

Chapter 1 - Accounting For Partnership Firms - Fundamentals

Q. 1. X and Y are partners sharing profits in the ratio of 2 : 1. The under mentioned trial balance was extracted from their books on 31st March, 2017 :

Particulars	Dr. Balances ₹	Cr. Balances ₹
Xs Capital .		3,20,000
Ts Capital		2,40,000
Xs Drawings	40,000	
Ts Drawings	32,000	
Stock (1st April, 2016)	45,200	
Purchases and Sales	8,68,000	12,45,000
Debtors and Creditors	1,52,000	48,000
Buildings	6,00,000	
Cash in hand	5,900	
Bank Overdraft		27,500
Salaries to Staff	74,700	
Rent	26,400	
Advertising Expenditure	5,000	
Travelling Expenses	31,300	
	18,80,500	18,80,500

You are required to prepare the Profit and Loss Account and Profit and Loss Appropriation Account for the year ended 31st March, 2017 and a Balance Sheet as on that date. The following adjustments are to be made:

- (i) The value of stock on March 31,2017 was ₹64,000.
- (ii) Charge depreciation on Buildings at 10%.
- (iii) Provide for outstanding rent ₹2,400.
- (iv) Partners are entitled to interest on Capital @ 5% and X is entitled to a salary of ₹48,000 p.a.

SOLUTION:

PROFIT & LOSS ACCOUNT OF THE FIRM

Dr. for the year ended 31st March, 2017 Cr.

Particulars	₹	Particulars	₹
To Opening Stock	45,200	By Sales	12,45,000
To Purchases	8,68,000	By Closing Stock	64,000
To Gross Profit c/d	3,95,800		
	13,09,000		13,09,000

To Salaries to Staff	74,700	By Gross Profit b/d	3,95,800
To Rent 26,400			
Add: Outstanding 2,400	28,800		
To Advertising Expenditure	5,000		
To Travelling Expenses	31,300		
To Depreciation on Buildings	60,000		
To Net Profit transferred to Profit & Loss Appropriation A/c	1,96,000		
	3,95,800		3,95,800

PROFIT & LOSS APPROPRIATION ACCOUNT

Dr.

for the year ended 31st March, 2017

Cr.

Particulars	₹	Particulars	₹
To Xs Salary A/c	48,000	By Net Profit as per Profit & Loss A/c	1,96,000
To Interest on Capital:			
X	16,000		
Y	12,000	28,000	
To Profit transferred to Capital Accounts:			
X	80,000		
Y	40,000	1,20,000	
	1,96,000		1,96,000

BALANCE SHEET OF THE FIRM

as at 31st March, 2017

Liabilities	₹	Assets	₹
Bank Overdraft	27,500	Cash in Hand	5,900
Outstanding Rent	2,400	Debtors	1,52,000
Creditors	48,000	Closing Stock	64,000
Xs Capital	3,20,000	Buildings	6,00,000
Less: Drawings	40,000	Less: Depreciation	60,000
	2,80,000		5,40,000
Add: Interest on Capital	16,000		
Add: Salary	48,000		
Add: Net Profit	80,000		
Y's Capital	2,40,000	4,24,000	
Less: Drawings	32,000		
	2,08,000		

Add: Interest on Capital	12,000			
Add: Net Profit	40,000	2,60,000		
	7,61,900			7,61,900

Q. 2. Girish and Satish are partners in a firm. Their Capitals on April 1, 2016 were ₹5,60,000 and ₹4,75,000 respectively. On August 1, 2016 they decided that their Capitals should be ₹5,00,000 each. The necessary adjustment in the Capitals were made by introducing or withdrawing cash. Interest on Capital is allowed at 6% p.a. You are required to compute interest on Capital for the year ending March 31, 2017.

SOLUTION :

Calculation of Interest on Capitals :

Girish :		
On ₹5,60,000 for 4 months	= $5,60,000 \times 6/100 \times 4/12$	= 11,200
On ₹5,00,000 for 8 months	= $5,00,000 \times 6/100 \times 8/12$	= 20,000
		= 31,200
Satish :		
On ₹4,75,000 for 4 months	= $4,75,000 \times 6/100 \times 4/12$	= 9,500
On ₹5,00,000 for 8 months	= $5,00,000 \times 6/100 \times 8/12$	= 20,000
		29,500

Q. 3. X, Y and Z are partners in a firm. Their Capitals as on April 1, 2016 were ₹5,00,000; ₹4,00,000 and ₹3,00,000 respectively. On July 1, 2016 they introduced further Capitals of ₹1,00,000; ₹80,000 and ₹50,000 respectively. On February 1, 2017 Y withdrew ₹15,000 from his Capital. Interest is to be allowed @ 8% p.a. on the Capitals. Compute interest on Capitals for the year ending March 31, 2017.

SOLUTION:

Calculation of Interest on Capitals :

X :		
On ₹5,00,000 for 3 months (i.e., from April 1, 2016 to 30th June, 2016)	= $5,00,000 \times 8/100 \times 3/12$	= 10,000
On ₹6,00,000 for 9 months (i.e., from 1st July, 2016 to 31st March, 2017)	= $6,00,000 \times 8/100 \times 9/12$	= 36,000
		= 46,000
Y :		

On ₹3,00,000 for 3 months (i.e., from April 1, 2016 to 30th June, 2016)	= $3,00,000 \times 8/100 \times 3/12$ = 3,50,000 × 8/100 × 9/12	= 6,000 = 21,000
On ₹3,50,000 for 9 months (i.e., from 1st July, 2016 to 31st March, 2017)		
		27,000

Q. 4. On March 31, 2016 after the close of accounts, the capitals of Mountain, Hill and Rock stood in the books of the firm at ₹4,00,000; ₹3,00,000 and ₹2,00,000 respectively. Subsequently, it was discovered that the interest on capital @ 10% p.a. had been omitted. The profit for the year amounted to ₹1,50,000 and the partner's drawings had been Mountain : ₹20,000; Hill ₹15,000 and Rock ₹10,000.

Calculate interest on capital.

SOLUTION:

Since interest on capitals is always calculated on capitals in the beginning and the same have not been given, it is necessary to calculate the capitals in the beginning:

Statement showing the calculation of capitals in the beginning :

Particulars	Mountain	Hill	Rock
	₹	₹	₹
Capitals at the end i.e. on March 31, 2016	4,00,000	3,00,000	2,00,000
Add: Drawings (which were previously deducted)	20,000	15,000	10,000
Less : Share of Profit (which has already been added) ₹ 1,50,000 credited in the profit sharing ratio i.e. equally	4,20,000	3,15,000	2,10,000
	50,000	50,000	50,000
Capitals in the beginning i.e. on April 1, 2015	3,70,000	2,65,000	1,60,000

Interest on Capital @10%		₹
Mountain:	10% on ₹3,70,000	= 37,000
Hill:	10% on ₹2,65,000	= 26,500
Rock:	10% on ₹1,60,000	= 16,000

FLUCTUATING CAPITALS

Q. 5 (A). On 1st April, 2016 A and B commenced business with Capitals of ₹60,000 and ₹20,000 respectively. On 31st March, 2017 the trading profit (before taking into account the provisions of deed) was ₹24,000. Interest on capitals is to be allowed at 6% p.a. B was entitled to a salary of ₹6,000 p.a. The drawings of the partners A and B were ₹6,000 and ₹4,000 respectively. The interest on Drawings for A being ₹200 and B ₹100. Assuming that A and B are equal partners, prepare the Profit & Loss Appropriation A/c and Partner's Capital Accounts as at 31st March, 2017.

