NCERT SOLUTIONS

CLASS - 12th

Class : 12th

Subject : Accountancy

Chapter : 2

Chapter Name : Accounting for partnership: Basic concept

Q1 Define Partnership Deed.

Answer. It is a legal agreement among all the partners of the firm. It is a written agreement in which all the details of partnership are mentioned like share of each partner in profit, Interest on drawing or capital or loan, etc. In general we have following details written in the partnership deed:

- Goal of business.
- Correspondence details of the firm
- Details of all partners
- Sharing ratio of profit and loss with the firms
- Capital investment by each partner
- Responsibilities of partners
- Time period of partnership
- Interest rate on capital, loans etc.

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Q2 Why it is considered desirable to make the partnership agreement in writing.

Answer. It is not mandatory that the partnership agreement should be in written. It can be oral also. According to the Partnership Act, 1932 it is not mandatory to make partnership deed in written. However it is recommended to make partnership deed in written as it helps in many situations since in case any dispute arises among the partners then in that situation the partners can settle the dispute by changing the agreement with the consent of all the partners. The partners can also use partnership agreement in the court as a valid evidence in case of any dispute.

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Q3 List the items which may be debited or credited in the capital accounts of the partners when:

(i) Capitals are fixed

(ii) Capitals are fluctuating

Answer. (i) When Capitals are fixed

The following items are credited when capital accounts are fixed.

- Additional capital introduced by partners during an accounting year
- Opening balance of capital

The following items are debited when capital accounts are fixed.

- Closing balance of capital
- Part of capital withdrawn by partners.

(ii) When Capitals are fluctuating

The following items are credited when capital accounts of the partners are fluctuating.

- Additional capital introduced by partners during an accounting year.
- Share of profit of every partner.
- Opening balance of capital.
- Commission and bonus to the partners
- Interest on capital
- Salaries to the partners

The following items are debited when capital accounts are fluctuating.

- Closing balance of capital.
- Drawings made by partners during the accounting period
- Share of loss.
- Interest on drawings.

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Q4 Why is Profit and Loss Adjustment Account prepared? Explain.

Answer. We prepare profit & loss adjustment A/c mainly for two reasons:

- For rectifying errors - After preparing P&L A/c and balance sheet, if there is any error that came into notice, then these errors are to be rectified in the Profit & loss adjustment A/c without altering previous Profit & loss A/c.

- Distribution of profit or losses-This Account is often used for distribution of profit and loss among the partners. Sometimes profit & loss adjustment A/c is used instead of profit & loss appropriation A/c. The main reason to prepare this account is to ascertain correct profit or loss that occurred during the accounting year.

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Q5 Give two circumstances under which the fixed capitals of partners may change.

Answer. The following are the two circumstances under which the fixed capitals of partner may change.

- If a partner withdraws any part or whole amount of his capital during the year.
- If a partner introduces fresh capital in the business during the year.

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Q6 If a fixed amount is withdrawn on the first day of every quarter, for what period the interest on total amount withdrawn will be calculated?

Answer. Suppose if we withdraw a fixed amount on the very first day of every quarter, then the interest is calculated for a period of $7\frac{1}{2}$ year. $7\frac{1}{2}$ year.

For example: If Partner A withdraws Rs. 4000 on the first day of every quarter and the interest rate is 5%, then interest on drawing is calculated as:

Drawing made by the A during the whole year=$16,000\,(4,000\times 4)$ $16,000\,(4,000\times 4)$

Interest on drawing $=16,000\times\frac{5}{100}\times\frac{5}{100}\times\frac{7\frac{1}{2}}{12}=500$ $=16,000\times\frac{5}{100}\times\frac{5}{100}\times\frac{7\frac{1}{2}}{12}=500$

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Q7 In the absence of partnership deed, specify the rules relating to the following:

(i) Sharing of profits and losses.

(ii) Interest on partner's capital.

(iii) Interest on Partner's drawings.

(iv) Interest on Partner's loan

(v) Salary to a partner.

Answer. (i) Sharing of profits and losses: If there is no clause in the partnership deed regarding the distribution of profit or losses between the partners of a firm, then according to the Partnership Act, 1932, profits and losses are to be shared equally by all the partners of the firm.

(ii) Interest on partner's capital: If there is no clause in the partnership deed regarding the interest on capital, then according to the Partnership Act, 1932, no interest on capital should be given to the partners.

(iii) Interest on partner's drawings:If there is no clause in the partnership deed regarding the interest on drawings, then according to the Partnership Act, 1932, no interest on drawing should be charged from the partners.

(iv) Interest on partner's loan: If there is no clause in the partnership deed regarding the interest on partner's loan, then according to the Partnership Act, 1932, the partners will get interest on loan @ 6% p.a. on the amount of loan provided by them to the firm.

(v) Salary to a partner: If there is no clause in the partnership deed regarding the salary to be provided to the partners, then according to the Partnership Act, 1932, no salary or remuneration should be given to any partner.

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Q1 What is partnership? What are its chief characteristics? Explain.

Answer. According to the Partnership Act, 1932, partnership is an agreement between two or more persons who have agreed to share profits or losses of an organisation that will be carried by every partner or by any one partner from them acting for all.

Person who come together to start and run the business are called 'partners' individually and 'firm' collectively and the name on which they execute their business is known as 'firm name'.

The following are the characteristics of partnership.

- Partnership Deed: The partnership among the partners should be governed by a partnership deed. A partnership deed is an agreement among the partners containing the necessary provisions for conducting the business of the firm. The deed may be oral or written.

- Mutual agency: Partnership may be carried on by all partners or any one of the partner acting on behalf of all. It means that all the partners of a firm are equally entitled to participate in the activities of the business or any one of them who is acting on behalf of all. Every partner binds other partners by his acts and thus acts as their agent. Similarly, other partners bind him by their acts and thus he acts as the principal.
- Two or more persons: A partnership can be formed by the association of at least two persons. According to the Partnership Act, 1932, there can be any number of partners in the partnership, but as per the Rule (10) of the Companies (Miscellaneous) Rules Act 2014, there can be atmost 50 partners in a firm. As per the Section 464 of Companies Act 2013, the maximum number of partners allowed are one hundred.
- Liability: Liability of a partnership firm is unlimited and each partner is liable for the firm's liabilities whether individually and jointly with other partners to the third party. Moreover, each partner along with his/her co-partners is responsible for all the acts of the partnership firm.
- Sharing of profits : In case their is no partnership deed among the partners, then the profit or loss earned by a partnership firm must be distributed equally among the partners. In case their is a deed then the profits or losses will be distributed as per the partnership deed. Any association formed for the purpose of charity will not be considered as partnership as it is not formed for earning profits.
- Business: A partnership is formed to carry out a legal business. Any partnership formed for carrying out illegal activities like black marketing, smuggling etc. will not constitute a legal business or partnership.

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Q2 Discuss the main provisions of the Indian Partnership Act, 1932 that are relevant to partnership accounts if there is no partnership deed.

Answer. These are the main provisions of the Indian Partnership Act, 1932 relevant to the partnership accounts in the absence of partnership deed.

- Interest on Drawings:If there is no clause in the partnership deed regarding the interest on drawings, then no interest should be charged from the partners on the amount withdrawn by them out of their capital as drawings.
- Salary to Partner: If their is no clause in the partnership deed regarding the salary to be given to partners, then no salary should be provided.
- Interest on Partner's Loan: If their is no clause in the partnership deed regarding interest on partner's loan, then according to the Partnership Act, 1932, the partners will get interest on loan @ 6% p.a. on the amount of loan provided by them to the firm.
- Interest on Capital: If their is no clause in the partnership deed regarding the interest on partner's capital, then according to the Partnership Act, 1932, no interest on capital should be given to the partners of the firm. In case the partners mutually agree to provide interest on capital out of their profits, then it can be given at an agreed rate.

- Profit Sharing Ratio: If their is no clause in the partnership deed regarding sharing of profit or losses among the partners, then according to the Partnership Act of 1932, then the profits or losses of the firm must be distributed equally among the partners.

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Q3 Explain why it is considered better to make a partnership agreement in writing.

Answer. A partnership deed forms the basic of a partnership firm. A partnership deed contains all the terms and conditions that are agreed by all the partners while forming the partnership. Mainly these details are included in a partnership deed.

- Name and address of the firm
- Profit and loss sharing ratio
- Contribution to capital by each partner
- Rate of interest on capital, drawings and loans
- Name and address of all partners
- Duration of partnership
- Objective of business of the firm
- Salaries, commission, if payable to partners.
- Rights, types of roles and duties of partners

However, it is not mandatory to have the partnership agreement in written. It can be oral also. But it is recommended to have partnership deed in written as it helps in solving disputes between the partners. The partners can also settle the disputes by changing the agreement with the consent of all the partners. It can also be used in the court as a valid evidence in case any dispute arises.

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Q4 Illustrate how interest on drawings will be calculated under various Conditions.

Answer. When any partner withdraw an amount in cash or in any other form, from the firm for personal use, then it is known as drawings. The interest on drawing is interest charged by the firm on that drawings. There are various methods to calculate interest on drawings .However the method to calculate interest on drawings depends on the information given for time and frequency of the drawings made by the partner. These are the following Conditions of drawings:

Condition 1: When information about Date, Amount and Rate of Interest on drawings are given.

If a partner withdrew Rs1,000 on Jan 01 and interest on drawing is charged at 10% p.a. and the firm closes its books on December 31 every year then interest of drawings amounts to Rs 100

Interest on drawings =Total amount $\times \frac{Rate of interest}{100} \times \frac{Periods}{12}$ $\times \frac{Rate of interest}{100} \times \frac{Periods}{12}$

Interest on drawings $= 1,000 \times \frac{10}{100} \times \frac{12}{12} = Rs.100 = 1,000 \times \frac{10}{100} \times \frac{12}{12} = Rs.100$

Condition 2: When information of only Amount and Rate of Interest on drawings is given

Case I: If the Amount and Rate of Interest on drawings (per annum) is given but date is not mentioned

If the information of the amount of drawings and rate of interest of drawings (p.a.) is given but the date of drawings is not provided then interest is charged on 6 months.

Example- If a partner withdrew Rs 20,000 and rate of interest on drawings is 15% p.a. then the interest of drawings amounts to Rs 1500

Interest on drawings $= 20,000 \times \frac{15}{100} \times \frac{6}{12} = 1500 = 20,000 \times \frac{15}{100} \times \frac{6}{12} = 1500$

Case II: If the Rate of Interest on drawings and Amount is given but the date and per annum rate of interest is not mentioned

If the date and the rate of interest are given but per annum is not specified, interest is charged for the whole year.

Example- If a partner withdrew Rs 10,000 and interest rate is 15% , then the interest on drawings amounts to Rs 1,500.

