Short Questions for NCERT Accountancy Solutions Class 12 Part 1 Chapter 2

1. Define Partnership Deed.

A partnership deed also referred to as a partnership agreement, is a document of importance that contains the details of all the rights and responsibilities of the concerned parties involved in a business. It helps in preventing any kind of disputes or disagreements that can arise between partners over their role on the business and the associated benefits from the partnership in the firm.

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

According to the Partnership Act, 1932, having a Partnership deed in writing is not mandatory. However, it is a safe option to have it in writing as it helps avoid any kind of disputes that may arise between partners of a firm in future. It also helps resolution of any kind of disputes as a written partnership that is signed by all the partners is suitable for use as an evidence in the court of law.

3. 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

(i) These items get credited:

1. Opening capital balance

2. Additional capital or Fresh capital that is added to the business.

These items get debited:

1. Part of capital that is withdrawn.

2. Closing capital balance

(ii)These items get debited

1. Opening capital balance

2. Fresh capital added in the accounting period

3. Salaries paid to partners

4. Profit share

5. Interest received on capital

These items get debited:

1. Withdrawals done during the accounting year.

2. Interest accumulated on withdrawals (drawing)

3. Closing capital balance

4. Loss on shares

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

It is prepared for the following reasons:

1. For recording transactions, errors or omissions which may be left while preparing the final accounts.

2. To act as a account for distributing profit and loss between partners

3. To accommodate for changes in partnership deed.

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

Following circumstances lead to change in fixed capital of partners

1. Introducing fresh capital in the firm by a partner with consent from other partners.

2. When a portion of capital is withdrawn with consent of partners.

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 If a fixed amount is withdrawn on the first day of every quarter, for what period the interest on total amount withdrawn will be calculated?

When there is withdrawal of money on first day of each quarter. Then the corresponding interest is calculated for a period of seven and half months on the total amount that is withdrawn.

7. 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.

1. Sharing of profits and losses: If a partnership deed is absent, then the profit sharing ratio should be equal among all partners, as per Partnership Act, 1932.

2. Interest on Partner's capital: If partnership deed is absent, then as per Partnership Act, 1932, the partners are not entitled to interest earned on capital.

3. Interest on Partner's drawings: If partnership deed is absent, then as per Partnership Act, 1932, in event of drawing money it shall be charged to the partners

4. Interest on Partner's loan: If partnership deed is absent then the partner is eligible for a 6% interest on loan to the firm

5. Salary to a partner: In case of absence of partnership deed, the partners are not eligible for any salary, any salary whatsoever if paid will be as appropriation of profit (in case there is profit)

Long Questions for NCERT Accountancy Solutions Class 12 Part 1 Chapter 2

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

According to Section 4 of the Partnership Act, 1932 a partnership is defined as "an agreement between two or more persons who have mutually agreed to share profits or losses that will be carried by all or any one of them acting for all". The individuals who setup the business jointly are called as partners and all the partners collectively are known as firm.

Following are the important characteristics of a partnership firm:

1. Number of partners: The minimum number of persons to form a partnership is 2 and the maximum is 50 as per Companies Rules Act, 2014. Any more than the specified limit makes partnership illegal.

2. Partnership Deed: A partnership deed is necessary document that contains all the terms of the partnership and the details about contribution of each partner towards the firm. It should be in written format as it helps in resolving disputes between partners and acts a evidence in d

3. Business: One of the important characteristics of business is that it is formed in order to do legal business. So any kind of business that is deemed illegal makes the partnership illegal

4. Profit/Loss Sharing: Partners are supposed to take profit and loss as per the ratio that was agreed at the time of partnership.

5. Liability: Firm has unlimited liability and the partners of the firm need to pay from the personal asset if the firm is unable to pay to any concerned third party

6. Mutual Agency: The firm is an agency and all the partners are its agents. Every partner is an agent and binds other partners by his/her act while at the same time is bound by other partners actions.

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

As per the Indian Partnership Act, 1932. Here are the following provisions that stays relevant when a partnership deed is not present:

1. Sharing of profits and losses: If a partnership deed is absent, then the profit sharing ratio should be equal among all partners, as per Partnership Act, 1932.

2. Interest on Partner's capital: If partnership deed is absent, then as per Partnership Act, 1932, the partners are not entitled to interest earned on capital.

3. Interest on Partner's drawings: If partnership deed is absent, then as per Partnership Act, 1932, no interest shall be charged to the partners in event of drawing money.

4. Interest on Partner's loan: If partnership deed is absent then the partner is eligible for a 6% interest on loan to the firm.

5. Salary to a partner: In case of absence of partnership deed, the partners are not eligible for any salary, any salary whatsoever if paid will be as appropriation of profit (in case there is profit).

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

According to the Partnership Act, 1932, it is not mandatory to have Partnership deed in writing. However, it is a safe option to have it in writing as there are chances that the partners may have conflicts in the future that gives rise to dispute among the partners regarding the operations of the firm. A partnership deed that is documented helps in proper functioning of the firm and assists in avoiding any kind of disputes that may arise between partners of a firm in future. It also helps resolution of any kind of disputes as, a written partnership that is signed by all the partners is suitable for use as an evidence in the court of law.

4. Illustrate how interest on drawings will be calculated under various situations.

A partner whenever withdraws from the firm, any amount which can be in the form of cash or other forms solely for personal use is called drawings. Interest on drawings is referred to the amount that is charged by firm as interest on the total amount taken as drawings. Interest calculation is dependent on the time and the frequency in which drawing is made. Here are some situations that can be shown where calculation is done for interest charged on drawings.