SOLUTION :

PROFIT AND LOSS APPROPRIATION ACCOUNT

<i>Dr.</i>	<i>for the year ended 31st March. 2017</i>		<i>Cr.</i>
<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Interest on Capitals :		By Profit & Loss A/c	
A 60,000 x 6%	3,600	— being profit	24,000
B 20,000 x 6%	1,200	4,800 By Interest on Drawings :	
To Salary to B	6,000	A	200
To Profit transferred to :		B	100
A's Capital A/c	6,750		300
B's Capital A/c	6,750		
	13,500		
	24,300		24,300

<i>Dr.</i>	<i>PARTNERS' CAPITAL ACCOUNTS</i>		<i>Cr.</i>		
<i>Particulars</i>	<i>A</i>	<i>B</i>	<i>Particulars</i>	<i>A</i>	<i>B</i>
31.3.2017	₹	₹	1.4.2016	₹	₹
To Drawings	6,000	4,000	By Bank	60,000	20,000
To Interest on Drawings	200		31.3.2017		
To Balance c/d	64,150	100	By Interest on Capitals	3,600	1,200
		29,850	By Salary	—	6,000

		By Profit & Loss Appropriation A/c	6,750	6,750
70,350	33,950			
70,350	33,950			

Note: Capitals will be treated fluctuating in the absence of information.

Q. 5 (B). Anubha and Kajal entered into partnership sharing profits and losses in the ratio of 2 :

1. Their capitals were ₹90,000 and ₹60,000. The profit during the year were ₹45,000. According to partnership deed, both partners are allowed salary, ₹700 per month to Anubha and ₹500 per month to Kajal. Interest is allowed on capital @ 5% p.a. The drawings at the end of the period were ₹8,500 for Anubha and ₹6,500 for Kajal. Interest is to be charged @ 5% p.a. on drawings. Prepare partners capital accounts, assuming that the capital accounts are fluctuating.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.	for the year ended	Cr.
Particulars	₹	Particulars
To Salary :		₹
Anubha (₹700 x 12)	8,400	By Profit & Loss A/c
Kajal (₹500 x 12)	6,000	(Profit for the year) 45,000
To Interest on Capital:		By Interest on Drawings :
Anubha 4,500		Anubha: 213
Kajal 3,000	7,500	8,500 × 5/100 × 8/12
To Profit transferred to Capital A/cs :		Kajal: 163
Anubha (2/3 of 23,476) 15,651		6,500 × 5/100 × 8/12
Kajal (1/3 of 23,476) 7,825	23,476	
	45,376	45,376

Dr. PARTNER'S CAPITAL ACCOUNTS Cr.

Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
	₹	₹		₹	₹

To Drawings	8,500	6,500	By Bank	90,000	60,000
To Interest on Drawings	213	163	By Salary	8,400	6,000
To Balance c/d	1,09,838	70,162	By Interest on Capital	4,500	3,000
			By P & L Appropriation		
			A/c (Share of Profit)	15,651	7,825
	1,18,551	76,825		1,18,551	76,825

Q. 6. A and B started a partnership business on 1st April, 2015. They contributed ₹6,00,000 and ₹4,00,000 respectively, as their capitals. The terms of the partnership agreement are as under :

- (i) Interest on capital and drawings @ 6% per annum.
- (ii) B is to get a monthly salary of ₹2,500.
- (iii) Sharing of profit or loss will be in the ratio of their capital contribution.

The profit for the year ended 31st March, 2016, before making above appropriations was ₹2,07,400. The drawings of A and B were ₹48,000 and ₹40,000 respectively. Interest on drawings amounted to ₹1,500 for A and ₹1,100 for B.

Prepare profit and loss appropriation account and partners' capital accounts assuming that their capitals are fluctuating.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2016* Cr.

Particulars	₹	Particulars	₹
To Salary to B (2,500 x 12)	30,000	By Profit & Loss A/c	
To Interest on Capital:		(Net Profit as per Profit & Loss A/c)	
A	36,000		2,07,400

B	24,000	60,000	By Interest on Drawings :		
To Profit transferred to Capital			A	1,500	
A/cs:			B	1,100	2,600
A 3/5	72,000				
B 2/5	48,000	1,20,000			
		2,10,000			2,10,000

Dr.	PARTNER'S CAPITAL ACCOUNTS				Cr.
Particulars	A	B	Particulars	A	B
31.3.2016	₹	₹	1.4.2015	₹	₹
To Drawings	48,000	40,000	By Bank	6,00,000	4,00,000
To Interest on Drawings	1,500	1,100	31.3.2016		
To Balance c/d	6,58,500	4,60,900	By Salary		30,000
			By Interest on Capital	36,000	24,000
			By Profit & Loss Appropriation A/c (Share of Profit)	72,000	48,000
	7,08,000	5,02,000		7,08,000	5,02,000

Q. 7. X and Y are partners with capitals of ₹1,00,000 and ₹80,000 respectively on 1st April, 2016 and their profit sharing ratio is 2 : 1. Interest on capital is agreed @ 12% p.a. Y is to be allowed an annual salary of ₹6,000. The profit for the year ended 31st March, 2017 amounted to ₹50,000. Manager is entitled to a commission of 10% of the profits.

Prepare Profit and Loss Appropriation Account and Capital Accounts.

SOLUTION:

PROFIT AND LOSS ACCOUNT

Dr. *for the year ended 31st March, 2017* *Cr.*

Particulars	₹	Particulars	₹
To Manager's Commission 10% of ₹ 50,000	5,000	By Profit for the year	50,000
To Net Profit transferred to Profit & Loss Appropriation A/c	45,000		
	50,000		50,000

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2017* *Cr.*

Particulars	₹	Particulars	₹
To Interest on Capitals :		By Profit & Loss A/c	45,000
X 12,000			
Y 9,600	21,600		
To Salary to Y	6,000		
To Profit transferred to Capital			
Accounts X 11,600			
Y 5,800	17,400		
	45,000		45,000

PARTNER'S CAPITAL ACCOUNTS

Dr. *Cr.*

Particulars	X	Y	Particulars	X	Y
31.3.2017	₹	₹	1.4.2016	₹	₹
To Balance c/d	1,23,600	1,01,400	By Balance b/d 31.3.2017	1,00,000	80,000

		By Interest on Capital	12,000	9,600
		By Salary	—	6,000
		By P & L Appropriation A/c	11,600	5,800
	1,23,600	1,01,400		1,23,600

Fixed Capitals

Q. 8. Y and Z are partners with capitals of ₹25,000 and ₹15,000 respectively on 1st April, 2016. Each partner is entitled to 9% p.a. interest on his capital. Z is entitled to a salary of ₹6,000 p.a. together with a commission of 6% of Net Profit remaining after deducting interest on capitals and salary and after charging his commission. The profits for the year ended 31st March, 2017 before making any of the above mentioned adjustments amount to ₹30,800. Prepare Partner's Capital Accounts : (i) when capitals are fixed, and (ii) when capitals are fluctuating.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2017 Cr.

Particulars	₹	Particulars	₹	
To Interest on Capitals : Y Z	2,250 1,350	3,600	By Profit and Loss A/c	30,800
To Salary (Z)	6,000	1,200		
To Commission (Z) (See Note 1)	10,000	20,000		
To Profits: Y Z	10,000 10,000			
		30,800	30,800	

Note (1) Calculation of Z's Commission :

Profit: ₹30,800 - ₹3,600 - ₹6,000 = ₹21,200

$21,200 \times 6/106 = ₹1,200.$

(i) When Capitals are fixed :

Dr.	CAPITAL ACCOUNTS				Cr.
Particulars	Y	Z	Particulars	Y	Z
31.3.2017	₹	₹	1.4.2016	₹	₹
To Balance c/d	25,000	15,000	By Balance b/d	25,000	15,000
	25,000	15,000		25,000	15,000

CURRENT ACCOUNTS

Dr.	CURRENT ACCOUNTS				Cr.
Particulars	Y	Z	Particulars	Y	Z
31.3.2017	₹	₹	31.3.2017	₹	₹
To Balance c/d	12,250	18,550	By Interest on Capitals	2,250	1,350
			By Salary	—	6,000
			By Commission By Profit & Loss	—	1,200
			Appropriation A/c	10,000	10,000
	12,250	18,550		12,250	18,550

(ii) When Capitals are fluctuating:

Dr.	CAPITAL ACCOUNTS				Cr.
Particulars	Y	Z	Particulars	Y	Z
31.3.2017	₹	₹	1.4.2016	₹	₹

To Balance c/d	37,250	33,550	By Balance b/d	25,000	15,000
31.3.2017					
			By Interest on Capitals	2,250	1,350
			By Salary	—	6,000
			By Commission	—	1,200
			By Profit and Loss		
			Appropriation A/c	10,000	10,000
	37,250	33,550		37,250	33,550

Q. 9. A and B are partners in a firm sharing profits or losses in the ratio of 2 : 3 with capitals of ₹4,00,000 and ₹8,00,000 respectively on 1st April, 2016. Each partner is entitled to 10% p.a. interest on his capital. B is entitled a commission of 10% on net profit remaining after deducting interest on capital but before charging any commission. A is entitled a commission of 8% of net profit remaining after deducting interest on capital and after charging all commissions. The profit for the year ended 31st March, 2017 prior to calculation of interest on capital was ₹6,00,000. Prepare Profit and Loss Appropriation Account.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2017 Cr.