Interest on drawings $= 10,000 \times \frac{15}{100} = Rs.1,500 = 10,000 \times \frac{15}{100} = Rs.1,500$

Condition 3: When any partner withdraws fixed amount at regular interval

Case I: If any partner withdraws fixed amount at the beginning of each month, then the interest is calculated for 6.5 months.

Example- If a partner withdraws Rs 2,000 in the beginning of every month and the rate of interest is 10% p.a., then the interest on drawings amount to Rs 1350.

Interest on drawings $= 24,000 \times \frac{10}{100} \times \frac{6.5}{12} = 1350 = 24,000 \times \frac{10}{100} \times \frac{6.5}{12} = 1350$

Case II: If any partner withdraws fixed amount at the end of each month, then the interest is calculated for 5.5 months

Example- If a partner withdraws Rs 2,000 at the end of each month and rate of interest is 10% p.a., then the interest on drawings amount to Rs 1100.

Interest on drawings $= 24,000 \times \frac{10}{100} \times \frac{5.5}{12} = Rs.1100 = 24,000 \times \frac{10}{100} \times \frac{5.5}{12} = Rs.1100$

Case III: If any partner withdraws fixed amount in the middle of every month then interest on drawings is calculated for 6 months

Example- If a partner withdraws Rs 2,000 on 15th of every month and the rate of interest is 10% p.a., then the interest on drawings amount to Rs 1200.

Interest on drawings $= 24,000 \times \frac{10}{100} \times \frac{6}{12} = Rs.1200 = 24,000 \times \frac{10}{100} \times \frac{6}{12} = Rs.1200$

Case IV: If any partner withdraws fixed amount in the beginning of every quarter then the interest is calculated for 7.5 months

Example- If a partner withdraws Rs 6,000 in the beginning of every quarter and the rate of interest is 10% p.a. then the interest on drawings amount to Rs 1500

Interest on drawings $= 24,000 \times \frac{10}{100} \times \frac{7.5}{12} = Rs.1500 = 24,000 \times \frac{10}{100} \times \frac{7.5}{12} = Rs.1500$

Case V: If any partner withdraws fixed amount at the end of every quarter, then the interest is calculated for 4.5 months

Example- If a partner withdraws Rs 6,000 at the end of every quarter and the rate of interest is 10% p.a., then the interest on drawings amounts to Rs 900.

Interest on drawings $x\ x$

Condition 4:If different amount is withdrawn by a partner at different points of time then the interest is calculated by Product Method. The drawings is calculated from the date of withdrawal to the last date of the accounting year.

Example- A partner withdraws Rs 4,000 on March 01, Rs 2,000 on June 01, Rs 4,000 on Sep. 30 and Rs 2000 on Dec. 31 and the rate of interest on drawings is 20% p.a. The firm closes its book on December 31.

Calculation of Interest on Drawings by Product Method

Interest on Drawings			
Date	Amount Rs	Outstanding Period	Product
Feb. 01	4,000	10	$4,000 \times 10$ $4,000 \times 10$ = 40,000

May. 01	2,000	7	$2,000 \times 7$ $2,000 \times 7$	=	14,000
Sep. 30	4,000	3	$4,000 \times 3$ $4,000 \times 3$	=	12,000
Dec. 31	2,000	0	$2,000 \times 0$ $2,000 \times 0$	=	0
					66,000

Interest on drawings = (sum of product) $\times\frac{rate}{100}\times\frac{1}{12}\times\frac{rate}{100}\times\frac{1}{12}$

Interest on drawings = $40.91 40.91$

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Q5 How will you deal with a change in the profit sharing ratio among existing partners?

Take imaginary figures to illustrate your answer?

Answer. We will take an imaginary example -

Partners decide to change their profit sharing ratio generally due to retirement or death of partner, admission of new partner or sometimes with consent of all the partners. Some adjustments that should be taken into consideration while changing profit sharing ratio are, liabilities and adjustment of capitals, reserves and accumulated profits ,goodwill, profit or loss on the revaluation of assets etc. The reserves and accumulated profits and profit or loss on revaluation of assets and liabilities should be credited/ debited in the Partner's Capital Account in their old profit sharing ratio.

If the existing partners decide to change the profit sharing ratio then some partners will gain (gaining partners) while other partners lose some part of their share in profits (sacrificing partners).Therefore, the gaining partners' capital accounts will be debited to the extent of their gain while the sacrificing Partners' capital accounts will be credited to extent of their sacrifice. The following Journal entry is passed -

Gaining Partner's Capital A/c Dr

To Sacrificing Partner's Capital A/c

(Being adjustment entry passed)

Example: X, Y, Z are partners in a firm sharing profits and losses in the ratio 3:2:1. They decided to share future profits and losses equally. On that date, general reserves stood at

₹12000 and the profit on revaluation of building was ₹ 3,000. The following adjustment entry is passed to adjust the capitals of the partners.

Particulars	X	Y	Z
Share of profit as per 3:2:1 Profit on revaluation of building	6,000 1,500	4,000 1,000	2,000 500
Share of profit as per 1:1:1	7,500 5,000	5,000 5,000	2,500 5,000
Difference (Gain or Loss)	2,500 (Loss)	-	2,500 (Gain)

Hence, in this above example, Z gains and X sacrifice, so the partner X needs to be compensated by Z with the amount of Rs 2,500. The following adjustment entry is passed.

Adjustment entry:

Z's capital A/c Dr To X's Capital A/c (Adjustment entry passed)		2500	2500

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Q1 Triphati and Chauhan are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were Rs 60,000 and Rs 40,000 as on January 01, 2015. During the year they earned a profit of Rs 30,000. According to the partnership deed both the partners are entitled to Rs 1,000 per month as Salary and 5% interest on their capital. They are also to be charged an interest of 5% on their drawings, irrespective of the period, which is Rs 12,000 for Tripathi, Rs 8,000 for Chauhan. Prepare Partner's Accounts when capitals are fixed.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Partners' Salary			By Profit and Loss (Profit)		30,000
Tripathi 1,000 × 12 =	12,000		By Interest on Drawings		
Chauhan 1,000 × 12 =	12,000	24,000	Tripathi A/c	600	
			Chauhan A/c	400	1,000
To Interest on Capital					
Tripathi	3,000				
Chauhan	2,000	5,000			
To Profit Transferred to:					
Tripathi's Current	1,200				
Chauhan's Current	800	2,000			
		31,000			31,000

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Dr. Partners Capital A/c Cr

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
To Drawings	12000	8,000	By Balance b/d	60,000	40,000
To Balance c/d	58,000	32,000			

	60,000	40,000		60,000	40,000

Partners' Current Account

Dr. Cr.

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
To Interest on Drawings	600	400	By Partners' Salaries	12,000	12,000
To Balance c/d	15,600	14,400	By Interest on Capital	3,000	2,000
			By Profit and Loss Appropriation	1,200	800
	16,200	14,800		16,200	14,800

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Q2 Anubha and Kajal are partners of a firm sharing profits and losses in the ratio of 2:1. Their capital, were Rs 90,000 and Rs 60,000. The profit during the year were Rs 45,000. According to partnership deed, both partners are allowed salary, Rs 700 per month to Anubha and Rs 500 per month to Kajal. Interest allowed on capital @ 5% p.a. The drawings at the end of the period were Rs 8,500 for Anubha and Rs 6,500 for Kajal. Interest is to be charged @ 5% p.a. on drawings. Prepare partners capital accounts, assuming that the capital account are fluctuating.

Answer.

a)If Partner's Interest on capital, Salaries, and Interest on Drawing are already adjusted in Profit and Loss Account. The answer will be as follows

Partners' Capital Account

Dr. Cr.

Particulars	Anubha	Kajal	Particulars	Anubha	Kajal

To Drawings A/c	8,500	6,500	By Balance b/d	90,000	60,000
To Interest on Drawings A/c	425	325	By Partner's Salaries A/c	8,400	6,000
			By Interest on Capital A/c	4,500	3,000
To Balance c/d	1,23,975	77,175	By Profit and Loss Appropriation A/c	30,000	15,000
	1,32,900	84,000		1,32,900	84,000

b)If Partner's interest on capital, salaries and interest on drawings adjusted in Profit and Loss Appropriation Account. The solution will be as follows

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Partner's Salaries:			By Profit and Loss A/c		45,000
Anubha	8,400		By Interest on Drawings		
Kajal	6,000	14,400	Anubha A/c	425	
			Kajal A/c	325	750
To Interest on Capital:					
Anubha	4,500				
Kajal	3,000	7,500			
To Profit transferred to					
Anubha's Capital	15,900				

Kajal's Capital	7,950	23,850		
		45,750		45,750

Partners' Capital Account

Dr. Cr.

Particulars	Anubha	Kajal	Particulars	Anubha	Kajal
To Drawings	8,500	6,500	By Balance b/d	90,000	60,000
To Interest on Drawings	425	325	By Partners' Salaries	8,400	6,000
			By Interest on Capital	4,500	3,000
To Balance c/d	1,09,875	70,125	By Profit and Loss Appropriation	15,900	7,950
	1,18,800	76,950		1,18,800	76,950

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Q3 Harshad and Dhiman are in partnership since April 01, 2016. No Partnership agreement was made. They contributed Rs 4,00,000 and 1,00,000 respectively as capital. In addition, Harshad advanced an amount of Rs 1,00,000 to the firm, on October 01, 2016. Due to long illness, Harshad could not participate in business activities from August 1, to September 30, 2017. The profits for the year ended March 31, 2017 amounted to Rs 1,80,000. Dispute has arisen between Harshad and Dhiman.

Harshad Claims:

(i) He should be given interest @ 10% per annum on capital and loan;

(ii) Profit should be distributed in proportion of capital;

Dhiman Claims:

(i) Profits should be distributed equally;

(ii) He should be allowed Rs 2,000 p.m. as remuneration for the period he managed the business, in the absence of Harshad;

(iii) Interest on Capital and loan should be allowed @ 6% p.a.

You are required to settle the dispute between Harshad and Dhiman. Also prepare Profit and Loss Appropriation Account.

Answer. Decision on Harshad Claims

- According to partnership Act 1932 if there is no agreement on interest on partner's capital, no interest will be allowed to partners.
- According to Partnership Act 1932 if there is no agreement on the matter of profit sharing, profit is distributed equally.

Decision on Dhiman Claims

- Dhiman's claim is valid, profit should be distributed equally because it is mentioned in partnership act 1932 that profit is shared equally in absence of profit sharing ratio in partnership deed.
- According to partnership Act 1932 second claim of Dhiman is not valid and No salary will be allowed to any partner because there is no agreement on matter of remuneration.
- Dhiman's claim is not correct on the matter of interest on capital but justified on the matter of interest on loan. According to Partnership Act 1932if there is no agreement on interest on partner's loan, Interest shall be provided at 6% p.a. and if there is no agreement related to interest on capital the interest on capital should not be provided.