Situation 1: When Amount, Rate of Interest and Date of drawing is present

A partner withdrew ₹ 10,000 on July 01 charged at 10% p.a. and the firm closes its books on December 31. Interest will be calculated as

$$\text{Interest on drawings} = \text{Total Amount} \times \frac{\text{Rate of Interest}}{100} \times \frac{\text{Period}}{12}$$

Interest on Drawings = $10{,}000 \times \frac{10}{100} \times \frac{6}{12}$ = Rs. 500

Situation 2: Information available regarding rate of interest and amount

Case I: When details regarding amount of drawing and rate of interest per annum is given, but date of drawing not mentioned, then period of drawing is counted as six (6) months.

Example- A partner withdrew ₹ 10,000, rate of interest charged at 10%, then it will be calculated as:

Interest on Drawings = 10,000 × $\frac{10}{100}$ ×$\frac{6}{12}$ = ₹ 500

Case II: Rate of Interest and Date Given, rate per annum not specified, interest is charged annually.

Example- Partner draws ₹ 10,000, interest rate 10%, then total interest will be

Interest on Drawings = 10,000 × $\frac{10}{100}$ = ₹ 1000

Situation 3: Fixed amount withdrawn at regular intervals

Case I: For fixed amount withdrawn at the beginning of each month, interest calculated for 6.5 months

For e.g: Partner withdraws 1,500 per month with an interest rate of 10% p.a, then it will be calculated as

18,000 × $\frac{10}{100}$ ×$\frac{6.5}{12}$ = ₹ 975

Case II: For fixed amount withdrawn at end of each month, interest will be applicable for 5.5 months.

Example- If a partner withdraws ₹ 1,500 at the end of each month and rate of interest is 10% p.a., then the interest on drawings amount to ₹ 825

18,000 × $\frac{10}{100}$ ×$\frac{5.5}{12}$ = ₹ 825

Case III: Fixed amount withdrawn at middle of every month (15th of every month), interest calculated for 6 months

Example- Partner withdraws ₹ 1,500 on 15th of every month, rate of interest 10% p.a., then it will be calculated as

18,000 × $\frac{10}{100}$ ×$\frac{6}{12}$ = ₹ 900

Case IV: For fixed amount withdrawn at start of every quarter, interest calculated for seven and half (7.5) months

Example- Partner withdraws ₹ 2,500 in the beginning of every quarter, rate of interest 10% p.a, then interest is calculated as

10,000 × $\frac{10}{100}$ ×$\frac{7.5}{12}$ = ₹ 625

Case V: For fixed amount withdrawn at end of every quarter, interest calculated for 4.5 months.

Example- Partner withdraws ₹ 2,500 at the end of every quarter. Rate of interest 10% p.a. Interest calculated as:

10,000 × $\frac{10}{100}$ ×$\frac{4.5}{12}$ = ₹ 375

Situation 4: Different amount withdrawn at different intervals

For drawings made at different points of time by a partner, the interest is calculated using Product Method. Time period is calculated from date of withdrawal to end of accounting period.

Example- Partner withdraws ₹ 5,000 on January 01, ₹ 3000 on March 01, ₹ 5,000 on July. 30 and ₹ 1000 on November 30th. Rate of interest 10% p.a. Book closes on Dec 31st

It is calculated as:

Interest on Drawings					
Date	**Amount ₹**	**Outstanding Period**	**Product**		
Jan. 01	5,000	12	5,000 ´ 12	=	60,000
March. 01	3,000	8	3,000 ´ 10	=	30,000
July. 30	5,000	5	5,000 ´ 5	=	25,000
Nov. 30	1,000	1	1,000 ´ 1	=	1,000
					1,16,000

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

= 1, 16,000× $\frac{10}{100}$ ×$\frac{4.5}{12}$ = ₹ 966.67

5. How will you deal with a change in the profit sharing ratio among existing partners? Take imaginary figures to illustrate your answer?

There is change in profit sharing only when there is addition of a new partner, retirement or death of partner or due to mutually agreed decision among the partners. Some of the factors that need to be taken into account while changing the profit sharing ratio are: goodwill, accumulated profits and reserves, liabilities and adjustment of capitals and profit or loss on the revaluation of the assets, etc.

General reserve is essentially the accumulated profits and profit or loss that is obtained on the revaluation of assets and liabilities, adjustments in capital etc.

If one or more partners decide that it is the right time for changing profit sharing ratio, then the gaining partner shall gain and the other will lose, therefore the gainer should compensate the latter. This results in debiting gaining partner capital account and crediting the sacrificing partners' capital account.

Gaining Partner's Capital A/c Dr.
To Sacrificing Partner's Capital A/c
(Adjustment entry passed)

Example:
Ram, Shyam, and Mohan are partners in a firm sharing profit and loss in 3:2:1 ratio. They decide to share profit and loss equally in future. On that date, the books of the firm shows ₹ 90,000 as general reserve, profit due to revaluation of plant and machinery ₹ 30,000. The following adjustment entry is passed through the capital accounts without affecting the books of accounts.