Particulars	₹	Particulars	₹
To Interest on Capital		By Profit & Loss A/c — being profit	
A 40,000			6,00,000
B 80,000	1,20,000		
To Commission (See Note 1)			
A 32,000			
B 48,000	80,000		
To Profit transferred to :			
A's Capital A/c 1,60,000			
B's Capital A/c 2,40,000	4,00,000		
	6,00,000		6,00,000

Note 1.: Calculation of Partner's Commission :

Profit: ₹6,00,000 - ₹1,20,000 = ₹4,80,000

B's Commission (before charging such commission) = ₹4,80,000 x 10/100 = ₹48,000

A's Commission (after charging such commission) =

A's Commission will be calculated after charging B's Commission and his own Commission:

Hence, A's Commission = (4,80,000 - 48,000) x 8/108 = ₹32,000

Q. 10. A and B are partners in a firm. Their capitals as on 1st April, 2016 were ₹2,10,000 and ₹90,000 respectively. They share profits in the ratio of 2:1. On 1st August, 2016, they decided that their capitals should be readjusted according to their profit sharing ratio. The necessary adjustments in the capitals were made by withdrawing or introducing cash. Interest on capital is allowed at 12% p.a. Compute interest on capitals for the year ending on 31st March, 2017.

SOLUTION:

Total capital of A and B = 2,10,000 + 90,000 = ₹3,00,000

Therefore, A's adjusted capital should be 3,00,000 x 2/3 = 2,00,000

B's adjusted capital should be 3,00,000 x 1/3 = 1,00,000

On 1st August A will withdraw ₹10,000 whereas B will bring in cash amounting to ₹10,000.

Interest on Capitals:	A (₹)	B (₹)
From 1st April, 2016 to 31st July, 2016: ₹2,10,000 × 4/12 × 12/100 ₹90,000 × 4/12 × 12/100	8,400	3,600
From 1st August, 2016 to 31st March, 2017: ₹2,00,000 × 8/12 × 12/100 ₹1,00,000 × 8/12 × 12/100	16,000	8,000
	24,400	11,600

Q. 11. A, B and C were partners in a firm having capitals of ₹2,00,000; ₹2,00,000 and ₹80,000 respectively on 1st April, 2015. Their Current Account balances were A : ₹20,000; B : ₹ 10,000 and C : ₹5,000 (Dr.). According to the partnership deed the partners were entitled to interest on capital @ 10% p.a. B being the working partner was also entitled to a salary of ₹6,000 per quarter. The profits were to be divided as follows:

- a) The first ₹60,000 in proportion to their capitals.
- b) Next ₹1,00,000 in the ratio of 4:3 : 1.
- c) Remaining profits to be shared equally.

The firm made a profit of ₹2,80,000 for the year ended 31st March, 2016 before charging any of the above items. Prepare the Profit & Loss Appropriation Account and pass necessary journal entry for apportionment of profits.

SOLUTION:

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.	<i>for the year ended 31st March, 2016</i>	Cr.
To Interest on Capital (at 10% p.a.)	₹	₹
A : on ₹2,00,000	20,000	By Profit & Loss A/c
B: on ₹2,00,000	20,000	(Net Profit as per P & L A/c)
C : on ₹ 80,000	8,000	48,000
To Salary (B) (₹6,000 x4)	24,000	
To Profit transferred to :		
A's Current A/c	91,000	
B's Current A/c	78,500	
C's Current A/c	38,500	2,08,000
	<hr/>	<hr/>
	2,80,000	2,80,000

JOURNAL ENTRY (For Appropriation of Profit)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.2016	Profit & Loss Appropriation A/c	Dr.	2,08,000	
	To I's Current A/c			91,000
	To B's Current A/c			78,500
	To C's Current A/c			38,500
	(Profit transferred to current accounts)			

Working Note:

Profit after interest on capital and Salary:

$$₹2,80,000 - ₹48,000 - ₹24,000 = ₹2,08,000$$

	A(₹)	B(₹)	C(₹)
First ₹60,000 in Capital Ratio i.e. 5:5:2	25,000	25,000	10,000
Next ₹1,00,000 in 4 : 3 : 1	50,000	37,500	12,500
Remaining ₹48,000 equally	16,000	16,000	16,000
	91,000	78,500	38,500

SOLUTION : 12.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.	for the year ended 31st March, 2016			Cr.
	Particulars	₹	Particulars	₹
To Salary			By Profit & Loss A/c (Profit for the year)	
A 600 x 12	7,200			1,72,000
B 400 x 12	<u>4,800</u>	12,000	By Interest on Drawings (4% on annual drawings)	
To Commission to C (5% on 1,60,000)		8,000	B 400	
To Interest on Capital:			C <u>600</u>	1,000
A	6,000			
B	12,000			
C	<u>18,000</u>	36,000		
To Profit transferred to :				
A's Current A/c	39,000			
B's Current A/c	39,000			
C's Current A/c	<u>39,000</u>	1,17,000		
		1,73,000		1,73,000

Note: Since 4% interest is to be charged on annual drawings, it will be charged for full year instead of six months.

SOLUTION: 13.

Dr.	PARTNER'S CAPITAL ACCOUNTS						Cr.		
Date	Particulars	A	B	C	Date	Particulars	A	B	C
2017		₹	₹	₹	2016		₹	₹	₹
Mar. 31	To Balance c/d	12,53,000	10,53,000	7,53,000	April 1	By Bank A/c	10,00,000	8,00,000	5,00,000
					2017	Mar. 31	By P&L Appr. A/c	2,53,000	2,53,000
		12,53,000	10,53,000	7,53,000				2,53,000	2,53,000
		12,53,000	10,53,000	7,53,000				12,53,000	10,53,000
									7,53,000

Dr.	B's LOAN ACCOUNT					Cr.
Date	Particulars	₹	Date	Particulars	₹	
2017 March 31	To Balance c/d	2,09,000	2016 July 1	By Bank A/c	2,00,000	
			2017 March 31	By Interest on Loan A/c	9,000	
		2,09,000			2,09,000	

Dr.	C's LOAN ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹
2017 March 31	To Balance c/d	1,02,000	2016 Dec. 1	By Bank A/c	1,00,000
			2017 March 31	By Interest on Loan A/c	2,000
		1,02,000			1,02,000

Working Notes:

(1) In the absence of agreement, Interest on Loan is to be paid @6% p.a. and profits will be shared equally.

₹

(2) Interest on B's Loan = $2,00,000 \times 6/100 \times 9/12 = 9,000$
 Interest on C's Loan = $1,00,000 \times 6/100 \times 4/12 = 2,000$
Total **11,000**

(3) Net Profit after interest on Loan = ₹7,70,000 – ₹11,000 = ₹7,59,000

(4) Each partner's share of profit = ₹7,59,000 ÷ 3 = ₹2,53,000

SOLUTION : 14.

PROFIT AND LOSS ACCOUNT

Dr. for the year ended 31st March, 2016 Cr.

Particulars	₹	Particulars	₹
To Interest on Mamta's Loan	4,800	By Profit before interest	2,26,440
To Profit transferred to Profit & Loss Appropriation A/c	2,21,640		
	2,26,440		2,26,440

PROFIT AND LOSS APPROPRIATION ACCOUNT Dr. for the year ended 31st March, 2016 Cr.

