making payment of guaranteed Rs.6,000 will be borne by A and B in the ratio of 3: 1.

Solution:

Case (a)

Profit and Loss Appropriation Account

Dr | | | | Cr

Particulars		₹	Particulars	₹
To Profit transferred to :			By Net Profit b/d	30,000
A's Capital A/c	14,400			
B's Capital A/c	9,600			
C's Capital A/c	6,000	30,000		
		30,000		30,000

Working Notes :

Profit = 30, 000

Profit sharing ratio = 3 : 2 : 1

C is given a guarentee of minimum profit of Rs 6, 000

$$\text{A's Profit Share} = 30,000 \times \frac{3}{6} = \text{Rs } 15,000$$

$$\text{B's Profit Share} = 30,000 \times \frac{2}{6} = \text{Rs } 10,000$$

$$\text{C's Profit Share} = 30,000 \times \frac{1}{6} = \text{Rs } 5,000$$

Deficiency in C's Profit Share = 6, 000 - 5, 000 = Rs 1, 000

Thie deficiency is to be borne by A and B in their profit sharing ratio i.e. 3 : 2

$$\text{Deficiency borne by A} = 1,000 \times \frac{3}{5} = \text{Rs } 600$$

$$\text{Deficiency borne by B} = 1,000 \times \frac{2}{5} = \text{Rs } 400$$

Therefore,

Final Profit Share of A = 15, 000 - 600 = Rs 14, 400

Final Profit Share of B = 10, 000 - 400 = Rs 9, 600

Final Profit Share of C = 5, 000 + 1, 000 = Rs 6, 000

Case (b)

Profit and Loss Appropriation Account

Dr **Cr**

Particulars		₹	Particulars	₹
To Profit transferred to :			By Profit and Loss A/c	30,000
A's Capital A/c	14,400			
B's Capital A/c	10,000			
C's Capital A/c	6,000	30,000		
		30,000		30,000

Working Notes :
Deficiency in C's Profit Share = ₹6,000 - ₹5,000 = ₹1,000
This deficiency is to be borne by A only
Therefore,
Final Profit Share of A = ₹15,000 - ₹1,000 = ₹14,000
Final Profit Share of B = ₹10,000
Final Profit Share of C = ₹5,000 + ₹1,000 = ₹6,000

Case (c)

Profit and Loss Appropriation Account

Dr **Cr**

Particulars		₹	Particulars	₹
To Profit transferred to :			By Profit and Loss A/c	30,000
A's Capital A/c	15,000			
B's Capital A/c	9,000			
C's Capital A/c	6,,000	30,000		
		30,000		30,000

Working Notes :
Deficiency in C's Profit Share = ₹6,000 - ₹5,000 = ₹1,000
This deficiency is to be borne by B only
Therefore,
Final Profit Share of A = ₹15,000
Final Profit Share of B = ₹10,000 - ₹1,000 = ₹9,000
Final Profit Share of C = ₹5,000 + ₹1,000 = ₹6,000

Case (d)

Profit and Loss Appropriation Account

Dr **Cr**

Particulars		₹	Particulars	₹
To Profit transferred to :			By Profit and Loss A/c	30,000
A's Capital A/c	14,250			
B's Capital A/c	9,750			
C's Capital A/c	6,000	30,000		
		30,000		30,000

Deficiency in C's Profit Share = 6, 000 - 5000 = Rs 1, 000
This deficiency is to be borne by A and B in the ratio of 3 : 1

$$\text{Deficiency borne by A} = 1,000 \times \frac{3}{4} = 750$$

$$\text{Deficiency borne by B} = 1,000 \times \frac{1}{4} = 250$$

Therefore,
Final Profit Share of A = 15, 000 - 750 = Rs 14, 250
Final Profit Share of B = 10, 000 - 250 = Rs 9, 750
Final Profit Share of C = 5, 000 + 1, 000 = Rs 6, 000

Question 79.

Three Chartered Accountants A B and C form a partnership, profits being divisible In the ratio of 3:2:1 Subject to the following:

a. C's share of profits guaranteed to be not less than Rs.15,000 p.a.

b. B gives a guarantee to the effect that gross fee earned by him for the firm shall be equal to his average gross fee of the proceeding five years when he was carrying on profession alone, which an average works out at Rs.25,000.

The profits for the first year of the partnership are Rs.75.000. The gross fee earned by B for the firm is Rs.16,000.

You are required to show Profit and Loss Appropriation Account after giving effect to the above.