Profit and Loss Adjustment Account

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Interest on Partner's Loan Harshad $1,00,000 \times \frac{6}{100} \times \frac{6}{12}$	3,000	By Profit and Loss A/c	1,80,000
To Profit and Loss Appropriation	1,77,000		
	1,80,000		1,80,000

Profit and Loss Account

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs

To Profit transferred to		By Profit and Loss Adjustment	1,77,000
Harshad's Capital	88,500		
Sharma's Capital	88,500		
	1,77,000		1,77,000

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Q4 Aakriti and Bindu entered into partnership for making garment on April 01, 2016 without any Partnership agreement. They introduced Capitals of Rs 5,00,000 and Rs 3,00,000 respectively on October 01, 2016. Aakriti Advanced. Rs 20,000 by way of loan to the firm without any agreement as to interest. Profit and Loss account for the year ended March 2017 showed profit of Rs 43,000. Partners could not agree upon the question of interest and the basis of division of profit. You are required to divide the profits between them giving reason for your solution.

Answer.

Profit and Loss Adjustment Account

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Interest on Partner's Loan			By Profit and Loss A/c	43,000
Aakriti $20,000 \times \left(\frac{6}{100}\right) \times \left(\frac{6}{12}\right)$		600		
To Profit transferred to:				
Aakriti's Capital A/c	21,200			
Bindu's Capital A/c	21,200	42,400		
		43,000		43,000

Reason

- According to Partnership Act 1932 Interest on partners loan should be 6% p.a. as there is no partnership deed.
- According to Partnership Act 1932 Interest on capital should not be provided as there is no agreement on interest on capital.
- According to Partnership Act 1932 Profit should be distributed equally because profit sharing ratio is not given.

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Q5 Rakhi and Shikha are partners in a firm, with capitals of Rs 2,00,000 and Rs 3,00,000 respectively. The profit of the firm, for the year ended 2016-17 is Rs 23,200. As per the Partnership agreement, they share the profit in their capital ratio, after allowing a salary of Rs 5,000 per month to Shikha and interest on Partner's capital at the rate of 10% p.a. During the year Rakhi withdrew Rs 7,000 and Shikha Rs 10,000 for their personal use. You are required to prepare Profit and Loss Appropriation Account and Partner's Capital Accounts.

Answer.

If we provide partner's salary and interest on capital even if the firm goes in loss then answer will be as follows-

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Partner's Salaries:			By Profit and Loss A/c		23,200
Shikha		60,000	By Loss transferred to:		
			Rakhi Capital A/c	34,720	
To Interest on Capital:			Shikha's Capital A/c	52,080	86,800
Rakhi A/c	20,000				
Shikha A/c	30,000	50,000			
		1,10,000			1,10,000

Partners' Capital Account

Dr. Cr.

Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
To Drawings A/c	7,000	10,000	By Balance b/d	2,00,000	3,00,000
To Profit & Loss Appropriation A/c	34,720	52,080	By Partner's Salaries		60,000
To Balance c/d	1,78,280	3,27,920	By Interest on Capital A/c	20,000	30,000
	2,20,000	3,90,000		2,20,000	3,90,000

If interest on capital and salaries is provided out of profit then answer will be as follows-

Profit and Loss Appropriation Account

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Partner's Salaries		By Profit and Loss A/c	23,200
Shikha $\left[23,200 \times \left(\frac{6}{11}\right)\right]$	12,655		
To Interest on Capital			
$x_6 = 11 + 2$			
Rakhi $= 13$	4,218		
Shikha n	6,327		
	23,200		23,200

If the profit is less than the total of distributable items then answer will be as follows-

To Partners Salaries:	Ratio		

Shikha A/c (Rs 60,000)	6	$23,200 \times \frac{6}{11}$	12,655
Interest on Capital:			
Rakhi A/c (Rs 20,000)	2	$23,200 \times \left(\frac{2}{11}\right)$	4,218
Shikha A/c (Rs 30,000)	3	$23,200 \times \left(\frac{3}{11}\right)$	6,327
	11		23,200

Partners' Capital Account

Dr. Cr.

Particulars	Rakhi	Shikha	Particulars	Rakhi	Shikha
To Drawings A/c	7,000	10,000	By Balance b/d	2,00,000	3,00,000
			By Partner's Salaries		12,655
To Balance c/d	1,97,218	3,08,972	By Interest on Capital	4,218	6,327
	2,04,218	3,18,972		2,04,218	3,18,972

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Q6 Lokesh and Azad are partners sharing profits in the ratio 3:2, with capitals of Rs 50,000 and Rs 30,000, respectively. Interest on capital is agreed to be paid @ 6% p.a. Azad is allowed a salary of Rs 2,500 p.a. During 2016, the profits prior to the calculation of interest on capital but after charging Azad's salary amounted to Rs 12,500. A provision of 5% of profits is to be made in respect of manager's commission. Prepare accounts showing the allocation of profits and partner's capital accounts.

Answer.

Profit and Loss Adjustment Account

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs

To Interest on Capital:			By Profit and Loss A/c Net Cash Increase = Cash Flow from O = \$30,000 + \$(37,000 = \$32,000	15,000
Lokesh	3,000			
Azad	1,800	4,800		
To Partner's Salaries:				
Azad		2,500		
To Provision for Manager's Commission $15,000 \times \left(\frac{5}{100}\right)$		750		
To Profit transferred to:				
Lokesh Capital	4,170			
Azad Capital	2,780	6,950		
		15,000		15,000

Partners' Capital Account

Dr. Cr.

Particulars	Lokesh	Azad	Particulars	Lokesh	Azad
			By Balance b/d	50,000	30,000
			By Interest on Capital A/c	3,000	1,800
To Balance c/d	57,170	37,080	By Partner's Salaries		2,500
			By Profit and loss Appropriation A/c	4,170	2,780
	57,170	37,080		57,170	37,080

Page : 99 , Block Name : Numerical Questions

Q7 The partnership agreement between Mannesh and Girish provides that:

(i) Profits will be shared equally;

(ii) Mannesh will be allowed a salary of Rs 400 p.m;

(iii) Girish who manages the sales department will be allowed a commission equal to 10% of the net profits, after allowing Maneesh's salary;

(iv) 7% interest will be allowed on partner's fixed capital;

(v) 5% interest will be charged on partner's annual drawings;

(vi) The fixed capitals of Mannesh and Girish are Rs 1,00,000 and Rs 80,000, respectively. Their annual drawings were Rs 16,000 and 14,000, respectively. The net profit for the year ending March 31, 2015 amounted to Rs 40,000;

Prepare firm's Profit and Loss Appropriation Account.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Partner's Salary:			By Profit and Loss A/c		40,000
• Mannesh		4,800	By Interest on Drawings:		
			Mannesh A/c	800	
To Partner's commission:			Girish A/c	700	1,500
Girish $\left[(40,000-4,800)\times\left(\frac{10}{100}\right)\right]$		3,520			
To Interest on Capital:					
Mannesh A/c	7,000				
Girish A/c	5,600	12,600			
To Profit transferred to:					

Maneesh's Current A/c	10,290			
Girish's Current A/c	10,290	20,580		
		41,500		41,500

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Q8 Ram, Raj and George are partners sharing profits in the ratio 5 : 3 : 2. According to the partnership agreement George is to get a minimum amount of Rs 10,000 as his share of profits every year. The net profit for the year 2013 amounted to Rs 40,000. Prepare the Profit and Loss Appropriation Account.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Profit transferred to:		By Profit and Loss A/c	40,000
Ram's Capital A/c $(20,000-1,250)$	18,750		
Raj's Capital A/c $(12,000-750)$	11,250		
George's Capital A/c $(8,000+1,250+750$	10,000		
	40,000		40,000

Page : 100 , Block Name : Numerical Questions

Q9 Amann, Babita and Suresh are partners in a firm. Their profit sharing ratio is 2:2:1. Suresh is guaranteed a minimum amount of Rs 10,000 as share of profit, every year. Any deficiency on that account shall be met by Babita. The profits for two years ending December 31, 2016 and December 31, 2017 were Rs 40,000 and Rs 60,000, respectively. Prepare the Profit and Loss Appropriation Account for the two years.

Answer.

Profit and Loss Appropriation Account

for the year ending 31st December, 2016

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Profit transferred to:		By Profit and Loss A/c	40,000
Amann's Capita A/c 16,000	16,000		
Babita's Capital A/c $(16,0002,000)$	14,000		
Suresh's Capital A/c $(8,000+2,000)$	10,000		
	40,000		40,000

Profit and Loss Appropriation Account

for the year ending 31st December 2017

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Profit transferred to:		By Profit and Loss A/c	60,000
Amann's Capital A/c	24,000		
Babita's Capital A/c	24,000		
Suresh's Capital A/c	12,000		
	60,000		60,000

Page : 100 , Block Name : Numerical Questions

Q10 Simmi and Sonu are partners in a firm, sharing profits and losses in the ratio of 3:1. The profit and loss account of the firm for the year ending March 31, 2017 shows a net profit of Rs 1,50,000. Prepare the Profit and Loss Appropriation Account by taking into consideration the following information:

(i) Partners capital on April 1, 2016;

Simmi, Rs 30,000; Sonu, Rs 60,000;

(ii) Current accounts balances on April 1, 2016;

Simmi, Rs 30,000 (cr.); Sonu, Rs 15,000 (cr.);

(iii) Partners drawings during the year amounted to

Simmi, Rs 20,000; Sonu, Rs 15,000;

(iv) Interest on capital was allowed @ 5% p.a.;

(v) Interest on drawing was to be charged @ 6% p.a. at an average of six months;

(vi) Partners' salaries : Simmi Rs 12,000 and Sonu Rs 9,000. Also show the partners' current accounts.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Interest on Capital:			By Profit and Loss Account		1,50,000
Simmi A/c	1,500		By Interest on Drawings:		
Sonu A/c	3,000	4,500	Simmi A/c	600	
			Sonu A/c	450	1,050
To Partners' Salaries:					
Simmi A/c	12,000				
Sonu A/c	9,000	21,000			

Particulars		Amount	Particulars	Amount
To Profit transferred to:				
Simmi's Current A/c	94,162			
Sonu's Current A/c	31,388	1,25,550		
		1,51,050		1,51,050

Partners' Capital Account

Dr. Cr.

Particulars	Simmi	Sonu	Particulars	Simmi	Sonu
To Balance c/d	30,000	60,000	By Balance b/d	30,000	60,000
	30,000	60,000		30,000	60,000

Partners' Current Account

Dr. Cr.