Particulars	₹	Particulars	₹
To Interest on Capital: Lata	21,000	By Profit & Loss A/c —	
Mamta	14,000	Net Profit	2,21,640
To Salary (Lata)	30,000	By Interest on Drawings :	
To General Reserve A/c	16,000	Lata	1,440
To Profit transferred to : Lata's Capital A/c	1,00,800	Mamta	1,920
Mamta's Capital A/c	43,200		3,360
	2,25,000		2,25,000

Notes: (1) Interest on Mamta's Loan has been calculated at 6% p.a.

(2) Interest on Drawings has been calculated for an average period of

6 months.

(3) Distributable Profit =

Total of Credit side	2,25,000
(-) Total of Debit side (35,000 + 30,000)	65,000
	1,60,000

General Reserve is 10% of 1,60,000 = **16,000**

SOLUTION : 15.

Case (a) PROFIT AND LOSS ACCOUNT

Dr. for the year ending on 31st March, 2016 Cr.

Particulars	₹	Particulars	₹
To Interest on Loan :		By Profit before interest	7,500
A 9,000		By Net Loss transferred to :	
B 4,500	13,500	A's Capital A/c 1,200	
		B's Capital A/c 1,800	
		C's Capital A/c 3,000	6,000
	13,500		13,500

Case (b)

PROFIT AND LOSS ACCOUNT

Dr. for the year ending on 31st March, 2016 Cr.

Particulars	₹	Particulars	₹
To Loss before interest	7,500	By Net Loss transferred to :	
To Interest on Loan:		A's Capital A/c 4,200	
A 9,000		B's Capital A/c 6,300	
B 4,500	13,500	C's Capital A/c 10,500	21,000
	21,000		21,000

Notes: (i) Interest on A's Loan = ₹2,00,000 x 6/100 x 9/12 = ₹9,000

Interest on B's Loan = ₹1,00,000 x 6/100 x 9/12 = ₹4,500

SOLUTION : 16.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ended 31st March, 2015 Cr.

Particulars	₹	Particulars	₹
To Interest on Capitals :		By Profit & Loss A/c	
P 40,000		Net Profit (₹7,60,000)	
Q 24,000	64,000	— Rent ₹2,40,000)	5,20,000
To Q's Salary	60,000		
To Commission: P 60,000			

Q	<u>16,000</u>	76,000		
To Profit transferred to				
P's Capital A/c	1,92,000			
Q's Capital A/c	<u>1,28,000</u>	3,20,000		
	<u>5,20,000</u>		<u>5,20,000</u>	

PARTNER'S CAPITAL ACCOUNTS			
Dr.		Cr.	
Date	Particulars	P	Q
2015		₹	₹
Mar. 31	To Drawings	40,000	30,000
Mar. 31	To Bal. c/d	7,52,000	4,98,000
	2014		
	By Bal. b/d	5,00,000	3,00,000
	Mar. 31		
	By Interest on Capital	40,000	24,000
	Mar. 31		
	By Salary	60,000	
	Mar. 31		
	By Commis- sion	60,000	16,000
	Mar. 31		
	By P & L App. A/c (Profit)	1,92,000	1,28,000
		7,92,000	5,28,000

Working Notes:

(1) Net Profit transferred from P & L A/c to P & L App. A/c
 $= ₹7,60,000 - \text{Rent } ₹2,40,000 = ₹5,20,000$

(2) Net Profit after deducting interest on capitals, salary and P's commission:
 $₹5,20,000 - ₹64,000 - ₹60,000 - ₹60,000 = 3,36,000$

Q's Commission = $3,36,000 \times 5/105 = 16,000$

(3) Rent will be credited to Rent Payable Account.

SOLUTION : 17.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. for the year ending on 31st March, 2016 Cr.

Particulars	₹	Particulars	₹
To Interest on Capital:		By Net Profit as per	
X 2/3 of 45,000 30,000		Profit & Loss A/c	45,000
Y 1/3 of 45,000 15,000	45,000		45,000
	45,000		45,000

Working Note:

Interest on X's Capital = 8% on ₹10,00,000	₹
	80,000
Interest on Y's Capital = 8% on ₹5,00,000	₹
	40,000
	<u>1,20,000</u>

Since available profit is only ₹45,000 which is less than appropriations of ₹1,20,000, profit will be distributed in the ratio of appropriations as follows :

Interest on Capital 80,000 : 40,000
or 2 : 1

SOLUTION : 18.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.	for the year ended 31st March, 2014		Cr.
Particulars	₹	Particulars	₹
To Transfer to Reserves	8,000	By Profit and Loss A/c 80,000	
To Interest on Capitals :		Less : Interest on Puja's	
Pooja	7,000	Loan (20,000 x 6/100	
Archna	3,000	x 5/12) 500	79,500
To Profit transferred to :		By Interest on drawings	
Pooja's Current A/c	41,280	Pooja 240	
Archna's Current A/c	20,640	Archna 180	420
	79,920		79,920

Dr.	CURRENT ACCOUNTS			Cr.	
Particulars	Pooja	Archna	Particulars	Pooja	Archna
1.4.2013	₹	₹	1.4.2013	₹	₹
To Balance b/d	—	23,000	By Balance b/d	5,000	—
31.3.2014			31.3.2014		
To Drawings	4,800	3,600	By Interest on Capital	7,000	3,000
To Interest on Drawings	240	180	By Profit and Loss		
To Balance c/d	48,240	—	Appropriation A/c	41,280	20,640
			By Balance c/d	—	3,140
	53,280	26,780		53,280	26,780

Note: Interest on Loan is not recorded in the Current Account.

Interest on Drawings

SOLUTION : 19 (A).

(i) SIMPLE METHOD

Date	Amount ₹	Period (Months upto March 31)	Interest @ 9% ₹
April 30	8,000	11	660
June 30	6,000	9	405
September 30	5,000	6	225
December 31	12,000	3	270
January 31	10,000	2	150
	41,000		1,710

(ii) PRODUCT METHOD			
Date	Amount ₹	Period (Months upto March 31)	Products
April 30	8,000	11	88,000
June 30	6,000	9	54,000
September 30	5,000	6	30,000
December 31	12,000	3	36,000
January 31	10,000	2	20,000
	41,000		2,28,000

$$\text{Interest} = \text{Total of Products} \times 9/100 \times 1/12 \\ = 2,28,000 \times 9/100 \times 1/12 = ₹1,710$$

SOLUTION : 19 (B).

(i) SIMPLE METHOD

Date	Amount ₹	Period (Months upto March 31)	Interest @ 10% ₹
1st June	1,000	10	83
1st August	750	8	50
1st October	1,250	6	63
1st December	500	4	17
1st February	500	2	8
	4,000		221

(ii) PRODUCT METHOD			
Date	Amount ₹	Period (Months upto March 31)	Products
1st June	1,000	10	10,000
1st August	750	8	6,000
1st October	1,250	6	7,500
1st December	500	4	2,000
1st February	500	2	1,000
	4,000		26,500

$$\text{Interest} = \text{Total of Products} \times 10/100 \times 1/12 \\ = 26,500 \times 10/100 \times 1/12 = ₹221$$

SOLUTION: 20 (A).

Gopal withdrew ₹1,000 p.m. regularly on the first day of every month during the year ended 31st March, 2014 for personal expenses. His interest on drawings will be calculated as follows:
 $12,000 \times 15/100 \times 6.5/12 = ₹975$

SOLUTION: 20 (B).

(i) The interest on drawings of X who draws at the beginning of every month is:

$$48,000 \times 9/100 \times 6.5/12 = ₹2,340$$

(ii) The interest on drawings of Y who draws at the end of every month is:

$$48,000 \times 9/100 \times 5.5/12 = ₹1,980$$

(iii) The interest on drawings of Z who draws in the middle of every month is:

$$48,000 \times 9/100 \times 6/12 = ₹2,160$$

SOLUTION : 21.

Case (i) Total Drawings for the year = ₹5,000 × 4 = ₹20,000

Average Period = (12 months + 3 months) ÷ 2 = 7.5 months

$$\text{Interest on Drawings} = ₹20,000 \times 8/100 \times 7.5/12 = ₹1,000$$

Case (ii) Total Drawings for the year = ₹6,000 × 4 = ₹24,000

Average Period = (9 months + 0 month) ÷ 2 = 4.5 months

$$\text{Interest on Drawings} = ₹24,000 \times 8/100 \times 4.5/12 = ₹720$$

Case (iii) Total Drawings for the year = ₹10,000 × 4 = ₹40,000

Average Period = (10.5 months + 1.5 months) ÷ 2 = 6 months

$$\text{Interest on Drawings} = ₹40,000 \times 8/100 \times 6/12 = ₹1,600$$

SOLUTION: 22.