Particulars	Ram	Shyam	Mohan
Share of profit as per 3:2:1	45,000	30,000	15,000
Profit on revaluation of plant and machinery	15,000	10,000	5,000
	60,000	40,000	20,000
Share of profit as per 1:1:1	50,000	50,000	5,000
Difference (Gain or Loss)	25,000 (Loss)	-	25,000 (Gain)

Here Mohan gains while Ram loses, so Ram needs to be compensated by Mohan with an amount of ₹ 25,000. The following adjustment entry is passed.
Adjustment entry:

Mohan's Capital A/c	Dr.	25,000	
To Ram's Capital A/c			25,000
(Adjustment entry passed)			

Numerical Questions for NCERT Accountancy Solutions Class 12 Part 1 Chapter 2

1. Tripathi and Chauhan are partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were ₹ 60,000 and ₹ 40,000 as on January 01, 2015. During the year they earned a profit of ₹ 30,000. According to the partnership deed both the partners are entitled to ₹ 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 ₹ 12,000 for Tripathi, ₹ 8,000 for Chauhan. Prepare Partner's Accounts when, capitals are fixed.

a) If interest on Capital and Partners' salaries and interest on drawings is charged against profit, the solution will be as:

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
Profit transferred to		Profit and Loss	30,000
Tripathi's Current Account	18,000		
Chauhan's Current Account	12,000		
	30,000		30,000

Partners' Capital Account

Dr. **Cr.**

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
			Balance b/d	60,000	40,000
Balance c/d	60,000	40,000			
	60,000	40,000		60,000	40,000

Partners' Current Account

Dr. **Cr.**

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Drawings	12,000	8,000	Interest on Capital	3,000	2,000
Interest on Drawings	600	400	Partners' Salaries	12,000	12,000
Balance c/d	20,400	17,600	Profit & Loss Appropriation	18,000	12,000
	33,000	26,000		33,000	26,000

b)) If interest on Capital and Partners' salaries and interest on drawings is distributed out of profit**, the solution will be as:**

Profit and Loss Appropriation Account

Dr. **Cr.**

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

Partners' Capital Account

Dr. **Cr.**

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
			Balance b/d	60,000	40,000
Balance c/d	60,000	40,000			
	60,000	40,000		60,000	40,000

Partners' Current Account

Dr. **Cr.**

Particulars	Tripathi	Chauhan	Particulars	Tripathi	Chauhan
Drawings	12,000	8,000	Partners' Salaries	12,000	12,000
Interest on Drawings	600	400	Interest on Capital	3,000	2,000
Balance c/d	3,600	6,400	Profit and Loss Appropriation	1,200	800
	16,200	14,800		16,200	14,800

2. Anubha and Kajal are partners of a firm sharing profits and losses in the ratio of 2:1. Their capital, 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 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 account are fluctuating.

a) **Note: If Partners' Salaries, Interest on capital and Interest on Drawing are treated as these have already adjusted in Profit and Loss Account. The Solution will be as**

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars		Amount ₹	Particulars	Amount ₹
Profit Transferred to Current A/c			Profit and Loss	45,000
Anubha's Capital	30,000			
Kajal's Capital	15,000	45,000		
		45,000		45,000

Partners' Capital Account

Dr. **Cr.**

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

b) Alternative Note: If Partners' salaries, interest on capital and interest on drawings adjusted in Profit and Loss Appropriation Account. The solution will be as.

Profit and Loss Appropriation Account

Dr. Particulars		Amount ₹	Particulars		Cr. Amount ₹
Partners' Salaries:			Profit and Loss Account		45,000
Anubha	8,400		Interest on Drawings		
Kajal	6,000	14,400	Anubha	425	
			Kajal	325	750
Interest on Capital:					
Anubha	4,500				
Kajal	3,000	7,500			
Profit transferred to					
Anubha's Capital	15,900				
Kajal's Capital	7,950	23,850			
		45,750			45,750

Partners' Capital Account

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

3. Harshad and Dhiman are in partnership since April 01, 2016. No Partnership agreement was made. They contributed ₹ 4, 00,000 and 1, 00,000 respectively as capital. In addition, Harshad advanced an amount of ₹ 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 ₹ 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 ₹ 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.

The solution for this question is as follows:

DISTRIBUTION OF PROFITS

Harshad Claims:

Decisions

(i) If there is no agreement on interest on partner's capital, according to Indian partnership act 1932, no interest will be allowed to partners.
(ii) If there is no agreement on the matter of profit sharing, according to partnership act 1932, profit shall be distributed equally.

Dhiman Claims:

Decisions

(i) Dhiman claim is justified, according partnership act 1932 if there is no agreement on the matter of profit distribution, profit shall be distributed equally.
(ii) No salary will be allowed to any partner because there is no agreement on matter of remuneration.
(iii) Dhiman's claim is not justified on the matter of interest on capital but justified on the matter of interest on loan. If there is no agreement on interest on partner's loan, Interest shall be provided at 6% p.a.

Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
Interest on Partner's Loan		Profit and Loss	1,80,000
Harshad 1,00,000 × (6/100) × (6/12)	3,000		
Profit and Loss Appropriation	1,77,000		
	1,80,000		1,80,000

Profit and Loss Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
Profit transferred to		Profit and Loss Adjustment	1,77,000
Harshad's Capital	88,500		
Sharma's Capital	88,500		
	1,77,000		1,77,000

4. Aakriti and Bindu entered into partnership for making garment on April 01, 2016 without any Partnership agreement. They introduced Capitals of ₹ 5, 00,000 and ₹ 3, 00,000 respectively on October 01, 2016. Aakriti Advanced. ₹ 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 ₹ 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.