Particulars	Simmi	Sonu	Particulars	Simmi	Sonu
To Drawings A/c	20,000	15,000	By Balance b/d	30,000	15,000
To Interest on Drawings	600	450	By Interest on Capital	1,500	3,000
			By Partners' Salaries	12,000	9,000
To Balance c/d	1,17,662	43,388	By Profit and Loss Appropriation	94,162	31,388
	1,37,662	58,388		1,37,662	58,388

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Q11 Ramesh and Suresh were partners in a firm sharing profits in the ratio of their capitals contributed on commencement of business which were Rs 80,000 and Rs 60,000 respectively. The firm started business on April 1, 2016. According to the partnership agreement, interest on capital and drawings are 12% and 10% p.a., respectively. Ramesh and Suresh are to get a monthly salary of Rs 2,000 and Rs 3,000, respectively.
The profits for year ended March 31, 2017 before making above appropriations was Rs 1,00,300. The drawings of Ramesh and Suresh were Rs 40,000 and Rs 50,000, respectively. Interest on drawings amounted to Rs 2,000 for Ramesh and Rs 2,500 for Suresh. Prepare Profit and Loss Appropriation Account and partners' capital accounts, assuming that their capitals are fluctuating.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Interest on Capital			By Profit and Loss		1,00,300
Ramesh A/c	9,600		By Interest on Drawings		
Suresh A/c	7,200	16,800	Ramesh A/c	2,000	
			Suresh A/c	2,500	4,500
To Partners' Salaries					
Ramesh A/c	24,000				
Suresh A/c	36,000	60,000			
To Profit Transferred to					
Ramesh's Capital A/c {28,000 × (4/7)}		16,000			
Suresh's Capital A/c {28,000 × (3/7)}		12,000			
		1,04,800			1,04,800

Partners' Capital Account

Dr. Cr.

Particulars	Ramesh	Suresh	Particulars	Ramesh	Suresh
To Drawings	40,000	50,000	By Cash	80,000	60,000
To Interest on Drawings	2,000	2,500	By Interest on Capital	9,600	7,200
To Balance c/d	87,600	62,700	By Partners' Salaries	24,000	36,000
			By Profit & Loss Appropriation	16,000	12,000
	1,29,600	1,15,200		1,29,600	1,15,200

Calculation of profit sharing ratio- Suresh : Ramesh

80,000 : 60,000

4 : 3

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Q12 Sukesh and Vanita were partners in a firm. Their partnership agreement provides that:

(i) Profits would be shared by Sukesh and Vanita in the ratio of 3:2;

(ii) 5% interest is to be allowed on capital;

(iii) Vanita should be paid a monthly salary of Rs 600.

The following balances are extracted from the books of the firm, on March 31, 2017.

	Sukesh	Verma *
	Rs	Rs
Capital Accounts	40,000	40,000
Current Accounts	(Cr.) 7,200	(Cr.) 2,800
Drawings	10,850	8,150

Net profit for the year, before charging interest on capital and after charging partner's salary was Rs 9,500. Prepare the Profit and Loss Appropriation Account and the Partner's Current Accounts.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Interest on Capital			By Profit and Loss	9,500
Sukesh A/c	2,000			
Vanita A/c	2,000	4,000		
To Profit transferred to				
Sukesh's Current A/c {5,500 × (3/5)}		3,300		
Vanita's Current A/c {28,000 × (2/5)}		2,200		
		9,500		9,500

Partner's Capital Account

Dr. Cr.

Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
			By Balance b/d	40,000	40,000
To Balance c/d	40,000	40,000			
	40,000	40,000		40,000	40,000

Partner's Current Account

Dr. Cr.

Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
To Drawings	10,850	8,150	By Balance b/d	7,200	2,800
			By Partner's Salaries		7,200

			By Profit and Loss Appropriation	3,300	2,200
To Balance c/d	1,650	6,050	By Interest on capital	2,000	2,000
	12,500	14,200		12,500	14,200

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Q13 Rahul, Rohit and Karan started partnership business on April 1, 2016 with capitals of Rs 20,00,000, Rs 18,00,000 and Rs 16,00,000, respectively. The profit for the year ended March 2017 amounted to Rs 1,35,000 and the partner's drawings had been Rahul Rs 50,000, Rohit Rs 50,000 and Karan Rs 40,000. The profits are distributed among partner's in the ratio of 3:2:1. Calculate the interest on capital @ 5% p.a.

Answer.

Calculation of Interest on Capital=

Interest on Capital of Rahul = 20,00,000 × $\frac{5}{100}$= Rs 1,00,000

Interest on Capital of Rohit = 18,00,000 × $\frac{5}{100}$= Rs 90,000

Interest on Capital of Karan = 16,00,000 ×$\frac{5}{100}$ = Rs 80,000

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Q14 Sunflower and Pink Rose started partnership business on April 01, 2016 with capitals of Rs 2,50,000 and Rs 1,50,000, respectively. On October 01, 2016, they decided that their capitals should be Rs 2,00,000 each. The necessary adjustments in the capitals are made by introducing or withdrawing cash. Interest on capital is to be allowed @ 10% p.a. Calculate interest on capital as on March 31, 2017.

Answer.

Product Method

For Sunflower

01-04-16 to 30-09-16	2,50,000 × 6 =	15,00,000

01-10-16 to 31-03-17	2,00,000 × 6 =	12,00,000
	Sum of Product	27,00,000

Interest on capital= $Sum\ of\ product * \frac{Rate}{100} * \frac{1}{12}$

Interest on Sunflower's capital=$27{,}00{,}000 * \frac{10}{100} * \frac{1}{12} = 22{,}500\ Rs$

Pink Rose

01-04-16 to 30-09-16	1,50,000 × 6 =	9,00,000
01-10-16 to 31-03-17	2,00,000 × 6 =	12,00,000
	Sum of Product	21,00,000

Interest on pink rose's capital=$21{,}00{,}000 * \frac{10}{100} * \frac{1}{12} = 17{,}500\ Rs$

Second Method: Simple Interest Method

For Sunflower

April 01, 2016 to September 30, 2016	$2{,}50{,}000 \times \frac{10}{100} \times \frac{6}{12} =$	Rs 12,500
October 01, 2016 to March 31, 2017	$2{,}00{,}000 \times \frac{10}{100} \times \frac{6}{12} =$	Rs 10,000
	Interest on Sunflower's Capital	Rs 22,500

For Pink Rose

April 01, 2016 to September 30, 2016	$1{,}50{,}000 \times \frac{10}{100} \times \frac{6}{12} =$	Rs 7,500
October 01, 2016 to March 31, 2017	$2{,}00{,}000 \times \frac{10}{100} \times \frac{6}{12} =$	Rs 10,000

	Interest on Pink Rose's Capital	Rs 17,500

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Q15 On March 31, 2017 after the close of accounts, the capitals of Mountain, Hill and Rock stood in the books of the firm at Rs 4,00,000, Rs 3,00,000 and Rs 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 Rs 1,50,000 and the partner's drawings had been Mountain: Rs 20,000, Hill Rs 15,000 and Rock Rs 10,000. Calculate interest on capital.

Answer.

As we know Interest on Capital is calculated on opening balance of capital. In the question we are not provided with interest on capital so we first need to calculate interest on capital-

	Mountain	Hill	Rock
Closing Capital	4,00,000	3,00,000	2,00,000
Add: Drawings	20,000	15,000	10,000
Less: Profit (1:1:1)	(50,000)	(50,000)	(50,000)
Opening Capital	3,70,000	2,65,000	1,60,000

Now, Calculation of Interest on Capital=

Mountain=$3{,}70{,}000 * \frac{10}{100} = 37{,}000\ Rs$

Hill=$2{,}65{,}000 * \frac{10}{100} = 26{,}500\ Rs$

Rock=$1{,}60{,}000 * \frac{10}{100} = 16{,}000\ Rs$

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Q16 Following is the extract of the Balance Sheet of, Neelkant and Mahdev as on March 31, 2017:

Balance Sheet as at March 31, 2017

	Amount		Amount

Liabilities	Rs	Assets	Rs
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current Account	1,00,000		
Mahadev's Current Account	1,00,000		
Profit and Loss Appropriation (March 2017)	8,00,000		
	30,00,000		30,00,000

During the year Mahadev's drawings were Rs 30,000. Profits during 2017 is Rs 10,00,000. Calculate interest on capital @ 5% p.a for the year ending March 31, 2017.

Answer.

Calculation Interest on Capital

Neelkant=$10{,}00{,}000 * \frac{5}{100} = 50{,}000\ Rs$

Mahadev=$10{,}00{,}000 * \frac{5}{100} = 50{,}000\ Rs$

We can see In this question the balances of both Partner's Capital Account and of Partner's Current Account are mentioned, so we assumed that the capital of the partners is fixed.

When the capital of the partners is fixed, interest on capital and drawings does not affect the capital balances of the partners instead it affect their current account balances. So, here in this case, opening capital and closing capital of the year will remain same. So, the interest on capital is calculated on fixed capital balances

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Q17 Rishi is a partner in a firm. He withdrew the following amounts during the year ended March 31, 2018.

May 01, 2017	Rs 12,000
July 31, 2017	Rs 6,000
September 30, 2017	Rs 9,000
November 30, 2017	Rs 12,000

January 01, 2018	Rs	8,000
March 31, 2018	Rs	7,000

Interest on drawings is charged @ 9% p.a. Calculate interest on drawings.

Answer.

Product Method

	Drawings × Period	Product
01-05-17 to 31-03-18	12,000 × 11 =	1,32,000
31-07-17 to 31-03-18	6,000 × 8 =	48,000
30-09-17 to 31-03-18	9,000 × 6 =	54,000
30-11-17 to 31-03-18	12,000 × 4 =	48,000
01-01-18 to 31-03-18	8,000 × 3 =	24,000
31-03-18 to 31-03-18	7,000 × 0 =	0
	Sum of Product	3,06,000

Interest on Drawings = Product × $\frac{Rate}{100} * \frac{1}{12}$

= $3{,}06{,}000 * \frac{9}{100} * \frac{1}{12}$= Rs 2,295

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Q18 The capital accounts of Moli and Golu showed balances of Rs 40,000 and Rs 20,000 as on April 01, 2016. They shared profits in the ratio of 3:2. They allowed interest on capital @ 10% p.a. and interest on drawings, @ 12 p.a. Golu advanced a loan of Rs 10,000 to the firm on August 01, 2016. During the year, Moli withdrew Rs 1,000 per month at the beginning of every month whereas Golu withdrew Rs 1,000 per month at the end of every month. Profit for the year, before the above mentioned adjustments was Rs 20,950. Calculate interest on drawings show distribution of profits and prepare partner's capital accounts.

Answer.