Case (i) Average Period = (12 months + 1 month)/2 = 6 ½ months

$$\text{Interest on Drawings} = ₹48,000 \times 9/100 \times 6.5/12 = ₹2,340$$

Case (ii) Average Period = (11 months + 0 months)/2 = 5 ½ months

$$\text{Interest on Drawings} = ₹60,000 \times 9/100 \times 5.5/12 = ₹2,475$$

Case (iii) Assuming that the drawings were made in the middle of every month:

$$\text{Average Period} = (11.5 \text{ months} + 0.5 \text{ month})/2 = 6 \text{ months}$$

$$\text{Interest on Drawings} = ₹72,000 \times 9/100 \times 6/12 = ₹3,240$$

Case (iv) As the date of drawing is not given, interest will be calculated for an average period of 6 months.

$$\text{Interest on Drawings} = ₹72,000 \times 9/100 \times 6/12 = ₹3,240$$

Case (v)

Date	Amount of Drawings ₹	Period (Months upto 31st March, 2007)	Products ₹
30th April, 2015	10,000	11	1,10,000
1st July, 2015	15,000	9	1,35,000
1st Oct., 2015	18,000	6	1,08,000

30th Nov., 2015	12,000	4	48,000
31st March, 2016	20,000	0	—
			4,01,000

Interest on Drawings = ₹4,01,000 x 9/100 x 1/12 = ₹3,008

Case (vi) Average Period = = 7 ½ months

$$(12 \text{ months} + 3 \text{ months})/2$$

$$\text{Total Drawings for the year} = ₹12,000 \times 4 = ₹48,000$$

$$\text{Interest on Drawings} = ₹48,000 \times 9/100 \times 7.5/12 = ₹2,700$$

Case (vii) Average Period = (9 months + 0 month)/2 = 4 ½ months

$$\text{Total Drawings for the year} = ₹18,000 \times 4 = ₹72,000$$

$$\text{Interest on Drawings} = ₹72,000 \times 9/100 \times 4.5/12 = ₹2,430$$

Case (viii) Average Period = (10.5 months + 1.5 months)/2 = 6 months

$$\text{Total Drawings for the year} = ₹18,000 \times 4 = ₹72,000$$

$$\text{Interest on Drawings} = ₹72,000 \times 9/100 \times 6/12 = ₹3,240$$

SOLUTION : 23 (A).

Gupta withdraws ₹800 at the beginning of every month for the six months ending 30th September, 2013. Hence, his drawings for the period of six months would be:

$$\text{Total drawings} = 6 \times ₹800 = ₹4,800.$$

$$(\text{Time left after first drawing} + \text{Time left after last drawing})/2$$

$$= (6 + 1)/2 = 3.5 \text{ months.}$$

$$4,800 \times 15/100 \times 3.5/12 = ₹210$$

SOLUTION : 23 (B).

Gupta withdraws ₹800 at the end of every month for the six months ending 30th September, 2013.

$$\text{Total drawings} = 6 \times ₹800 = ₹4,800$$

$$(\text{Time left after first drawing} + \text{Time left after last drawing})/2$$

$$= (5 + 0)/2 = 2.5 \text{ months.}$$

$$4,800 \times 15/100 \times 2.5/12 = ₹150$$

SOLUTION : 23 (C).

$$\text{Total Drawings of A} = ₹15,000 \times 6 = ₹ 90,000$$

$$\text{Total Drawings of B} = ₹20,000 \times 6 = ₹1,20,000$$

$$\text{Total Drawings of C} = ₹25,000 \times 6 = ₹1,50,000$$

A

$$\text{Average Period} \quad (6+1)/2 = 3.5 \text{ months}$$

B

$$(5 + 0)/2 = 2.5 \text{ months}$$

C

$$(5.5 + 0.5)/2 = 3 \text{ months}$$

Interest on Drawings	$\frac{\text{₹}90,000 \times 10/100 \times 3.5/12}{= \text{₹}2,625}$	$\frac{\text{₹}1,20,000 \times 10/100 \times 2.5/12}{= \text{₹}2,500}$	$\frac{\text{₹}1,50,000 \times 10/100 \times 3/12}{= \text{₹}3,750}$
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SOLUTION : 24 (A).

Total Drawings = ₹10,000 × 9 months = ₹90,000

Average Period = (9 months + 1 month)/2 = 5 months

Interest on Drawings = ₹90,000 × 9/100 × 5/12 = ₹3,375

SOLUTION : 24 (B).

Total Drawings = ₹10,000 × 9 months = ₹90,000

Average Period = (8 months + 0 month)/2 = 4 months

Interest on Drawings = ₹90,000 × 9/100 × 4/12 = ₹2,700

SOLUTION : 24 (C).

Total Drawings = ₹10,000 × 9 months = ₹90,000

Average Period = (8.5 months + 0.5 month)/2 = 4.5 months

Interest on Drawings = ₹90,000 × 9/100 × 4.5/2 = ₹3,038

SOLUTION : 25.

Case (i) Interest on Drawings = ₹60,000 × 8/100 × 6/12 = ₹2,400

Case (ii) Since rate of interest is 8% and not 8% p.a. interest will be calculated for 12 months:

Interest on Drawings = ₹60,000 × 8/100 = ₹4,800

SOLUTION : 26.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.	For the year ended 31st March. 2014			Cr.
	Particulars	₹	Particulars	₹
To Salary to Amit	18,000	By Profit & Loss A/c		74,040
To Profits transferred to :		By Interest on Drawings :		
Amit's Current A/c	30,000	Amit	1,560	
Nami's Current A/c	20,000	Namit	1,320	
Ruchi's Current A/c	10,000	Ruchi	1,080	3,960
	60,000			
	78,000			78,000

Dr.	CURRENT ACCOUNTS						Cr.		
Date	Particulars	Amit	Namit	Ruchi	Date	Particulars	Amit	Namit	Ruchi
2013		₹	₹	₹	2013		₹	₹	₹
April 1	To Balance b/d	—	—	1,000	April 1	By Balance b/d	5,000	2,000	—
2014					2014				
March	To Dra-				March	By Salary	18,000	—	—

31	wings	24,000	24,000	24,000	31				
	To Interest on Dra-Wings(1)	1,560	1,320	1,080		By P & L Appropriation A/c			
	To Balance c/d	27,440	—	—		30,000	20,000	10,000	
		53,000	25,320	26,080		By Balance c/d	—	3,320	16,080
		53,000	25,320	26,080					

(1) Calculation of Interest on Drawings:

Amit withdraws on the First day of each month

$$24,000 \times 12/100 \times 6.5/12 = ₹1,560$$

Namit withdraws on the last date of each month

$$24,000 \times 12/100 \times 5.5/12 = ₹1,320$$

Ruchi withdraws at the end of each quarter:

$$\text{Average Period} = (9 \text{ months} + 0 \text{ month})/2 = 4.5 \text{ months}$$

$$\text{Interest on Drawings} = 24,000 \times 12/100 = ₹1,080$$

SOLUTION : 27.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 Jan. 1	Q's Capital A/c To Bank A/c (Withdrawal by 0 out of Capital)	Dr.	1,20,000	1,20,000
March 31	Profit and Loss A/c To Profit and Loss Appropriation A/c (The transfer of profit to Profit and Loss Appropriation A/c)	Dr.	4,30,000	4,30,000
March 31	Interest on Capital A/c To P's Capital A/c To Q's Capital A/c (Interest on partner's capitals)	Dr.	1,27,000	80,000 47,000
	Profit and Loss Appropriation A/c Dr. To Interest on Capital A/c (Transfer of interest on Capital to Profit and Loss App. A/c)		1,27,000	1,27,000
March 31	P's Capital A/c R's Capital A/c To Interest on Drawings A/c (Interest on partner's drawings)	Dr.	6,600 7,200	13,800
	Interest on Drawings A/c Dr. To Profit and Loss Appropriation A/c (Transfer of interest on drawings to Profit and Loss App. A/c)		13,800	13,800