The solution for this question is as follows:

Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars		Amount ₹	Particulars	Amount ₹
Interest on Partner's Loan			Profit and Loss	43,000
Aakriti 20,000 × (6/100) × (6/12)		600		
Profit transferred to				
Aakriti's Capital	21,200			
Bindu's Capital	21,200	42,400		
		43,000		43,000

Reason

a) Interest on partner's loan shall be allowed at 6% p.a. because there is no partnership agreement.
b) Interest on capital shall not be allowed because there is no agreement on interest on capital.
c) Profit shall be distributed equally because profit sharing ratio has not been given.

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

If interest on capital and Partners' salaries will be provided even if firm involves in loss.

The solution for this question is as follows:

Profit and Loss Appropriation Account

Dr. Particulars		Amount ₹	Particulars		Cr. Amount ₹
Partner's Salaries			Profit and Loss		23,200
Shikha		60,000	Loss transferred to		
			Rakhi Capital	34,720	
Interest on Capital			Shikha's Capital	52,080	86,800
Rakhi	20,000				
Shikha	30,000	50,000			
		1,10,000			1,10,000

Partners' Capital Account

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

If interest on capital and salaries will be provided out of profit

Profit and Loss Appropriation Account

Dr. Particulars	Amount ₹	Particulars	Cr. Amount ₹
Partner's Salaries		Profit and Loss	23,200
Shikha {23,200 × (6/11)}	12,655		
Interest on Capital			
Rakhi {23,200 × (2/11)}	4,218		
Shikha {23,200 × (3/11)}	6,327		
	23,200		23,200

If profit is less than the sum of distributable items, distribution shall be in proportion of items for distribution.

Partners Salaries	**Ratio**		
Shikhar (₹ 60,000)	6	23,200 × (6/11)	12,655
Interest on Capital			
Rakhi (₹ 20,000)	2	23,200 × (2/11)	4,218
Shikhar (₹ 30,000)	3	23,200 × (3/11)	6,327
	11		23,200

Partners' Capital Account

Dr. **Cr.**

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

6. Lokesh and Azad are partners sharing profits in the ratio 3:2, with capitals of ₹ 50,000 and ₹ 30,000, respectively. Interest on capital is agreed to be paid @ 6% p.a. Azad is allowed a salary of ₹ 2,500 p.a. During 2016, the profits prior to the calculation of interest on capital but after charging Azad's salary amounted to ₹ 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.

The solution for this question is as follows:

Profit and Loss Adjustment Account

Dr. Cr.

Particulars		Amount ₹	Particulars	Amount ₹
Interest on Capital			By Profit and Loss (12,500 + 2,500)	15,000
Lokesh	3,000			
Azad	1,800	4,800		
Partner's Salaries				
Azad		2,500		
Provision for				
Manager's Commission 15,000 × (5/100)		750		
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**
			Balance b/d	50,000	30,000
			Interest on Capital	3,000	1,800
Balance c/d	57,170	37,080	Partner's Salaries		2,500
			Profit and Appropriation	4,170	2,780
	57,170	37,080		57,170	37,080

7. The partnership agreement between Maneesh and Girish provides that:

(i) Profits will be shared equally;

(ii) Maneesh will be allowed a salary of ₹ 400/month;

(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 Maneesh and Girish are ₹ 1, 00,000 and ₹ 80,000, respectively. Their annual drawings were ₹ 16,000 and 14,000, respectively. The net profit for the year ending March 31, 2015 amounted to ₹ 40,000;

Prepare firm's Profit and Loss Appropriation Account.

The solution for this question is as follows:

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars		**Amount ₹**	**Particulars**		**Amount ₹**
Partner's Salary			Profit and Loss		40,000
Maneesh		4,800	Interest on Drawings		
			Maneesh	800	
Partner's commission			Girish	700	1,500
Girish {(40,000 – 4,800) × (10/100)}		3,520			
Interest on Capital					
Mannesh	7,000				

Girish	5,600	12,600		
Profit transferred to				
Maneesh's Current	10,290			
Girish's Current	10,290	20,580		
		41,500		41,500

8. 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 ₹ 10,000 as his share of profits every year. The net profit for the year 2013 amounted to ₹ 40,000. Prepare the Profit and Loss Appropriation Account.

The solution for this question is as follows:

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
Profit transferred to		Profit and Loss	40,000
Ram's Capital (20,000 – 1,250)	18,750		
Raj's Capital (12,000 – 750)	11,250		
George's Capital (8,000 + 1,250 + 750)	10,000		
	40,000		40,000

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

The solution for this question is as follows:

Profit and Loss Appropriation Account for the year ended 31st31st **March 2016**

Dr. **Cr.**

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Profit transferred to		Profit and Loss	40,000
Amann's Capital 16,000	16,000		
Babita's Capital (16,000 – 2,000)	14,000		
Suresh's Capital (8,000 + 2,000)	10,000		
	40,000		40,000

Profit and Loss Appropriation Account for the year ended 31st March 2017

Dr. **Cr.**

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Profit transferred to		Profit and Loss	60,000
Amann's Capital	24,000		
Babita's Capital	24,000		
Suresh's Capital	12,000		
	60,000		60,000

10. 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 ₹ 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, ₹ 30,000; Sonu, ₹ 60,000;

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

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

(iii) Partners drawings during the year amounted to

Simmi, ₹ 20,000; Sonu, ₹ 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 ₹ 12,000 and Sonu ₹ 9,000. Also show the partners' current accounts.