Interest on Moli's Drawing = Total Drawings × $\frac{Rate}{100} * \frac{12}{2*12}$

= $12{,}000 * \frac{12}{100} * \frac{13}{2*12}$= Rs 780

Interest on Golu's Drawings = Total Drawing × $\frac{Rate}{100} * \frac{11}{2*12}$

$=12{,}000 * \frac{12}{100} * \frac{11}{2*12}$= Rs 660

Profit and Loss Adjustment Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Interest on Capital			By Profit and Loss Account		20,950
Moli	4,000		By Interest on Drawings		
Golu	2,000	6,000	Moli A/c	780	
			Golu A/c	660	1,440
To Interest on Partner's Loan					
Golu's {10,000 × (6/100) × (8/12)}		400			
To Profit transferred to					
Moli's Capital A/c {15,990 × (3/5)}	9,594				
Golu's Capital A/c {15,990 × (2/5)}	6,396	15,990			
		22,390			22,390

Partners' Capital Account

Dr. Cr.

Particulars	Moli	Golu	Particulars	Moli	Golu
To Drawings	12,000	12,000	By Balance b/d	40,000	20,000
To Interest on Drawing	780	660	By Interest on Capital	4,000	2,000
To Balance c/d	40,814	15,736	By Profit and Loss Adjustment	9,544	6,396

	53,594	28,396		53,594	28,396

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Q19 Rakesh and Rohan are partners, sharing profits in the ratio of 3:2 with capitals of Rs 40,000 and Rs 30,000, respectively. They withdrew from the firm the following amounts, for their personal use:

Rakesh	Month	Rs
	May 31, 2016	600
	June 30, 2016	500
	August 31, 2016	1,000
	November 1, 2016	400
	December 31, 2016	1,500
	January 31, 2017	300
	March 01, 2017	700
Rohan	At the beginning of each month	400

Interest is to be charged @ 6% p.a. Calculate interest on drawings, assuming that book of accounts are closed on March 31, 2017, every year.

Answer.

Rakesh's Interest on Drawings

	Drawings × Period	Product
31-05-16 to 31-03-17	600 × 10 =	6,000
30-06-16 to 31-03-17	500 × 9 =	4,500
31-08-16 to 31-03-2017	1,000 × 7 =	7,000
1-11-16 to 31-03-17	400 × 5 =	2,000
31-12-16 to 31-03-17	1,500 × 3 =	4,500

31-01-17 to 31-03-17	300 × 2 =	6,00
01-03-17 to 31-03-17	700 × 1 =	700
	Sum of Product	25,300

Interest on drawing of Rakesh = Sum of Product × $\frac{Rate}{100} * \frac{1}{12}$

$=25{,}300 * \frac{6}{100} * \frac{1}{12}$= Rs 126.5

Interest on Rohan's Drawing=Total Drawing×$\frac{Rate}{100} * \frac{13}{2*12}$

$=4{,}800 * \frac{6}{100} * \frac{3}{2*12}$= Rs 156

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Q20 Himanshu withdrew Rs 2,500 at the end Month of each month. The Partnership deed provides for charging the interest on drawings @ 12% p.a. Calculate interest on Himanshu's drawings for the year ending 31st December, 2017.

Answer.

Himanshu's drawing for the whole year = Rs 2,500 × 12 = Rs 30,000

Calculation of Interest on Drawing = Total Drawings × $\frac{Rate}{100} * \frac{11}{2*12}$

$=30{,}000 * \frac{12}{100} * \frac{11}{2*12}$= Rs 1,650

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Q21 Bharam is a partner in a firm. He withdraws Rs 3,000 at the starting of each month for 12 months. The books of the firm closes on March 31 every year. Calculate interest on drawings if the rate of interest is 10% p.a.

Answer.

Bharam's drawing for the whole year = Rs 3,000 ×12 = Rs 36,000

Calculation of Interest on Drawing = Total Drawings ×$\frac{Rate}{100} * \frac{13}{2*12}$

$=36{,}000 * \frac{10}{100} * \frac{13}{2*12}$= Rs 1,950

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Q22 Raj and Neeraj are partners in a firm. Their capitals as on April 01, 2017 were Rs 2,50,000 and Rs 1,50,000, respectively. They share profits equally. On July 01, 2017, they decided that their capitals should be Rs 1,00,000 each. The necessary adjustment in the capitals were made by introducing or withdrawing cash by the partners'. Interest on capital is allowed @ 8% p.a. Compute interest on capital for both the partners for the year ending on March 31, 2018.

Answer.

Calculation of Interest on Capital

For Raj

	Capital × Period	Product
1-04-17 to 30-06-17	2,50,000 × 3 =	7,50,000
1-07-17 to 31-03-18	1,00,000 × 9 =	9,00,000
	Sum of Product	16,50,000

Interest on drawing = Sum of Product × $\frac{Rate}{100} * \frac{1}{12}$

$=16,50,000 \times \frac{8}{100} * \frac{1}{12}$= Rs 11,000

For Neeraj

	Capital × Period	Product
1-04-17 to 30-06-17	1,50,000 × 3 =	4,50,000
1-07-17 to 31-03-18	1,00,000 × 9 =	9,00,000
	Sum of Product	13,50,000

Interest on drawing = 13,50,000 × $\frac{8}{100} * \frac{1}{12}$ = Rs 9,000

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Q23 Amit and Bhola are partners in a firm. They share profits in the ratio of 3:2. As per their partnership agreement, interest on drawings is to be charged @ 10% p.a. Their drawings during 2017 were Rs 24,000 and Rs 16,000, respectively. Calculate interest on drawings based on the assumption that the amounts were withdrawn evenly, throughout the year.

Answer. Calculation of Interest on Drawings = Drawings × $\frac{Rate}{100}$

Interest on Drawing of Amit = 24,000 ×$\frac{10}{100} * \frac{6}{12}$ = Rs 1,200

Interest on Drawing of Bhola = 16,000 × $\frac{10}{100} * \frac{6}{12}$ = Rs 800

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Q24 Harish is a partner in a firm. He withdrew the following amounts during the year 2017 :

	Rs
February 01	4,000
May 01	10,000
June 30	4,000
October 31	12,000
December 31	4,000

Interest on drawings is to be charged @ 7.5 % p.a.

Calculate the amount of interest to be charged on Harish's drawings for the year ending December 31, 2017.

Answer.

Calculation of interest on Harish's drawings

	Drawings × Period	Product
01-02-17 to 31-12-17	4,000 × 11 =	44,000
01-05-17 to 31-12-17	10,000 × 8 =	80,000
30-06-17 to 31-12-17	4,000 × 6 =	24,000
31-10-17 to 31-12-17	12,000× 2 =	24,000
31-12-17 to 31-12-17	4,000 × 0 =	0
	Sum of Product	1,72,000

Interest on drawings = 1,72,000 × $\frac{7.5}{100} * \frac{1}{12}$= Rs 1,075

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Q25 Menon and Thomas are partners in a firm. They share profits equally. Their monthly drawings are Rs 2,000 each. Interest on drawings is to be charged @ 10% p.a. Calculate interest on Menon's drawings for the year 2006, assuming that money is withdrawn: (i) in the beginning of every month, (ii) in the middle of every month, and (iii) at the end of every month.

Answer.

Case (i)in the beginning of every month

Calculation of Interest of drawings = Total drawings × Rate × $\frac{13}{2*12}$

Interest on drawings of Menon's = 24,000 × $\frac{10}{100} * \frac{13}{2*12}$ = Rs 1,300

Interest on drawings of Thomas's = 24,000 × $\frac{10}{100} * \frac{13}{2*12}$ = Rs 1,300

Case (ii)in the middle of every month

Calculation of Interest on Drawings = Total drawings × $\frac{10}{100} * \frac{6}{12}$

Interest on drawings of Menon's = 24,000 × $\frac{10}{100} * \frac{6}{12}$ = Rs 1,200

Interest of drawings on Thomas's = 24,000 × $\frac{10}{100} * \frac{6}{12}$ = Rs 1,200

Case (iii)at the end of every month

Calculation of Interest on drawings = Total drawings × $\frac{Rate}{100} * \frac{11}{2*12}$

Interest on drawings of Menon's = 24,000 × $\frac{10}{100} * \frac{11}{2*12}$= Rs 1,100

Interest on drawings of Thomas's = 24,000 × $\frac{10}{100} * \frac{11}{2*12}$= Rs 1,100

Page : 104 , Block Name : Numerical Questions

Q26 On March 31, 2017, after the close of books of accounts, the capital accounts of Ram, Shyam and Mohan showed balance of Rs 24,000 Rs 18,000 and Rs 12,000, respectively. It was later discovered that interest on capital @ 5% had been omitted. The profit for the year ended March 31, 2017, amounted to Rs 36,000 and the partner's drawings had been Ram, Rs 3,600; Shyam, Rs 4,500 and Mohan, Rs 2,700. The profit sharing ratio of Ram, Shyam and Mohan was 3:2:1. Calculate interest on capital.

Answer.

Calculation of opening capital

	Ram	Shyam	Mohan
Capital on March 31	24,000	18,000	12,000
Add: Drawings	3,600	4,500	2,700
Less: Profit (3:2:1)	(18,000)	(12,000)	(6,000)
Capital April 01, 2012	9,600	10,500	8,700

Calculation of Interest on Capital = Opening Capital × $\frac{Rate}{100}$

Interest on capital for Ram's = $9{,}600 * \frac{5}{100}$= Rs 480

Interest on capital for Shyam's = $10{,}500 * \frac{5}{100}$= Rs 525

Interest on capital for Mohan's = $8{,}700 * \frac{5}{100}$= Rs 435

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Q27 Amit, Sumit and Samiksha are in partnership sharing profits in the ratio of 3:2:1. Samiksha' share in profit has been guaranteed by Amit and Sumit to be a minimum sum of Rs 8,000. Profits for the year ended March 31, 2017 was Rs 36,000. Divide profit among the partners.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Profit transferred to			By Profit and Loss	36,000
Amit's Capital A/c	18,000			
Less: Guarantee to Samiksha {2,000 × (3/5)}	(1,200)	16,800		
Sumit's Capital A/c	12,000			
Less: Guarantee to Samiksha	(800)	11,200		

{2,000 × (2/5)}				
Samiksha Capital	6,000			
Add: Amit's Guarantee	1,200			
Add: Sumit's Guarantee	800	8,000		
		36,000		36,000

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Q28 Pinki, Deepati and Kaku are partner's sharing profits in the ratio of 5:4:1. Kaku is given a guarantee that his share of profits in any given year would not be less than Rs 5,000. Deficiency, if any, would be borne by Pinki and Deepti equally. Profits for the year amounted to Rs 40,000. Record necessary journal entries in the books of the firm showing the distribution of profit.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Profit transferred to			By Profit & Loss	40,000
Pinki's Capital A/c	20,000			
Less: Guarantee to Kaku {1,000 × (1/2)}	(500)	19,500		
Deepti's Capital A/c	16,000			
Less: Guarantee to Kaku {1,000 × (1/2)}	(500)	15,500		

Kaku's Capital A/c	4,000				
Add: Deficiency received from					
Pinki	500				
Deepti	500	5,000			
		40,000			40,000

Page : 105 , Block Name : Numerical Questions

Q29 Abhay, Siddharth and Kusum are partners in a firm, sharing profits in the ratio of 5:3:2. Kusum is guaranteed a minimum amount of Rs 10,000 as per share in the profits. Any deficiency arising on that account shall be met by Siddharth. Profits for the years ending March 31, 2016 and 2017 are Rs 40,000 and 60,000 respectively. Prepare Profit and Loss Appropriation Account.