March 31	Profit and Loss Appropriation A/c	Dr.	3,16,800
	To P's Capital A/c		1.05,600
	To Q's Capital A/c		1.05,600
	To R's Capital A/c		1.05,600
	(Transfer of profit to capital accounts)		

Dr.						PARTNER'S CAPITAL ACCOUNTS						Cr.	
Date	Particulars	P	Q	R	Date	Particulars	P	Q	R				
2015		₹	₹	₹	2015		₹	₹	₹				
Apr. 1	To Bal. b/d			20,000	Apr. 1	By Bal. b/d	8,00,000	5,00,000					
2016					2016								
Jan. 1	To Bank A/c		1,20,000		Mar. 31	By Int. on Capital A/c	80,000	47,000					
Mar. 31	To Drawings A/c	1,20,000		1,20,000	Mar. 31	By P&L App. A/c	1,05,600	1,05,600	1,05,600				
Mar. 31	To Int. on Drawings A/c	6,600		7,200	Mar. 31	By Bal. c/d				41,600			
Mar. 31	To Bal. c/d	8,59,000	5,32,600										
		9,85,600	6,52,600	1,47,200							9,85,600	6,52,600	1,47,200

Working Notes:

(1) Interest on Q's Capital:	₹
On ₹5,00,000 for 9 months : 5,00,000 x 10/100 x 9/12	37,500
On ₹3,80,000 for 3 months : 3,80,000 x 10/100 x 3/12	9,500
	<u>47,000</u>

(2) Interest on drawings:

P's Drawings : ₹10,000 x 12 = ₹1,20,000 x 12/100 x 5.5/12 = 6,600

R's Drawings : ₹1,20,000 x 12/100 x 6/12 = 7,200

Note : In the absence of actual dates of drawings of/? , interest thereon has been calculated for the average period i.e. 6 months.

(3) Divisible Profit =

₹4,30,000 – Interest on Capital ₹1,27,000 + Interest on Drawings ₹13,800 = ₹3,16,800
Each Partner's share = ₹3,16,800 ÷ 3 = ₹1,05,600

SOLUTION : 28.

**Books of Active, Blunt and Circle
Profit & loss Appropriation A/c**

Dr.	for the year ended 31st March, 2015			Cr.	
Particulars		₹	Particulars		₹
To Interest on Capital :			By Profit & Loss A/c (Net Profit for the year)		
Active	27,000				5,93,120
Blunt	36,000		By Interest on Drawings :		
Circle	21,000	84,000	Active 60,000 x 6/100 x 6.5/12 = 1,950		
To Salary' :			Blunt 84,000 x 6/100 x 5.5/12 = 2,310		
Blunt	72,000		Circle 80,000 x 6/100 x 6/12 = 2,400		6,660
Circle	48,000	1,20,000			
To Commission (Note 1)					
Blunt	17,990				
Circle	17,990	35,980			
To Profit Transferred to :					
(Note 2)					
Active's Current A/c	1,34,900				
Blunt's Current A/c	1,04,967				
Circle's Current A/c	1,19,933	3,59,800			
		5,99,780			5,99,780

Dr.	PARTNERS CURRENT ACCOUNTS								Cr.
Particulars	Active	Blunt	Circle	Particulars	Active	Blunt	Circle		
To Drawings	₹ 60,000	₹ 84,000	₹ 80,000	By Int. on Capital					
To Int. on Drawings	1,950	2,310	2,400	By Salary	27,000	36,000	21,000		
To Bal. c/d	99,950	1,44,647	1,24,523	By Commission					
				By P & L App. A/c	1,34,900	72,000	48,000		
	1,61,900	2,30,957	2,06,923		17,990	17,990			
					1,34,900	1,04,967	1,19,933		
					1,61,900	2,30,957	2,06,923		

Working Note:

(1) Balance of Profit: ₹5,93,120 + 6,660 – 84,000 – 1,20,000 = ₹3,95,780

Commission to Blunt and Circle is 5% to each partner after charging such commission. Hence, the commission will be 5/110 to each partner.

Commission to Blunt = 3,95,780 x 5/110 = ₹17,990

Commission to Circle = 3,95,780 x 5/110 = ₹17,990

Divisible Profit: ₹3,95,780 – 17,990 – 17,990 = ₹3,59,800

	Active ₹	Blunt ₹	Circle ₹
Upto ₹2,70,000	90,000	90,000	90,000
Equally ₹3,59,800 – 2,70,000 = ₹89,800 in 1/2 : 1/6 : 1/3	44,900	14,967	29,933
	1,34,900	1,04,967	1,19,933

SOLUTION : 29.

Interest on Capitals:

$$A = ₹3,00,000 \times 10\% = ₹30,000$$

$$B = ₹2,00,000 \times 10\% = ₹20,000$$

A			
Date	Amount ₹	Period	Products ₹
30. 6.2012	20,000	9 months	1,80,000
31. 7.2012	10,000	8 months	80,000
1.10.2012	10,000	6 months	60,000
1. 3.2013	16,000	1 month	16,000
Total			3,36,000

A's Interest on Drawing = Total of Products/12 x Rate of Interest/100

$$A = 3,36,000/12 \times 10/100 = ₹2,800$$

B's Interest on Drawings = B withdraws ₹6,000 at the end of each month thus interest on his drawings would be :

$$72,000 \times 10/100 \times 5.5/12 = ₹3,300$$

Interest on Capital

SOLUTION : 30.

Case (i)

Dr.	PROFIT AND LOSS APPROPRIATION A/C		Cr.
Particulars	₹	Particulars	₹
To Profit transferred to :		By Profit & Loss A/c (Profit for the year)	
X 2/3	6,000		9,000
Y 1/3	3,000		9,000
	9,000		9,000

Case (ii)

Dr.	PROFIT AND LOSS APPROPRIATION A/C			Cr.
	₹		₹	
To Profit & Loss A/c (Loss for the year)	6,000	By Loss transferred to :		
		X 2/3 4,000		
		Y 1/3 2,000		
	6,000		6,000	

Case (iii)

Dr.	PROFIT AND LOSS APPROPRIATION A/C			Cr.
	₹		₹	
To Interest on Capital :		By Profit & Loss A/c		
X 3,000		(Profit for the year)	9,000	
Y 1,800	4,800			
To Profit transferred to :				
X 2/3 2,800				
Y 1/3 1,400	4,200			
	9,000		9,000	

Case (iv)

Dr.	PROFIT AND LOSS APPROPRIATION A/C			Cr.
	₹		₹	
To Interest on Capital:		By Profit & Loss A/c		
X 3,000 x 5/8	1,875	(Profit for the year)	3,000	
Y 3,000 x 3/8	1,125			
	3,000		3,000	

Note : The available profit is ₹3,000 whereas the interest due on capitals is ₹4,800 {i.e., ₹3,000 + ₹1,800}. Since the profit is less than the interest, the available profit will be distributed in the ratio of interest i.e., 3,000 : 1,800 or 5 : 3.

Case (v)

Dr.	PROFIT AND LOSS A/C*			Cr.
	₹		₹	
To Interest on Capital :		By Profit & Loss A/c		
X 3,000		(Profit for the year)	3,000	
Y 1,800	4,800	By Loss transferred to :		
		X 2/3 1,200		
		Y 1/3 600	1,800	

4,800	4,800
-------	-------

*Since Interest on Capital is to be allowed even if firm incurs loss, it is debited to P&L A/c and not to P&L Appropriation A/c.

SOLUTION : 31.

(Case I)

Dr.	PROFIT AND LOSS APPROPRIATION A/C		Cr.
Particulars	₹	Particulars	₹
To Interest on Capital		By Profit & Loss Account	42,000
A 42,000 x 4/7	24,000		
B 42,000 x 3/7	18,000		
	42,000		42,000

Note: The available profit is ₹42,000 whereas the interest due on capitals is ₹56,000 (i.e., ₹32,000 + ₹24,000). Since the profit is less than the interest, the available profit will be distributed in the ratio of interest i.e., 32,000 : 24,000 or 4 : 3.