The solution for this question is as follows:

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars		Amount ₹	Particulars		Amount ₹
Interest on Capital			Profit and Loss Account		1,50,000
Simmi	1,500		Interest on Drawings		
Sonu	3,000	4,500	Simmi	600	
			Sonu	450	1,050
Partners' Salaries					
Simmi	12,000				
Sonu	9,000	21,000			
Profit transferred to					
Simmi's Current	94,162				
Sonu's Current	31,388	1,25,550			
		1,51,050			1,51,050

Partners' Capital Account

Dr. **Cr.**

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

Partners' Current Account

Dr. **Cr.**

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

11. Ramesh and Suresh were partners in a firm sharing profits in the ratio of their capitals contributed on commencement of business which were ₹ 80,000 and ₹ 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 ₹ 2,000 and ₹ 3,000, respectively. The profits for year ended March 31, 2017 before making above appropriations was ₹ 1, 00,300. The drawings of Ramesh and Suresh were ₹ 40,000 and ₹ 50,000, respectively. Interest on drawings amounted to ₹ 2,000 for Ramesh and ₹ 2,500 for Suresh. Prepare Profit and Loss Appropriation Account and partners' capital accounts, assuming that their capitals are fluctuating.

The solution for this question is as follows:

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars		**Amount ₹**	**Particulars**	**Amount ₹**
Interest on Capital			Profit and Loss	1,00,300
Ramesh	9,600		Interest on Drawings	

Suresh	7,200	16,800	Ramesh	2,000	
			Suresh	2,500	4,500
Partners' Salaries					
Ramesh	24,000				
Suresh	36,000	60,000			
Profit Transferred to					
Ramesh's Capital {28,000 × (4/7)}		16,000			
Suresh's Capital {28,000 × (3/7)}		12,000			
		1,04,800			1,04,800

Partners' Capital Account

Dr. **Cr.**

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

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

12. 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 ₹ 600.

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

	Sukesh	**Verma***
	₹	**₹**
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 ₹ 9,500. Prepare the Profit and Loss Appropriation Account and the Partner's Current Accounts.

The solution for this question is as follows:

Profit and Loss Appropriation Account

Dr. Cr.

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

Partner's Capital Account

Dr. Cr.

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

Drawings	10,850	8,150	Balance b/d	7,200	2,800
			Partner's Salaries		7,200
			Profit and Loss Appropriation	3,300	2,200
Balance c/d	1,650	6,050	Interest on capital	2,000	2,000
	12,500	14,200		12,500	14,200

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

Interest on Capital is calculated as follows:

Rahul = 20, 00,000 × $\frac{5}{100}$ = ₹ 1, 00,000

Rohit = 18, 00,000 × $\frac{5}{100}$ = ₹ 90,000

Karan = 16, 00,000 × $\frac{5}{100}$ = ₹ 80,000

14. Sunflower and Pink Rose started partnership business on April 01, 2016 with capitals of ₹ 2, 50,000 and ₹ 1, 50,000, respectively. On October 01, 2016, they decided that their capitals should be ₹ 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.

The solution for this question is as follows:

Product Method

Sunflower

01 April 2016 to 30 September 2016	2,50,000 × 6 =	15,00,000
01 October 2016 to 31 March 2017	2,00,000 × 6 =	12,00,000
	Sum of Product	27,00,000

Pink Rose

01 April 2016 to 30 September 2016	1,50,000 × 6 =	9,00,000
01 October 2016 to 31 March 2017	2,00,000 × 6 =	12,00,000
	Sum of Product	21,00,000

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

$$\text{Interest on Sunflower's Capital} = 27,00,000 \times \frac{10}{100} \times \frac{1}{12} ₹\ 22,500$$

$$\text{Interest on Pink Rose's Capital} = 21,00,000 \times \frac{10}{100} \times \frac{1}{12} ₹\ 17,500$$

Alternative Method:

Simple Interest Method

Sunflower

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

Pink Rose

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

	Interest on Pink Rose's Capital	₹ 17,500

15. On March 31, 2017 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.

The solution for this question is as follows:

Generally interest on Capital is calculated on opening balance of capital. If additional capital is not given.

	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

Interest on Capital

Mountain 3,70,000 ×10 / 100= ₹ 37,000

Hill 2,65,000 × 10 / 100= ₹ 26,500

Rock 1,60,000 × 10 / 100= ₹ 16,000

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

Balance Sheet as at March 31, 2017

Liabilities	Amount ₹	Assets	Amount ₹
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 Apprpriation (March 2017)	**8,00,000**		
	30,00,000		**30,00,000**

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

Interest on Capital

Neelkant's 10,00,000 × 5 / 100= ₹ 50,000
Mahadev's 10,00,000 × 5 / 100= ₹ 50,000

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

May 01, 2017	**₹ 12,000**
July 31, 2017	**₹ 6,000**
September 30, 2017	**₹ 9,000**
November 30, 2017	**₹ 12,000**
January 01, 2018	**₹ 8,000**
March 31, 2018	**₹ 7,000**

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

Interest is calculated as follows:

Product Method

	Drawings × Period	**Product**
01 May, 2017 to 31 March 2018	12,000 × 11 =	1,32,000
31 July, 2017 to 31 March 2018	6,000 × 8 =	48,000
30 September, 2017 to 31 March 2018	9,000 × 6 =	54,000
30 Nov. 2017 to 31 March 2018	12,000 × 4 =	48,000
01 Jan. 2018 to 31 March 2018	8,000 × 3 =	24,000
31 March 2018 to 31 March 2018	7,000 × 0 =	0
	Sum of Product	3,06,000

Here the formula will be

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

= 3, 06,000 × $\frac{9}{100}\times\frac{1}{12}$

= ₹ 2,295

18. The capital accounts of Moli and Golu showed balances of ₹ 40,000 and ₹ 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 ₹ 10,000 to the firm on August 01, 2016. During the year, Moli withdrew ₹ 1,000 per month at the beginning of every month whereas Golu withdrew ₹ 1,000 per month at the end of every month. Profit for the year, before the above mentioned adjustments was ₹ 20,950. Calculate interest on drawings show distribution of profits and prepare partner's capital accounts.