Answer.

Profit and Loss Appropriation Account

For the year ending March 31, 2016

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Profit transferred to			By Profit and Loss	40,000
Abhay's Capital A/c		20,000		
Siddharth's Capital A/c	12,000			
Less: Guarantee to Kusum's	(2,000)	10,000		
Kusum's Capital A/c 8,000				

Add: Deficiency received from Siddharth	2,000	10,000		
		40,000		40,000

Profit and Loss Appropriation Account

For the year ending March 31, 2017

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Profit transferred to		By Profit and Loss	60,000
Abhay's Capital A/c	30,000		
Siddharth's Capital A/c	18,000		
Kusum's Capital A/c	12,000		
	60,000		60,000

Page : 105 , Block Name : Numerical Questions

Q30 Radha, Mary and Fatima are partners sharing profits in the ratio of 5:4:1. Fatima is given a guarantee that her share of profit, in any year will not be less than Rs 5,000. The profits for the year ending March 31, 2017 amounts to Rs 35,000. Shortfall if any, in the profits guaranteed to Fatima is to be borne by Radha and Mary in the ratio of 3:2. Record necessary journal entry to show distribution of profit among partner.

Answer.

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Profit transferred to			By Profit and Loss	35,000
Radha's Capital A/c	17,500			
Less: Fatima's Deficiency {1,500 × (3/5)}	(900)	16,600		
Mary's Capital A/c	14,000			
Less: Fatima's Deficiency {1,500 × (2/5)}	(600)	13,400		
Fatima's Capital A/c	3,500			
Add: Deficiency born by				
Radha	900			
Mary	600	5,000		
		35,000		35,000

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Profit and Loss Appropriation A/c Dr.		35,000	
	To Radha's Capital A/c			16,600
	To Mary's Capital A/c			13,400
	To Fatima's Capital A/c			5,000
	(Profit distributed among Partners)			

Another Method

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Profit and Loss Appropriation A/c Dr.		35,000	
	To Radha's Capital A/c			17,500
	To Mary's Capital A/c			14,000
	To Fatima's Capital A/c			3,500
	(Profit distributed among Partners)			
	Radha's Capital A/c Dr.		900	
	Mary's Capital A/c Dr.		600	
	To Fatima's Capital A/c			1,500
	(Deficiency of Fatima's Share taken from Radha and Mary)			

Page : 105 , Block Name : Numerical Questions

Q31 X, Y and Z are in Partnership, sharing profits and losses in the ratio of 3 : 2 : 1, respectively. Z's share in the profit is guaranteed by X and Y to be a minimum of Rs 8,000. The net profit for the year ended March 31, 2017 was Rs 30,000. Prepare Profit and Loss Appropriation Account, indicating the amount finally due to each partner.

Answer.

Profit and Loss Appropriation Account

For the year ending March 31, 2017

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Profit transferred to			By Profit and Loss	30,000
X’s Capital A/c	15,000			
Less: Z’s Deficiency {3,000 × (3/5)}	(1,800)	13,200		
Y’s Capital A/c	10,000			
Less: Z’s Deficiency {3,000 × (2/5)}	(1,200)	8,800		
Z’s Capital A/c	5,000			
Add: Share of Deficiency born by				
Radha	1,800			
Mary	1,200	8,000		
		30,000		30,000

Page : 105 , Block Name : Numerical Questions

Q32 Arun, Boby and Chintu are partners in a firm sharing profit in the ratio or 2:2:1. According to the terms of the partnership agreement, Chintu has to get a minimum of Rs 60,000, irrespective of the profits of the firm. Any Deficiency to Chintu on Account of such guarantee shall be borne by Arun. Prepare the profit and loss appropriation account showing distribution of profits among partners in case the profits for year 2015 are: (i) Rs 2,50,000; (ii) 3,60,000.

Answer.

Case (i)

Profit and Loss Appropriation Account

as on March 31, 2015

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Profit transferred to			By Profit and Loss	2,50,000
Arun's Capital A/c	1,00,000			
Less: Chintu's share of deficiency	(10,000)	90,000		
Bobby's Capital A/c		1,00,000		
Chintu's Capital A/c	50,000			
Add: Deficiency received from Arun	10,000	60,000		
		2,50,000		2,50,000

Profit and Loss Appropriation Account

for the year ending March 31, 2015

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Profit transferred to		By Profit and Loss	3,60,000
Arun's Capital A/c {3,60,000 × (2/5)}	1,44,000		
Bobby's Capital {3,60,000 × (2/5)}	1,44,000		
Chintu's Capital A/c {3,60,000 × (1/5)}	72,000		
	3,60,000		3,60,000

Page : 105 , Block Name : Numerical Questions

Q33 Ashok, Brijesh and Cheena are partners sharing profits and losses in the ratio of 2 : 2 : 1. Ashok and Brijesh have guaranteed that Cheena share in any year shall be less than Rs 20,000. The net profit for the year ended March 31, 2017 amounted to Rs 70,000. Prepare Profit and Loss Appropriation Account.

Answer.

Profit and Loss Appropriation Account

For the year ending March 31, 2017

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Profit transferred to			By Profit and Loss	70,000
Ashok's Capital A/c	28,000			
Less: Cheena's share of deficiency {6,000 × (1/2)}	(3,000)	25,000		
Brijesh's Capital A/c	28,000			
Less: Cheena's share of deficiency {6,000 × (1/2)}	(3,000)	25,000		
Cheena's Capital A/c 14,000				
Add: Deficiency received from				
Ashok	3,000			
Brijesh	3,000	20,000		
		70,000		70,000

Page : 106 , Block Name : Numerical Questions

Q34 Ram, Mohan and Sohan are partners with capitals of Rs 5,00,000, Rs 2,50,000 and 2,00,000 respectively. After providing interest on capital @ 10% p.a. the profits are divisible as follows:

Ram 1/2 , Mohan 1/3 Sohan 1/6 . But Ram and Mohan have guaranteed that Sohan's share in the profit shall not be less than Rs 25,000, in any year. The net profit for the year ended March 31, 2017 is Rs 2,00,000, before charging interest on capital. You are required to show distribution of profit.

Answer.

Profit and Loss Appropriation A/c

For the year ending 31 March 2017

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Interest on Capital			By Profit and Loss	2,00,000
Ram A/c	50,000			
Mohan A/c	25,000			
Sohan A/c	20,000	95,000		
To Profit Transferred to				
Ram's Capital A/c	52,500			
Less: Share of deficiency {7,500 × (3/5)}	(4,500)	48,000		
Mohan's Capital A/c	35,000			
Less: Share of deficiency {7,500 × (2/5)}	(3,000)	32,000		
Sohan's Capital	17,500			
Add: Deficiency received from				

Ram A/c	4,500			
Mohan A/c	3,000	25,000		
		2,00,000		2,00,000

Page : 106 , Block Name : Numerical Questions

Q35 Amit, Babita and Sona form a partnership firm, sharing profits in the ratio of 3 : 2 : 1, subject to the following :

(i) Sona's share in the profits, guaranteed to be not less than Rs 15,000 in any year.

(ii) Babita gives guarantee to the effect that gross fee earned by her for the firm shall be equal to her average gross fee of the proceeding five years, when she was carrying on profession alone (which is Rs 25,000). The net profit for the year ended March 31, 2017 is Rs 75,000. The gross fee earned by Babita for the firm was Rs 16,000.

You are required to show Profit and Loss Appropriation Account (after giving effect to the alone).

Answer.

Profit and Loss Appropriation Account

For the year ending March 31, 2017

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Profit Transferred to			By Profit and Loss	75,000
Amit's Capital {84,000 × (3/6)}	42,000		By Babita's Capital	9,000
Less: Sona's share of deficiency {1,000 × (3/5)}	(600)	41,400	(Deficiency of Fees 25,000 – 16,000)	
Babita's Capital {84,000 × (2/6)}	28,000			

Less: Sona's share of deficiency {1,000 × (2/5)}	(400)	27,600		
Sona's Capital {84,000 × (1/6)}	14,000			
Add: Deficiency received from				
Amit A/c	600			
Babita A/c	400	15,000		
		84,000		84,000

Page : 106 , Block Name : Numerical Questions

Q36 The net profit of X, Y and Z for the year ended March 31, 2016 was Rs 60,000 and the same was distributed among them in their agreed ratio of 3 : 1 : 1. It was subsequently discovered that the under mentioned transactions were not recorded in the books :

(i) Interest on Capital @ 5% p.a.

(ii) Interest on drawings amounting to X Rs 700, Y Rs 500 and Z Rs 300.

(iii) Partner's Salary : X Rs 1000, Y Rs 1500 p.a.

The capital accounts of partners were fixed as : X Rs 1,00,000, Y Rs 80,000 and Z Rs 60,000. Record the adjustment entry.

Answer.

Entries which were omitted and also the correct distribution of profit after recording omitted entries-

	X	Y	Z		Total
Interest on Capital	5,000	4,000	3,000	=	12,000
Less: Interest on Drawings	(700)	(500)	(300)	=	(1,500)
Add: Partner's Salaries	1,000	1,500	NIL	=	2,500
Right distribution of Rs 13,000	5,300	5,000	2,700	=	13,000

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

Here we can see that X is wrongly got Rs 2,500 extra and at the same time Y and Z got less amount. So now, Rs 2,500 will be deducted from X and given to Y and Z(2,400 and 100 respectively).

Date	Particulars		L.F	Debit Amount Rs	Credit Amount Rs
	X's Capital A/c	Dr.		2,500	
	To Y's Capital A/c				2,400
	To Z's Capital A/c				100
	(Profit adjusted among partners)				

Page : 106 , Block Name : Numerical Questions

Q37 The firm of Harry, Porter and Ali, who have been sharing profits in the ratio of 2 : 2 : 1, have existed for same years. Ali wants that he should get equal share in the profits with Harry and Porter and he further wishes that the change in the profit sharing ratio should come into effect retrospectively were for the last three year. Harry and Porter have agreement on this account. The profits for the last three years were:

	Rs
2014-15	22,000
2015-16	24,000
2016-17	29,000

Show adjustment of profits by means of a single adjustment journal entry.