Solution:

Profit and Loss Appropriation Account

Dr | Cr

Particulars		₹	Particulars	₹
To Profit transferred to :			By Profit and Loss A/c	75,000
A's Capital A/c	41,400		By B's Capital A/c	
B's Capital A/c	27,600		(Deficiency in Revenue)	9,000
C's Capital A/c	15,000	84,000		
		84,000		84,000

Working Notes :

Deficiency in revenue guaranteed by B = 25,000 - 16,000 = 9,000

∴ Profit to be distributed among Partners

= 75,000 + B's deficiency in guaranteed interest

= ₹75,000 + ₹9,000 = ₹84,000

Profit Sharing ratio = 3:2:1

$$\text{A's Profit Share} = 84,000 \times \frac{3}{6} = 42,000$$

$$\text{B's Profit Share} = 84,000 \times \frac{2}{6} = 28,000$$

$$\text{C's Profit Share} = 84,000 \times \frac{1}{6} = 14,000$$

C is given a guaranteed of minimum profit of ₹15,000

Deficiency in C's Profit Share = ₹15,000 - ₹14,000 = ₹1,000

$$\text{Deficiency borne by A} = 1,000 \times \frac{3}{5} = 600$$

$$\text{Deficiency borne by B} = 1,000 \times \frac{2}{5} = 400$$

Therefore, Final Profit Share of A = ₹42,000 -₹ 600 = ₹41,400

Final Profit Share of B = ₹28,000 - ₹400 =₹ 27,600**

Final Profit Share of C = ₹14,000 +₹ 1,000 = ₹15,000

** In the book, the final profit to B is given as ₹18,600; however as per the solution it should be ₹27,600. The deficiency of ₹9,000 that was guaranteed by B to the firm would not be deducted from his share as he is bearing it in form of profit

Question 80.

X Y and Z entered into partnership on 1st October, 2015 to share profits and losses in the ratio of 4:3:3 X however, personally guaranteed that Z's share of profit after charging interest on capital @10% p.a. would not be less than Rs.80,000 in any year. The capital contributions were: X-3 Rs.3, 00,000, Y- Rs.2, 00,000 and Z- Rs.150,000.

The profit for the year ended 31st March. 2016 amounted to Rs.1.60.000. Prepare Profit and Appropriation Account.

Note: Guaranteed amount for half-year = 80,000 × ½ = Rs.40,000 Guaranteed amount should be calculated on proportionate basis from the date of admission Guaranteed partner to the dosing date of accounting year.

Solution:

Profit and Loss Appropriation Account

Dr | Cr

Particulars		₹	Particulars	₹
To Interest on Capital			By Net Profit B/d	1,60,000
X	15,000			
Y	10,000			
Z	7,500	32,500		
To Profit transferred to :				
X (51,000 - 1,750)	49,250			
Y (38,250)	38,250			
Z (38,250 + 1,750)	40,000	1,27,500		
		1,60,000		1,60,000

Note : Since Z is admitted on 1st October,2015 and Profit is ascertained on March 31,2016, therefore interest on Capital is calculated for 6 months and guaranteed amount is considered as ₹40,000 (half of the total amount)

Question 81.

A and B are in partnership sharing profits and losses in the ratio of 3:2. They decided to admit C, their Manager, as a partner with effect horn 1st April. 2015, giving ¼th share of profits.

C while a Manager, was in receipt of a salary of Rs.27,000 p.a. and a commission of 10% of the net profits after charging such salary and commission.

In terms of the Partnership Deed, any excess amount. Which C will be entitled to receive as a partner over the amount which would have been due to him if he continued to be the Manager, would have to be personally borne by A out of his share of profits. Profits for the year ended 31st March. 2016 amounted to Rs.2,25.000.

You are required to show Profit and Loss Appropriation Account for the year ended 31st March, 2016

Solution:

Profit and Loss Appropriation Account
for the year and March 31,2016

Dr | | | | Cr

Particulars		₹	Particulars	₹
To Profit transferred to :			By Profit and Loss A/c	2,25,000
A's Capital A/c	96,750			
B's Capital A/c	72,000			
C's Capital A/c	56,250	2,25,000		
		2,25,000		2,25,000