The solution for this question is as follows:

Interest on Moli's Drawing = Total Drawings × $\frac{Rate}{100}\times\frac{13}{2\times 12}$

= $12,000\times\frac{12}{100}\times\frac{13}{2\times 12}$

= ₹ 780

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

= $12,000\times\frac{12}{100}\times\frac{11}{2\times 12}$

= ₹ 660

Profit and Loss Adjustment Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
Interest on Capital		Profit and Loss Account	20,950

Moli	4,000		Interest on Drawings		
Golu	2,000	6,000	Moli	780	
			Golu	660	1,440
Interest on Partner's Loan					
Golu's {10,000 × (6/100) × (8/12)}		400			
Profit transferred to					
Moli's Capital {15,990 × (3/5)}	9,594				
Golu's Capital {15,990 × (2/5)}	6,396	15,990			
		22,390			22,390

Partners' Capital Account

Dr. **Cr.**

Particulars	Moli	Golu	Particulars	Moli	Golu
Drawings	12,000	12,000	Balance b/d	40,000	20,000
Interest on Drawing	780	660	Interest on Capital	4,000	2,000
Balance c/d	40,814	15,736	Profit and Loss Adjustment	9,544	6,396
	53,594	28,396		53,594	28,396

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

Rakesh	Month	₹
	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.

The solution for this question is as follows:

Rakesh's Interest on Drawings

	Drawings × Period	Product
31 May 2016 to 31 March 2017	600 × 10 =	6,000
30 June 2016 to 31 March 2017	500 × 9 =	4,500
31 August 2016 to 31 March 2017	1,000 × 7 =	7,000
1 November 2016 to 31 March 2017	400 × 5 =	2,000
31 December 2016 to 31 March 2017	1,500 × 3 =	4,500
31 January 2017 to 31 March 2017	300 × 2 =	6,00
01 March 2017 to 31 March 2017	700 × 1 =	700
	Sum of Product	25,300

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

= $25,300 \times \frac{6}{100} \times \frac{1}{12}$

= ₹ 126.5

Interest on Rohan's Capital

= Total Drawing × $\frac{\text{Rate}}{100} \times \frac{13}{2 \times 12}$

$= 4,800 \times \frac{6}{100} \times \frac{13}{2 \times 12}$

= ₹ 156

20. Himanshu withdrew ₹ 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.

The solution for this question is as follows:

Total Drawing of Himanshu = ₹ 2,500 × 12 = ₹ 30,000

Interest on Drawing = Total Drawings × $\frac{\text{Rate}}{100} \times \frac{11}{2 \times 12}$

$= \text{Rs } 30,000 \times \frac{12}{100} \times \frac{11}{2 \times 12}$

= ₹ 1,650

21. Bharam is a partner in a firm. He withdraws ₹ 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.

The solution for this question is as follows:

Total Drawing of Bharam = ₹ 3,000 ×12 = ₹ 36,000

Interest on Drawing = Total Drawings × $\frac{\text{Rate}}{100} \times \frac{13}{2 \times 12}$

$$= \text{Rs } 36,000 \times \frac{10}{100} \times \frac{13}{2 \times 12}$$

= ₹ 1,950

22. Raj and Neeraj are partners in a firm. Their capitals as on April 01, 2017 were ₹ 2, 50,000 and ₹ 1, 50,000, respectively. They share profits equally. On July 01, 2017, they decided that their capitals should be ₹ 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.

The solution for this question is as follows:

Interest on Capital

<u>Raj</u>

	Capital × Period	Product
1 April 2017 to 30 June 2017	2,50,000 × 3 =	7,50,000
1 July 2017 to 31 March 2018	1,00,000 × 9 =	9,00,000
	Sum of Product	16,50,000

Interest = Sum of Product × $\frac{Rate}{100} \times \frac{1}{12}$

= 16, 50,000 × $\frac{8}{100} \times \frac{1}{12}$

= ₹ 11,000

Neeraj

	Capital × Period	Product
1 April 2017 to 30 June 2017	1,50,000 × 3 =	4,50,000
1 July 2017 to 31 March 2018	1,00,000 × 9 =	9,00,000
	Sum of Product	13,50,000

Interest = 13, 50,000 × $\frac{8}{100} \times \frac{1}{12}$ = ₹ 9,000

23. 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 ₹ 24,000 and ₹ 16,000, respectively. Calculate interest on drawings based on the assumption that the amounts were withdrawn evenly, throughout the year.

The solution for this question is as follows:

Interest on Drawings = Drawings × $\frac{Rate}{100}$

Amit = 24,000 × $\frac{10}{100} \times \frac{6}{12}$ = ₹ 1,200

Bhola = 16,000 × $\frac{10}{100} \times \frac{6}{12}$ = ₹ 800

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

	₹

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.