Answer.

Distribution of Profit

Old Ratio (2:2:1) Year	Harry	Porter	Ali		Total

2014 – 15	(8,800)	(8,800)	(4,400)	=	(22,000)
2015 – 16	(9,600)	(9,600)	(4,800)	=	(24,000)
2016 – 17	(11,600)	(11,600)	(5,800)	=	(29,000)
				=	
Total Profit of 3 years in old ratio	(30,000)	(30,000)	(15,000)	=	(75,000)
Distribution of 3 years profit in new Ratio (1:1:1)	25,000	25,000	25,000	=	75,000
Adjusted Profit	(5,000)	(5,000)	10,000		NIL

Journal (Adjusting entry)

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
	Harry's Capital A/c Dr.		5,000	
	Porter's Capital A/c Dr.		5,000	
	To Ali's Capital A/c			10,000
	(Profit adjusted due to change in profit sharing ratio)			

Page : 106 , Block Name : Numerical Questions

Q38 Mannu and Shristhi are partners in a firm sharing profit in the ratio of 3 : 2. Following is the balance sheet of the firm as on March 31, 2017.

Liabilities		Amount Rs	Assets		Amount Rs
Mannu's Capital A/c	30,000		Drawings :		
Shristhi's Capital A/c	10,000	40,000	Mannu A/c	4,000	
			Shristhi A/c	2,000	6,000
			Other Assets		34,000

	40,000		40,000

Profit for the year ended March 31, 2017 was Rs 5,000 which was divided in the agreed ratio, but interest @ 5% p.a. on capital and @ 6% p.a. on drawings was inadvertently enquired. Adjust interest on drawings on an average basis for 6 months. Give the adjustment entry.

Answer.

Adjustment of Profit

	Mannu's	Shrishti		Total
Interest on Capital	1,500	500	=	2,000
Less: Interest on Drawings	(120)	(60)	=	(180)
Right distribution of Rs 1,820	1,380	440	=	1,820
Less: Wrong distribution of Rs 1,820 (3 : 2)	(1,092)	(728)	=	(1,820)
Adjusted Profit	288	(288)	=	NIL

Adjusting Journal Entry

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
	Shrishti's Capital A/c Dr. To Mannu's Capital A/c (Adjustment of profit made)		288	 288

Page : 107 , Block Name : Numerical Questions

Q39 On March 31, 2017 the balance in the capital accounts of Eluin, Monu and Ahmed, after making adjustments for profits, drawing, etc; were Rs 80,000, Rs 60,000 and Rs 40,000 respectively. Subsequently, it was discovered that interest on capital and interest on drawings had been omitted. The partners were entitled to interest on capital @ 5% p.a. The drawings during the year were Eluin Rs 20,000; Monu, Rs 15,000 and Ahmed, Rs 9,000. Interest on drawings chargeable to partners were Eluin Rs 500, Monu Rs 360 and Ahmed Rs 200. The net profit during the year amounted to Rs 1,20,000. The profit sharing ratio was 3 : 2 : 1. Pass necessary adjustment entries.

Answer.

In this question interest on capital shall be calculated on opening capital

	Eluin	Monu	Ahmed
Capital on 31 Mar. 2017 (Closing Capital)	80,000	60,000	40,000
Add: Drawings	20,000	15,000	9,000
Less: Profit Rs 120,000 (3:2:1)	(60,000)	(40,000)	(20,000)
Capital on April 01, 2016 (Opening Capital)	40,000	35,000	29,000

Adjustment of Profit

	Eluin	Monu	Ahmed		Total
Interest on Capital (on Opening Capital)	2,000	1,750	1,450	=	5,200
Less: Interest on Drawings	(500)	(360)	(200)	=	(1,060)
Right distribution of Rs 4,140	1,500	1,390	1,250	=	4,140
Less: Wrong distribution of Rs 4,140 (in the ratio 3:2:1)	(2,070)	(1,380)	(690)	=	(4,140)
	(570)	10	560	=	NIL

Adjusting Journal Entry

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Eluin's Capital A/c Dr.		570	
	To Monu's Capital A/c			10
	To Ahmed's Capital A/c			560
	(Adjustment of Profit made)			

Page : 107 , Block Name : Numerical Questions

Q40 Azad and Benny are equal partners. Their capitals are Rs 40,000 and Rs 80,000, respectively. After the accounts for the year have been prepared it is discovered that interest at 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 adjustment entry at the beginning of the next year. Record the necessary journal entry.

Answer.

Interest on Capital =

Azad=$40{,}000 * \frac{5}{100} = 2{,}000\ Rs$

Benny=$80{,}000 * \frac{5}{100} = 4{,}000\ Rs$

Adjustment of Profit

	Azad	Benny		Total
Interest on Capital	2,000	4,000	=	6,000
Less: Wrong distribution of Profit Rs 6,000 (1: 1)	(3,000)	(3,000)	=	(6,000)
Adjusted Profit	(1,000)	(1,000)	=	NIL

Adjusting Journal Entry

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
	Azad's Current A/c Dr.		1,000	
	To Benny's Current A/c			1,000
	(Adjustment of profit made)			

Page : 107 , Block Name : Numerical Questions

Q41 Kavita and Pradeep are partners, sharing profits in the ratio of 3 : 2. They employed Chandan as their manager, to whom they paid a salary of Rs 750 p.m. Chandan deposited Rs 20,000 on which interest is payable @ 9% p.a. At the end of 2017 (after the division of profit), it was decided that Chandan should be treated as partner w.e.f. Jan. 1, 2014 with 1/6 the share in profits. His deposit being considered as capital carrying interest @ 6% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

		Rs
2014	Profit	59,000
2015	Profit	62,000
2016	Loss	(4,000)
2017	Profit	78,000

Record the necessary journal entries to give effect to the above.

Answer.

			Interest on Loan	+	Salary	=	Total
2014	59,000	+	1,800	+	9,000	=	69,800
2015	62,000	+	1,800	+	9,000	=	72,800
2016	(4,000)	+	1,800	+	9,000	=	6,800
2017	78,000	+	1,800	+	9,000	=	88,800
	1,95,000	+	7,200	+	36,000	=	2,38,200

Calculation of Amount Chandan received as Manager = Interest on Loan + Salary = 7,200 + 36,000 = Rs 43,200

Calculation of Total Profit of 4 years before interest on Chandan's Loan and Salary = 2,38,200

Calculation of Interest on Chandan's Capital for 4 years ={20,000 × (6/100) = 1,200}

= 1,200 × 4 = Rs 4,800

Calculation of Profit after interest on all partners Capital= Total Profit of four years before interest on Chandan's loan and Salary – Interest on Chandan's Capital for four years

= 2,38,200 – 4,800= Rs 2,33,400

Wrong Distribution – Distribution of 4 years

Calculation of Profit when Chandan is Manager

Kavita=1,95,000×$\frac{3}{5}$	=	1,17,000
Pradeep=1,95,000×$\frac{2}{5}$	=	78,000

Amount Chandan received as manager = Interest on Loan + Salary

= 7,200 + 36,000	=	43,200
		2,38,200

Right Distribution – Division of Profit when Chandan as Partner

Chandan Share of Profit {2,33,400 × (1/6)}	38,900
Interest on Capital	4,800
	43,700

Kavita's Share of Profit (2,33,400 – 38,900)×$\frac{3}{5}$ =1,16,700

Pradeep's share of Profit (2,33,400 – 38,900)×$\frac{2}{5}$ =77,800

Adjustment of Profit

	Kavita		Pradeep		Chandan	=	Total
Distribution of profit when Chandan as partner	1,16,700		77,800		43,700	=	2,38,200
Less: Distribution of profit when Chandan as manager	(1,17,000)		(78,000)		(43,200)	=	(2,38,200)
Right distribution of Rs 4,140	(300)		(200)		(500)	=	NIL

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Kavita's Capital A/c Dr.		300	

	Pradeep's Capital A/c Dr.		200	
	To Chandan's Capital A/c			500
	(Adjustment of profit made)			

Page : 108 , Block Name : Numerical Questions

Q42 Mohan, Vijay and Anil are partners, the balance on 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 March 31, 2017 amounting to Rupees 24,000 had been credited to partners in the proportion in which they shared profits. During the tear their drawings for Mohan, Vijay and Anil were Rs 5,000, Rs 4,000 and Rs 3,000, respectively. Subsequently, the following omissions were noticed:

(a) Interest on Capital, at the rate of 10% p.a., was not charged.

(b) Interest on Drawings: Mohan Rs 250, Vijay Rs 200, Anil Rs 150 was not recorded in the books.

Record necessary corrections through journal entries.

Answer.

We know Interest on Capital is calculated on opening capital. So calculation of opening capital-

	Mohan	Vijay	Anil
Closing Capital	30,000	25,000	20,000
Add: Drawings	5,000	4,000	3,000
Less: Profit (1:1:1)	(8,000)	(8,000)	(8,000)
Opening Capital	27,000	21,000	15,000

Calculation of Interest on Capital=

Interest on Capital of Mohan=$27{,}000 * \frac{10}{100} = 2{,}700\ Rs$

Interest on Capital of Vijay=$21{,}000 * \frac{10}{100} = 2{,}100\ Rs$

Interest on Capital of Anil=$15{,}000 * \frac{10}{100} = 1{,}500\ Rs$

Adjustment of Profit

	Mohan	Vijay	Anil		Total
Interest on Capital (on Opening Capital)	2,700	2,100	1,500		6,300
Interest on Drawings	(250)	(200)	(150)		(600)
	2,450	1,900	1,350		5,700
Wrong distribution	(1,900)	(1,900)	(1,900)	=	(5,700)
	550	NIL	(550)		

Adjusting Journal Entry

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
	Anil's Capital A/c Dr.		550	
	To Vijay's Capital A/c			550
	(Adjustment of profit made)			

Page : 108 , Block Name : Numerical Questions

Q43 Anju, Manju and Mamta are partners whose fixed capitals were Rs 10,000, Rs 8,000 and Rs 6,000, respectively. As per the partnership agreement, there is a provision for allowing interest on capitals @ 5% p.a. but entries for the same have not been made for the last three years. The profit sharing ratio during there years remained as follows:

Year	Anju	Manju	Mamta
2014	4	3	5
2015	3	2	1
2016	1	1	1

Make necessary and adjustment entry at the beginning of the fourth year i.e. Jan. 2017.

Answer.