(Case II)

Dr.	PROFIT AND LOSS A/C		Cr.
Particulars	₹	Particulars	₹
To Interest on Capital		By Profit & Loss Account	42,000
A 32,000		Account By Loss Transferred to :	
B 24,000	56,000	A 3/5 8,400	14,000
	56,000	B 2/5 5,600	56,000

SOLUTION : 32.

In the Books of Brij and Nandan PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.	for the year ended 31st March, 2014		Cr.
Particulars	₹	Particulars	₹
To Interest on Capital		By Profit & Loss A/c	2,00,000
Brij's Capital A/c		(Net Profit)	
2,00,000 x 2/5 = 80,000			
Nandan's Capital A/c			
2,00,000 x 3/5 = 1,20,000	2,00,000		
	2,00,000		2,00,000

Working Notes:

Interest on capital of Brij = ₹1,20,000

Interest on capital of Nandan = ₹1,80,000

3,00,000

The available profit is ₹2,00,000, whereas interest due on capitals is ₹3,00,000. Since the profit is less than interest, the available profit will be distributed amongst the partners in the ratio of their interest on capital i.e., 1,20,000 : 1,80,000 or 12 : 18 or 2 : 3.

SOLUTION : 33.

Case (i)

Dr.	PROFIT AND LOSS ACCOUNT		Cr.
	₹	Particulars	₹
To Interest on Capital :		By Profit before interest	
Kavita	48,000		1,10,000
Leela	32,000		
To Profit transferred to Profit & Loss App. A/c	80,000 30,000		
			1,10,000
			1,10,000

Dr.	PROFIT AND LOSS APPROPRIATION ACCOUNT		Cr.
	₹	Particulars	₹
To Profit transferred to :		By Profit & Loss A/c	
Kavita's Capital A/c (2/3)	20,000		30,000
Leela's Capital A/c (1/3)	10,000	30,000	
			30,000
			30,000

Case (ii)

Dr.	PROFIT AND LOSS ACCOUNT		Cr.
	₹	Particulars	₹
To Interest on Capital:		By Profit before interest	
Kavita	48,000	By Loss transferred to :	
Leela	32,000	Kavita's Capital A/c (2/3)	35,000
	80,000	Leela's Capital A/c (1/3)	30,000
			15,000
			45,000
			80,000

Case (iii)

Dr.	PROFIT AND LOSS ACCOUNT		Cr.
	₹	Particulars	₹
To Loss before interest	10,000	By Loss transferred to :	
To Interest on Capital: Kavita		Kavita's Capital A/c (2/3)	60,000
	48,000		

Leela	32,000	80,000	Leela's Capital A/c	30,000	90,000
			(1/3)		
		90,000			90,000

SOLUTION : 34.

**In the books of Lalan & Balan
PROFIT AND LOSS ACCOUNT**

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Interest on Capital*		By Profit before Interest	30,000
Lalan's Current A/c 12,000		By Profit and Loss Appropriation	
Balan's Current A/c 24,000	36,000	A/c (Loss transferred)	6,000
	36,000		36,000

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Profit & Loss A/c (Loss transferred)		By Interest on Drawings : Lalan's Current A/c 225 Balan's Current A/c 375	600
	6,000	By Net Loss transferred to : Lalan's Current A/c 3,240 Balan's Current A/c 2,160	5,400
	6,000		6,000

Note: As the time period of drawings is not given, the interest will be charged for 6 months

Lalan : $3,000 \times 15/100 \times 6/12 = ₹225$

Balan : $5,000 \times 15/100 \times 6/12 = ₹375$

*Since Interest on Capital is to be allowed even if firm incurs loss, it is debited to P&L A/c and not to P&L Appropriation A/c.

SOLUTION 35

Ratio of effective capital will be calculated as

under:—

X: ₹90,000 for 6 months

₹60,000 for 6 months

Products

5,40,000

3,60,000

9,00,000

Y: ₹75,000 for 4 months

3,00,000

₹90,000 for 4 months

3,60,000

₹60,000 for 4 months

2,40,000

9,00,000

Z : ₹75,000 for 7 months

5,25,000

₹1,35,000 for 5 months	6,75,000
	<u>12,00,000</u>

Thus the profit sharing ratio would be:

9,00,000 : 9,00,000 : 12,00,000 or 3 : 3 : 4

Dr.	PROFIT AND LOSS APPROPRIATION ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Profits transferred to :		By Profit & Loss A/c	42,000
X 12,600			
Y 12,600			
Z 16,800	42,000		
	42,000		42,000

Adjustment in the Closed Accounts

SOLUTION : 36 (A).

	₹
Interest on A's Capital of ₹8,00,000 @ 8%	64,000
Interest on B's Capital of ₹4,00,000 @ 8%	32,000
Interest on C's Capital of ₹3,00,000 @ 8%	24,000
Total Interest to be allowed	<u>₹ 1,20,000</u>

This amount of ₹1,20,000 is an item of expense for the firm but this has not been recorded on the debit side of P & L Appropriation A/c of the previous year. As such the profit of the previous year will be reduced by this amount. Hence, this loss of ₹1,20,000 will be shared by the partners in their profit sharing ratio, i.e.. 2:1:1

$$A = ₹1,20,000 \times 2/4 = ₹60,000$$

$$B = ₹1,20,000 \times 1/4 = ₹30,000$$

$$C = ₹1,20,000 \times 1/4 = ₹30,000$$

TABLE SHOWING ADJUSTMENT

Partner	Adjustment		Difference	
	Dr.	Cr.	Dr.	Cr.
A	60,000	64,000		4,000
B	30,000	32,000		2,000
C	30,000	24,000	6,000	

JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	C's Capital A/c Dr. To A's Capital A/c To B's Capital A/c (Adjustment in respect of interest on capital omitted in previous year's accounts)		6,000 4,000 2,000	

SOLUTION: 36 (B).

A's Interest on Capital = ₹1,20,000 x 5/100 = ₹6,000

B's Interest on Capital = ₹70,000 x 5/100 = ₹3,500

C's Interest on Capital = ₹50,000 x 5/100 = ₹2,500

TABLE SHOWING ADJUSTMENT

Partner	Adjustment		Difference	
	Dr.	Cr.	Dr.	Cr.
A	5,000	6,000		1,000
B	4,000	3,500	500	
C	3,000	2,500	500	

JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 March, 31	B's Capital A/c C's Capital A/c To A's Capital A/c (Adjustment in respect of interest on capital omitted in previous year's accounts)	Dr. Dr.	500 500	1,000

SOLUTION : 37.

₹

A 8% on ₹4,00,000 for 2 years = 64,000

B 8% on ₹6,00,000 for 2 years = 96,000

C 8% on ₹8,00,000 for 2 years = 1,28,000

2,88,000

TABLE SHOWING ADJUSTMENT

	A	B	C	Total
Interest on Capital (Cr.)	₹ 64,000	₹ 96,000	₹ 1,28,000	2,88,000
Division of ₹2,88,000 in profit sharing ratio i.e. 1 : 2 : 3 (Dr.)	48,000	96,000	1,44,000	2,88,000
Difference	(Cr.) 16,000	—	(Dr.) 16,000	—

JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 March 31	C's Current A/c Dr. To A's Current A/c (Omission of interest on Capital for 2 years rectified)		16,000	16,000

SOLUTION: 38.

Interest charged	on A's drawings	=	₹8,000
Interest charged	on B's drawings	=	₹6,000
Interest charged	on C's drawings	=	₹4,000
			₹ 18,000

This amount of ₹18,000 is an item of income for the firm but this has not been recorded on the credit side of P & L Appropriation A/c of the previous year. As such the profit of the previous year will now be increased by this amount. Hence, this profit of ₹18,000 will be shared by the partners in their profit sharing ratio of 5 : 3 : 1 which amounts to A ₹10,000, B ₹6,000 and C ₹2,000.

TABLE SHOWING ADJUSTMENTS

Partner	Adjustment		Difference	
	Dr.	Cr.	Dr.	Cr.
A	8,000	10,000		2,000
B	6,000	6,000		
C	4,000	2,000	2,000	

JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	C's Capital A/c Dr. To A's Capital A/c (Adjustment for omission of interest on drawings)		2,000	2,000

SOLUTION: 39.