The solution for this question is as follows:

Calculation of interest on Harish's drawings

	Drawings × Period	**Product**
01 Feb. 17 to 31 Dec. 17	4,000 × 11 =	44,000
01 May 17 to 31 Dec. 17	10,000 × 8 =	80,000
30 June 17 to 31 Dec. 17	4,000 × 6 =	24,000
31 Oct. 17 to 31 Dec. 17	12,000× 2 =	24,000
31 Dec. 17 to 31 Dec. 17	4,000 × 0 =	0
	Sum of Product	1,72,000

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

25. Menon and Thomas are partners in a firm. They share profits equally. Their monthly drawings are ₹ 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.

The solution for this question is as follows:

Case (i)

If they withdraw money in the beginning of each month

Interest of drawings = Total drawings × Rate × $\frac{13}{2\times12}$

Menon's = 24,000 × $\frac{10}{100}\times\frac{13}{2\times12}$ = ₹ 1,300

Thomas's = 24,000 × $\frac{10}{100}\times\frac{13}{2\times12}$ = ₹ 1,300

Case (ii)

If they withdraw in the middle of every month

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

Menon's = 24,000 × $\frac{10}{100}\times\frac{6}{12}$ = ₹ 1,200

Thomas's = 24,000 × $\frac{10}{100}\times\frac{6}{12}$ = ₹ 1,200

Case (iii)

If they withdraw at the end of every month.

Interest on drawings = Total drawings × $\frac{\text{Rate}}{100}\times\frac{11}{2\times12}$

Menon's = 24,000 × $\frac{10}{100}\times\frac{11}{2\times12}$ = ₹ 1,100

Thomas's = 24,000 × $\frac{10}{100}\times\frac{11}{2\times12}$ = ₹ 1,100

26. On March 31, 2017, after the close of books of accounts, the capital accounts of Ram, Shyam and Mohan showed balance of ₹ 24,000 ₹ 18,000 and ₹ 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 ₹ 36,000 and the partner's drawings had been Ram, ₹ 3,600; Shyam, ₹ 4,500 and Mohan, ₹ 2,700. The profit sharing ratio of Ram, Shyam and Mohan was 3:2:1. Calculate interest on capital.

The solution for this question is as follows:

	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

Here, Interest on Capital = Opening Capital × $\frac{\text{Rate}}{100}$

Ram's = $9,600\times\frac{5}{100}$ = ₹ 480

Shyam's = $10,500\times\frac{5}{100}$ = ₹ 525

Mohan's = 8,700 × $\frac{5}{100}$ = ₹ 435

27. 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 ₹ 8,000. Profits for the year ended March 31, 2017 was ₹ 36,000. Divide profit among the partners.

The solution for this question is as follows:

Guarantee of Profit to the partners

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars		Amount ₹	Particulars	Amount ₹
Profit transferred to			Profit and Loss	36,000
Amit's Capital	18,000			
Less: Gurantee to Samiksha	(1,200)	16,800		

{2,000 × (3/5)}				
Sumit's Capital	12,000			
Less: Gurantee to Samiksha {2,000 × (2/5)}	(800)	11,200		
Samiksha Capital	6,000			
Add: Amit's Guarantee	1,200			
Add: Sumit's Guarantee	800	8,000		
		36,000		36,000

28. 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 ₹ 5,000. Deficiency, if any, would be borne by Pinki and Deepti equally. Profits for the year amounted to ₹ 40,000. Record necessary journal entries in the books of the firm showing the distribution of profit.

The solution for this question is as follows:

Profit and Loss Appropriation Account

Dr. **Cr.**

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

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

29. 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 ₹ 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 ₹ 40,000 and 60,000 respectively. Prepare Profit and Loss Appropriation Account.

The solution for this question is as follows:

Profit and Loss Appropriation Account as on March 31, 2016

Dr. **Cr.**

Particulars		Amount ₹	Particulars	Amount ₹
Profit transferred to			Profit and Loss	40,000
Abhay's Capital		20,000		
Siddharth's Capital	12,000			
Less: Guarantee to Kusum's	(2,000)	10,000		

Kusum's Capital	8,000			
Add: Deficiency received from Siddharth	2,000	10,000		
		40,000		40,000

Profit and Loss Appropriation Account as on March 31, 2017

Dr. Cr.

Particulars		Amount ₹	Particulars	Amount ₹
Profit transferred to			Profit and Loss	60,000
Abhay's Capital		30,000		
Siddharth's Capital		18,000		
Kusum's Capital		12,000		
		60,000		60,000

30. 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 ₹ 5,000. The profits for the year ending March 31, 2017 amounts to ₹ 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.

The solution for this question is as follows:

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount ₹	Particulars	Amount ₹
Profit transferred to			Profit and Loss	35,000
Radha's Capital	17,500			

Less: Fatima's Deficiency {1,500 × (3/5)}	(900)	16,600		
Mary's Capital	14,000			
Less: Fatima's Deficiency {1,500 × (2/5)}	(600)	13,400		
Fatima's Capital	3,500			
Add: Deficiency born by				
Radha	900			
Mary	600	5,000		
		35,000		35,000

Journal

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	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)			

Alternative Method

Journal

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	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)			

31. 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 ₹ 8,000. The net profit for the year ended March 31, 2017 was ₹ 30,000. Prepare Profit and Loss Appropriation Account, indicating the amount finally due to each partner.