Calculation of Interest on Capital=

Interest on Capital of Anuj=$10{,}000 * \frac{5}{100} = 500\ Rs$

Interest on Capital of Manju=$8{,}000 * \frac{5}{100} = 400\ Rs$

Interest on Capital of Mamta=$6{,}000 * \frac{5}{100} = 30\ Rs$

Adjustment of profit

Year 2014

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300		1,200
Wrong distribution of Rs 1,200 (4:3:5)	(400)		(300)		(500)	=	(1,200)
	100		100		(200)		NIL

Year 2015

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300		1,200
Wrong distribution of Rs 1,200 (3:2:1)	(600)		(400)		(200)	=	(1,200)
	(100)		NIL		100		NIL

Year 2016

	Anuj		Manju		Mamta	=	Total
Interest on Capital	500		400		300		1,200
Wrong distribution of Rs 1,200 (1:1:1)	(400)		(400)		(400)	=	(1,200)
	100		NIL		(100)		NIL

Final Adjustment

	Anuj		Manju		Mamta
2014	100		100		(200)
2015	(100)		NIL		100
2016	100		NIL		(100)

	100	100	(200)

Adjusting Journal Entry

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
Jan. 2017				
	Mamta's Capital A/c Dr.		200	
	To Anuj's Capital A/c			100
	To Manju Capital A/c			100
	(Adjustment of profit made)			

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Q44 Dinker and Ravinder were partners sharing profits and losses in the ratio of 2:1. The following balances were extracted from the books of account, for the year ended December 31, 2017.

Account Name	Debit Amount Rs	Credit Amount Rs
Capital		
Dinker		2,35,000
Ravinder		1,63,000
Drawings		
Dinker	6,000	
Ravinder	5,000	
Opening Stock	35,100	
Purchases and Sales	2,85,000	3,75,800
Carriage inward	2,200	

Returns	3,000	2,200
Stationery	1,200	
Wages	12,500	
Bills receivables and Bills payables	45,000	32,000
Discount	900	400
Salaries	12,000	
Rent and Taxes	18,000	
Insurance premium	2,400	
Postage	300	
Sundry expenses	1,100	
Commission		3,200
Debtors and creditors	95,000	40,000
Building	1,20,000	
Plant and machinery	80,000	
Investments	1,00,000	
Furniture and Fixture	26,000	
Bad Debts	2,000	
Bad debts provision		4,600
Loan		35,000
Legal Expenses	200	
Audit fee	1,800	
Cash in Hand	13,500	
Cash at Bank	23,000	
	8,91,200	8,91,200

Prepare final accounts for the year ended December 31,2017, with following adjustment:

(a) Stock on December 31,2017, was Rs 42,500.

(b) A Provision is to be made for bad debts at 5% on debtors

(c) Rent outstanding was Rs 1,600.

(d) Wages outstanding were Rs 1,200.

(e) Interest on capital to be allowed on capital @ 4% per annum and interest on drawings to be charged @ 6% per annum.

(f) Dinker and Ravinder are entitled to a Salary of Rs 2,000 per annum

(g) Ravinder is entitled to a commission Rs 1,500.

(h) Depreciation is to be charged on Building @ 4%, Plant and Machinery, 6%, and furniture and fixture, 5%.

(i) Outstanding interest on loan amounted to Rs 350.

Answer.

Trading Account

For the year ending December 31,2017

Dr. Cr.

Particulars			Amount Rs	Particulars		Amount Rs
To Opening Stock			35,100	By Sales	3,75,800	
To Purchases	2,85,000			Less: Sales Return	(3,000)	3,72,800
Less: Purchases Return	(2,200)		2,82,800			
				By Closing Stock		42,500
To Carriage Inwards			2,200			
To Wages		12,500				
Add: Outstanding		1,200	13,700			
To Gross Profit			81,500			
			4,15,300			4,15,300

Profit and Loss Account

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Stationery		1,200	By Gross Profit	81,500
To Discount Allowed		900	By Discount Received	400
To Salaries		12,000	By Commission	3,200
To Rent & Taxes	18,000			
Add: Outstanding	1,600	19,600		
To Insurance Premium		2,400		
To Postage		300		
To Sundry Expenses		1,100		
To Depreciation on				
Building		4,800		
To Plant and Machinery		4,800		
To Fixtures and Fittings		1,300		
To Provision for Bad Debts	4750			
Add: Bad Debt	2,000			
	6,750			

Less: (Old) Provision for Bad Debt	(4,600)	2,150		
To Legal Expenses		200		
To Audit Fee		1,800		
To Outstanding Interest on Loan		350		
To Profit and Loss Appropriation		32,200		
		85,100		85,100

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Interest on Capital			By Net Profit		32,200
Dinker	9,400		By Interest on Drawings		
Ravinder	6,520	15,920	Dinker A/c	180	
			Ravinder A/c	150	330
To Partner's Salaries					
Dinker	2,000				
Ravinder	2,000	4,000			

To Commission (Ravinder)		1,500		
To Profit transferred to				
Dinker's Capital A/c	7,407			
Ravinder's Capital A/c	3,703	11,110		
		32,530		32,530

Partners' Capital Account

Dr. Cr.

Particulars	Dinker	Ravinder	Particulars	Dinker	Ravinder
To Drawings	6,000	5,000	By Balance b/d	2,35,000	1,63,000
To Interest on Drawings	180	150	By Interest on Capital	9,400	6,520
To Balance c/d	2,47,627	1,71,573	By Partner's Salaries	2,000	2,000
			By Profit & Loss Appropriation	7,407	3,703
			By Commission		1,500
	2,53,807	1,75,223		2,53,807	1,75,223

Balance Sheet

Liabilities	Amount	Assets	Amount Rs

		Rs			
Bills Payable		32,000	Bills Receivables		45,000
Creditors		40,000	Debtors	95,000	
Loan	35,000		Less: 5% Provision for Bad Debts	(4,750)	90,250
Add: Outstanding Interest	350	35,350			
			Building	1,20,000	
Rent Outstanding		1,600	Less: 4% Depreciation	(4,800)	1,15,200
Wages outstanding		1,200			
Capital:			Plant and Machinery	80,000	
Dinker A/c	2,47,627		Less: 6% Depreciation	(4,	75,200

				800)	
Ravinder A/c	1,71,573	4,19,200			
			Investments		1,00,000
			Furniture and Fixtures	26,000	
			Less: 5% Depreciation	(1,300)	24,700
			Cash in Hand		13,500
			Cash at Bank		23,000
			Closing Stock		42,500
		5,29,350			5,29,350

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Q45 Kajol and Sunny were partners sharing profits and losses in the ratio of 3:2. The following Balances were extracted from the books of account for the year ended March 31, 2015 -

Account Name	Debit Amount Rs	Credit Amount Rs
Capital		
Kajol		1,15,000

Sunny		91,000
Current accounts [on 1-04-2005*]		
Kajol		4,500
Sunny	3,200	
Drawings		
Kajol	6,000	
Sunny	3,000	
Opening stock	22,700	
Purchases and Sales	1,65,000	2,35,800
Freight inward	1,200	
Returns	2,000	3,200
Printing and Stationery	900	
Wages	5,500	
Bills receivables and Bills payables	25,000	21,000
Discount	400	800
Salaries	6,000	
Rent	7,200	
Insurance premium	2,000	
Traveling expenses	700	
Sundry expenses	1,100	
Commission		1,600
Debtors and Creditors	74,000	78,000
Building	85,000	
Plant and Machinery	70,000	
Motor car	60,000	
Furniture and Fixtures	15,000	
Bad debts	1,500	
Provision for doubtful debts		2,200
Loan		25,000

Legal expenses	300	
Audit fee	900	
Cash in hand	7,500	
Cash at bank	12,000	
	5,78,100	5,78,100

Prepare final accounts for the year ended March 31, 2015, with following adjustments:

(a) Stock on March 31, 2015 was Rs37,500.

(b) Bad debts Rs3,000 ; Provision for bad debts is to be made at 5% on debtors

(c) Rent Prepaid were Rs1,200 .

(d) Wages outstanding were Rs 2,200.

(e) Interest on capital to be allowed on capital at 6% per annum and interest on drawings to be charged @ 5% per annum.

(f) Kajol is entitled to a Salary of Rs 1,500 per annum.

(g) Prepaid insurance was Rs 500.

(h) Depreciation was charged on Building, @ 4%; Plant and Machinery, @ 5%; Motor car, @ 10% and furniture and fixture, @ 5%.

(i) Goods worth Rs 7,000 were destroyed by fire on January 20,2015. The Insurance company agreed to pay Rs 5,000 in full settlement of the claim.
*As per the question, this year should be 01-04-2014

Answer.

Financial Statement as on March 31, 2015

Trading Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Opening Stock		22,700	By Sales	2,35,800	
Purchases	1,65,000		Less: Sales Return	(2,000)	2,33,800

Less: Purchases Return	(3,200)			
Less: Goods Lost by Fire	(7,000)	1,54,800	By Closing Stock	37,500
To Freight Inward		1,200		
To Wages	5,500			
Add: Outstanding	2,200	7,700		
To Gross Profit		84,900		
		2,71,300		2,71,300

Profit and Loss Account

Dr. Cr.

Particulars		Amount Rs	Particulars	Amount Rs
To Printing and Stationery		900	By Gross Profit	84,900
To Discount Allowed		400	By Discount Received	800
To Salaries		6,000	By Commission	1,600
To Rent	7,200		By Insurance Co. (Claim)	5,000
Less: Prepaid	(1,200)	6,000		
To Insurance Premium	2,000			
Less: Prepaid	(500)	1,500		
To Travelling Expenses		700		
To Sundry Expenses		1,100		

To Bad Debt	1,500			
Add: Further Bad debt	3,000			
Add: Provision for Bad Debts	3,550			
	8,050			
Less: Provision for Bad Debt (Old)	(2,200)	5,850		
To Legal Expenses		300		
To Audit Fee		900		
To Goods Lost by Fire		7,000		
To Depreciation on				
Building		3,400		
To Plant and Machinery		3,500		
To Motor Car		6,000		
To Furniture and Fixture		750		
To Net Profit		48,000		
		92,300		92,300

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount Rs	Particulars		Amount Rs
To Interest on Capital			By Net profit		48,000
Kajol A/c	6,900				
Sunny A/c	5,460	12,360	Interest on Drawings		
			Kajol A/c	300	
To Partner's Salaries			Sunny A/c	150	450

Kajol A/c		1,500		
To Profit & Loss – Gross Profit				
Kajol's Current A/c	20,754			
Sunny's Current A/c	13,836	34,590		
		48,450		48,450

Partners' Capital Account

Dr. Cr.

Particulars	Kajol	Sunny	Particulars	Kajol	Sunny
			By Balance b/d	1,15,000	91,000
To Balance c/d	1,15,000	91,000			
	1,15,000	91,000		1,15,000	90,000

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