Calculation of Interest on Drawings :

	₹
A : 6% on ₹20,000 for 6 months	600
B : 6% on ₹24,000 for 6 months	720
C : 6% on ₹32,000 for 6 months	960
D : 6% on ₹44,000 for 6 months	<u>1,320</u>
	<u><u>3,600</u></u>

TABLE SHOWING ADJUSTMENT

	A	B	C	D	Total
Interest on Drawings (Dr.)	₹ 600	₹ 720	₹ 960	₹ 1,320	3,600
Division of 3,600 in 2 : 2 : 3 : 3					
(Cr.)	720	720	1,080	1,080	3,600
Difference	Cr. 120	—	Cr. 120	Dr. 240	—

JOURNAL ENTRY

Date	Particulars	LF.	Dr.(₹)	Cr.(₹)
	D's Capital A/c Dr.		240	
	To A's Capital A/c			120
	To C's Capital A/c			120
	(Omission of interest on drawings, now rectified)			

SOLUTION : 40.

A's Drawings = ₹50,000 x 12 = ₹6,00,000

Interest on A's Drawings will be charged for 6.5 months

6,00,000 x 12/100 x 6.5/12 = ₹39,000

TABLE SHOWING ADJUSTMENT

	A	B	Total
Interest on Drawings (Dr.)	₹ 39,000	₹	39,000
Division of ₹39,000 in 2 : 1 (Cr.)	26,000	13,000	
Difference	Dr. 13,000	Cr. 13,000	39,000

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	A's Capital A/c Dr. To B's Capital A/c (Adjustment of Omission of interest on A's		13,000	
				13,000

	drawings)			
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SOLUTION : 41.

TABLE SHOWING ADJUSTMENT

	Anil	Sunil	Sanjay	Total
	Cr. (₹)	Cr. (₹)	Cr. (₹)	(₹)
Interest on Capitals @ 10% p.a.				
I) for the year ended 31st March 2015	80,000	70,000	30,000	1,80,000
II) for the year ended 31st March 2016	80,000	70,000	30,000	1,80,000
Total Amount Payable (Cr.)	1,60,000	1,40,000	60,000	3,60,000
Division of Firm's loss will be as under :	Dr. (₹)	Dr. (₹)	Dr. (₹)	(₹)
I) for the year ended 31st March 2015 in the ratio of 4 : 3 : 2	80,000	60,000	40,000	1,80,000
II) for the year ended 31st March 2016 in the ratio of 3 : 2 : 1	90,000	60,000	30,000	1,80,000
Total Loss (Dr)	1,70,000	1,20,000	70,000	3,60,000

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Anil's Current A/c Dr.		10,000	
	Sanjay's Current A/c Dr.		10,000	
	To Sunil's Current A/c			20,000
	(Adjustment for the omission of two years' interest on capitals)			

SOLUTION : 42.

TABLE SHOWING ADJUSTMENTS

	P	Q	R	Total
	₹	₹	₹	₹
Interest on Capitals @ 12% p.a.	6,000	3,600	2,400	12,000
Salary to Partners	6,000	—	12,000	18,000
Total Amount Payable (Cr.)	12,000	3,600	14,400	30,000
Division of firm's loss of ₹30,000 in 2 : 1 : 1 (Dr.)	15,000	7,500	7,500	30,000
Net Effect	(Dr.) 3,000	(Dr.) 3,900	(Cr.) 6,900	

JOURNAL ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2011 April 1	P's Capital A/c Dr. Q's Capital A/c Dr. To R's Capital A/c (Adjustment for the omission of interest on capitals and salary)		3,000 3,900	6,900

SOLUTION : 43 (A)

TABLE SHOWING ADJUSTMENTS

	A	B	Total
	₹	₹	₹
Interest on Capital (Cr.)	48,000	24,000	72,000
Commission due to B	—	20,000	20,000
Salary to A	50,000	—	50,000
	98,000	44,000	1,42,000
Less : Interest on Drawings (Dr.)	12,000	10,000	22,000
	(Cr.) 86,000	34,000	1,20,000
Division of Firm's loss of ₹1,20,000 in 2 : 1 (Dr.)	80,000	40,000	
	(Cr.) 6,000	(Dr.) 6,000	—

Adjustment Entry:—

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
10th April, 2016	B's Capital A/c Dr. To A's Capital A/c (Adjustment for omissions)		6,000	6,000

SOLUTION : 43 (B)

TABLE SHOWING ADJUSTMENTS

	Kumar	Raja	Total
	₹	₹	₹
Interest on Capital (Cr.)	81,000	36,000	1,17,000
Salary (Cr.)	50,000	36,000	86,000
	1,31,000	72,000	2,03,000
Division of firm's loss of ₹2,03,000 in 7 : 3(Dr.)	1,42,100	60,900	2,78,000
Net Effect	(Dr.) 11,100	(Cr.) 11,100	—

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2007 March 31	Kumar's Current A/c Dr. To Raja's Current A/c (Adjustment for omission of interest on capital and salary)		11,100	11,100

SOLUTION : 44.

TABLE SHOWING ADJUSTMENT

	A	B	C	Total
Salary	₹	₹	₹	₹
Interest on Capital	24,000	15,000	6,000	45,000
Total amount payable (Cr.)	24,000	75,000	46,000	1,45,000
Division of firm's loss of ₹ 1,45,000 in 2 : 2 : 1 (Dr.)	58,000	58,000	29,000	1,45,000
	(Dr.)	(Cr.)	(Cr.)	
	34,000	17,000	17,000	
Adjustment for Manager's Commission : 10/110 of ₹2,20,000 = ₹20,000 in 2:2:1	(Dr.) 8,000	(Dr.) 8,000	(Dr.) 4,000	20,000
Net Effect	(Dr.) 42,000	(Cr.) 9,000	(Cr.) 13,000	(Cr.) 20,000

RECTIFYING ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	A's Current A/c Dr.		42,000	
	To B's Current A/c			9,000
	To C's Current A/c			13,000
	To Manager's Commission Outstanding A/c			20,000
	(Adjustment for omissions of salary, interest on capitals and manager's commission)			

SOLUTION : 45.

TABLE SHOWING ADJUSTMENTS

	Suresh	Ramesh	Total
Interest on Capital (Cr.)	₹ 45,000	₹ 30,000	₹ 75,000
Salary (Cr.)	60,000	24,000	84,000
Profit remaining after allowing interest on capital and salary' will be ₹2,34,000 – ₹75,000 – ₹84,000 = ₹75,000. It will be divided in their profit sharing ratio, i.e. 3 : 2	45,000	30,000	75,000
Net amount which should have been received (Cr.)	1.50,000	84,000	2,34,000

Less : Profit already distributed equally (Dr.)		1,17,000	1.17,000	2,34,000
	Net Effect	(Cr.) 33,000	(Dr.) 33,000	

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2007 March 3	Ramesh's Current A/c Dr. To Suresh's Current A/c		33,000	
1	(Adjustment for interest on Capital, salary and wrong distribution of profit)			33,000

SOLUTION : 46.

STATEMENT OF ADJUSTMENT

	A	B	C	Total
Salary to C	₹ —	₹ —	₹ 1,20,000	₹ 1,20,000
Interest on Capitals @ 5% p.a.	25,000	12,500	12,500	50,000
Balance profit i.e. ₹3,30,000 – ₹1,20,000 – ₹50,000 = ₹1,60,000 distributed among partners in the ratio of 2 : 1 : 1	80,000	40,000	40,000	1,60,000
Net amount which should have been received (Cr.)	1,05,000	52,500	1,72,500	3,30,000
Less : Profit already distributed (Dr.)	1,10,000	1,10,000	1,10,000	3,30,000
	(Dr.) 5,000	(Dr.) 57,500	(Cr.) 62,500	
Net Effect				

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2016 March 31	A's Capital A/c Dr. B's Capital A/e Dr. To C's Capital A/c (Adjustment for the omission of Salary and interest on Capital)		5,000 57,500	62,500