Working Notes

1 Calculation of Remuneration to C as a Manager

Salary to C = ₹27,000

Commission to C = 10% of Net Profit after Salary and Commission

Net Profit after Salary and Commission

= ₹2,25,000 - ₹27,000

= ₹1,98,000

$$\therefore \text{Commission to C} = 1,98,000 \times \frac{10}{110} = 18,000$$

C's remuneration as Manager

= Salary + Commission

= ₹27,000 + ₹18,000

= ₹45,000

2 Calculation of Profit Share of C as a Partner

Profit = ₹2,25,000

$$\text{C's Profit Share} = 2,25,000 \times \frac{1}{4} = 56,250$$

Part of C's Profit Share to be borne by A = ₹56,250 - ₹45,000 =₹ 11,250

Profit available for distribution between A and B = ₹2,25,000 - ₹45,000 = ₹1,80,000

$$\text{A's Share of Profit} = 1,80,000 \times \frac{3}{5} = 1,08,000$$

$$\text{B's Share of Profit} = 1,80,000 \times \frac{2}{5} = 72,000$$

A's Profit Share after adjusting C's deficiency = ₹1,08,000 - ₹11,250 = ₹96,750

Question 82.

Asgar, Chaman and Dholu are partners In a firm. Their Capital Accounts stood at Rs.6,00,000; Rs.5,00,000 and Rs.4,00,000 respectively on 1st April, 2015. They shared Profits and Losses in the proportion of 4:2:3. Partners are entitled to interest on capital @ 8% per annum and salary to Chaman and Dholu @ Rs.7,000 per month and Rs.10,000 per quarter respectively as per the provision of the Partnership Deed.

Dholu's share of profit (excluding interest on capital but including salary) is guaranteed at a minimum of Rs.1, 10,000 p.a. Any deficiency arising on that account shall be met by Asgar. The profits for the year ended 31st March, 2016 amounted to Rs.4,24,000.

Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2016.

[Hint : Deficiency of Rs.10,000 in Dholu's share is recovered from Asgar]

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr Particulars		₹	Particulars	Cr ₹
To Interest on Capital A/c :			By Profit and Loss A/c (Net Profit)	4,24,000
Asgar	48,000			
Chaman	40,000			
Dholu	32,000	1,20,000		
To Salary to Chaman (7,000 × 12)		84,000		
To Salary to Dholu (10,000 × 4)		40,000		
To Profit transferred to :				
Asgar Capital A/c	70,000			
Chaman Capital A/c	40,000			
Dholu Capital A/c	70,000	1,80,000		
		4,24,000		4,24,000

Working Notes :
Profit available for distribution
= ₹4,24,000 - (₹1,20,000 + ₹84,000 + ₹40,000)
= ₹1,80,000
Profit sharing ratio = 4:2:3

$$\text{Asgar's Profit Share} = 1,80,000 \times \frac{4}{9} = 80,000$$

$$\text{Chaman's Profit Share} = 1,80,000 \times \frac{2}{9} = 40,000$$

$$\text{Dholu's Profit Share} = 1,80,000 \times \frac{2}{9} = 60,000$$

Dholu's Minimum Guaranteed Profit = ₹1,10,000 (excluding interest on capital but including salary)
Dholu's Minimum Guaranteed Profit (excluding salary) = ₹1,10,000 - ₹40,000 = ₹70,000
But, Dholu's Actual Profit Share = ₹60,000
Deficiency in Dholu's Profit Share = ₹70,000 - ₹60,000 = ₹10,000
This deficiency is to be borne by Asgar alone
Therefore, Asgar New Profit Share
= ₹80,000 - ₹10,000
= ₹70,000

Question 83.

Ankur, Bhavna and Disha are partners in a firm. On 1st April, 2015, the balance in their Capital Accounts stood at Rs.14,00,000, Rs.6,00,000 and Rs.4,00,000 respectively. They shared profits in the proportion of 7:3:2 respectively. Partners are entitled to interest on capital @6% per annum and salary to Bhavna @50,000 p.a. and a commission of Rs.3,000 per month to Disha as per the provisions of the Partnership Deed. 8havna's share of profit (excluding Interest on capital) is guaranteed at not less than Rs.1,70,000 p.a. Dishar's share of profit (including Interest on capital but excluding salary) is guaranteed at not less than Rs.1,50,000 p.a. Any deficiency arising on that account shall be met by Ankur. The profits of the firm for the year ended 31st March, 2016 amounted to Rs.9,50,000.

Prepare 'Profit and Loss Appropriation Account' for the year ended 31st March. 2016

Solution:

Profit and Loss Appropriation Account
for the year ended March 31,2016

Dr | | | | Cr

Particulars		₹	Particulars	Amount ₹
To Interest on Capital to :			By Profit and Loss A/c (Net Profit)	9,50,000
Ankur	84,000			
Bhavna	36,000			
Disha	24,000	1,44,000		
To Salary to Bhavna		50,000		
To Commission to Disha (3,000 × 12)		36,000		
To Profit transferred to :				
Ankur	4,14,000			
Bhavna	1,80,000			
Disha	1,26,000	7,20,000		
		9,50,000		9,50,000

Working Notes :
Profit available for distribution
= ₹9,50,000 - (₹1,44,000 + ₹50,000 + ₹36,000)
= ₹7,20,000
Profit sharing ratio = 7 : 3 :2

$$\text{Ankur's Profit Share} = 7,20,000 \times \frac{7}{12} = 4,20,000$$

$$\text{Bhavna's Profit Share} = 7,20,000 \times \frac{3}{12} = 1,80,000$$

$$\text{Disha's Profit Share} = 7,20,000 \times \frac{2}{12} = 1,20,000$$

Bhavna's Minimum Guaranteed Profit = ₹1,70,000 (excluding interest on capital)
But Bhavna's Actual Profit Share = ₹1,80,000
This implies that there is no deficiency in Bhavna's profit share as her actual profit share (i.e. ₹1,80,000) exceeds his minimum guaranteed profit share (i.e. ₹1,70,000)
Disha's Minimum Guarantee Profit = ₹1,50,000 (including interest on capital but excluding salary)
Disha's Minimum Guaranteed Profit (excluding interest) = ₹1,50,000 - ₹24,000 = ₹1,26,000
But Disha's Actual Profit Share = ₹1,20,000
Deficiency in Disha's Profit Share = ₹1,26,000 - ₹1,20,000 = ₹6,000
This deficiency is to be borne by Ankur alone
Therefore,
Ankur's New Profit Share = ₹4,20,000 - ₹6,000 = ₹4,14,000

Question 84.
Ankur and Bobby were into the business of providing software solutions in India. They were sharing profits and losses in the ratio 3: 2. They admitted Rohit for a 1/5 share in the firm. Rohit, an alumni of IIT, Chennai would help them to expand their business to various South African countries where he had been working earlier. Rohit is guaranteed a minimum profit of Rs.2.00.000 for the year. Any deficiency in Rohit's share Is to be borne by Ankur and Bobby in the ratio 4: 1. Losses for the year were Rs.10, 00.000.
Pass the necessary Journal entries.
Solution:

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Ankur's Capital A/c	Dr		4,80,000	
	Bobby's Capital A/c	Dr		3,20,000	
	Rohit's Capital A/c	Dr		2,00,000	
	To Profit and Loss A/c				10,00,000
	(Being Loss debited to Partner's Capital Accounts)				
	Ankur's Capital A/c	Dr		3,20,000	
	Bobby's Capital A/c	Dr		80,000	
	To Rohit's Capital A/c				4,00,000
	(Being Deficiency borne by Ankur and Bobby in ratio of 4:1)				

Working Notes :

1 : Calculation of New Ratio

$$\text{Rohit's Share} = \frac{1}{5}$$

$$\text{Let total share} = 1$$

$$\text{Remaining Share} = 1 - \frac{1}{5} = \frac{4}{5}$$

$$\text{Ankur's New Share} = \frac{4}{5} \times \frac{3}{5} = \frac{12}{25}$$

$$\text{Bobby's New Share} = \frac{4}{5} \times \frac{2}{5} = \frac{8}{25}$$

$$\text{New Ratio} = 12 : 8 : 5$$

2 = Calculation of Share of Loss

$$\text{Ankur's Share of Loss} = 10,00,000 \times \frac{12}{25} = 4,80,000$$

$$\text{Bobby's Share of Loss} = 10,00,000 \times \frac{8}{25} = 3,20,000$$

$$\text{Rohit's share of Loss} = 10,00,000 \times \frac{5}{25} = 2,00,000$$

3: Calculation of Deficiency

Amount payable to Rohit

= Guaranteed Profit Amount + Loss transferred to Rohit' Capital A/c

= ₹2,00,000 + ₹2,00,000

= ₹4,00,000

Deficiency is to be borne by Ankur and Bobby in the ratio of 4:1

$$\text{Deficiency to be borne by Ankur} = 4,00,000 \times \frac{4}{5} = 3,20,000$$

$$\text{Deficiency to be borne by Bobby} = 4,00,000 \times \frac{1}{5} = 80,000$$