The solution for this question is as follows:

Profit and Loss Appropriation Account as on March 31, 2017

Dr. **Cr.**

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

32. 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 ₹ 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) ₹ 2,50,000; (ii) 3,60,000.

The solution for this question is as follows:

(i)

Profit and Loss Appropriation Account as on March 31, 2015

Dr. Particulars		Amount ₹	Particulars	Cr. Amount ₹
Profit transferred to			Profit and Loss	2,50,000
Arun's Capital	1,00,000			
Less: Chintu's share of deficiency	(10,000)	90,000		
Bobby's Capital		1,00,000		
Chintu's Capital	50,000			
Add: Deficiency received from Arun	10,000	60,000		
		2,50,000		2,50,000

(ii)

Profit and Loss Appropriation Account as on March 31, 2015

Dr. Particulars	Amount ₹	Particulars	Cr. Amount ₹
Profit transferred to		Profit and Loss	3,60,000
Arun's Capital {3,60,000 × (2/5)}	1,44,000		
Bobby's Capital {3,60,000 × (2/5)}	1,44,000		
Chintu's Capital {3,60,000 × (1/5)}	72,000		
	3,60,000		3,60,000

33. 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 ₹ 20,000. The net profit for the year ended March 31, 2017 amounted to ₹ 70,000. Prepare Profit and Loss Appropriation Account.

The solution for this question is as follows:

Profit and Loss Appropriation Account as on March 31, 2017

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

34. Ram, Mohan and Sohan are partners with capitals of ₹ 5, 00,000, ₹ 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 ₹ 25,000, in any year. The net profit for the year ended March 31, 2017 is ₹ 2, 00,000, before charging interest on capital. You are required to show distribution of profit.

The solution for this question is as follows:

Profit and Loss Appropriation A/c as on 31 March 2017

Dr. Cr.

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

35. 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 ₹ 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 ₹ 25,000). The net profit for the year ended March 31, 2017 is ₹ 75,000. The gross fee earned by Babita for the firm was ₹ 16,000.

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

The solution for this question is as follows:

Profit and Loss Appropriation Account as on March 31, 2017

Dr. **Cr.**

Particulars		Amount ₹	Particulars	Amount ₹
Profit Transferred to			Profit and Loss	75,000
Amit's Capital {84,000 × (3/6)}	42,000		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	600			
Babita	400	15,000		
		84,000		84,000

36. The net profit of X, Y and Z for the year ended March 31, 2016 was ₹ 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 ₹ 700, Y ₹ 500 and Z ₹ 300.

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

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

The solution for this question is as follows:

Past Adjustment

	X	Y	Z		Total
Interest on Capital	5,000	4,000	3,000	=	12,000
Less: Interest on Drawings	(700)	(500)	(300)	=	(1,500)
Add: Partner's Salaries	1,000	1,500	NIL	=	2,500
Right distribution of ₹ 13,000	5,300	5,000	2,700	=	13,000
Less: Wrong distribution of ₹ 13,000 (3:1:1)	(7,800)	(2,600)	(2,600)	=	(13,000)
	(2,500) Dr.	2,400 Cr	100 Cr	=	NIL

Explanation:

Capital have credit balance if it deducted will be debited and if it is added it will be credited.
Here X wrongly taken excess ₹ 2,500 hence ₹ 2,500 will be deducted from X capital Account on the other hand Y and Z taken less amount as they should have been taken, hence capital account of Y and Z will be added.

Date	Particulars		L.F	Debit Amount ₹	Credit Amount ₹
	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)				

37. 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:

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

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

The solution for this question is as follows:

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 ₹	Credit Amount ₹
	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)			

38. 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 ₹	Assets		Amount ₹
Mannu's Capital	30,000		Drawings :		
Shristhi's Capital	10,000	40,000	Mannu	4,000	
			Shristhi	2,000	6,000
			Other Assets		34,000
		40,000			40,000

Profit for the year ended March 31, 2017 was ₹ 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.

The solution for this question is as follows:

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 ₹ 1,820	1,380	440	=	1,820
Less: Wrong distribution of ₹ 1,820 (3 : 2)	(1,092)	(728)	=	(1,820)
Adjusted Profit	288	(288)	=	NIL

Adjusting Journal Entry

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

39. On March 31, 2017 the balance in the capital accounts of Eluin, Monu and Ahmed, after making adjustments for profits, drawing, etc; were ₹ 80,000, ₹ 60,000 and ₹ 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 ₹ 20,000; Monu, ₹ 15,000 and Ahmed, ₹ 9,000. Interest on drawings chargeable to partners were Eluin ₹ 500, Monu ₹ 360 and Ahmed ₹ 200. The net profit during the year amounted to ₹ 1, 20,000. The profit sharing ratio was 3: 2: 1. Pass necessary adjustment entries.

The solution for this question is as follows:

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 ₹ 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 ₹ 4,140	1,500	1,390	1,250	=	4,140
Less: Wrong distribution of ₹ 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 ₹	Credit Amount ₹
	Eluin's Capital A/c Dr. To Monu's Capital A/c To Ahmed's Capital A/c (Adjustment of Profit made)		570	 10 560

40. Azad and Benny are equal partners. Their capitals are ₹ 40,000 and ₹ 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.

The solution for this question is as follows:

Interest on Capital

$$\text{Azad} = 40{,}000 \times \frac{5}{100} = ₹\ 2{,}000$$

$$\text{Benny} = 80{,}000 \times \frac{5}{100} = ₹\ 4{,}000$$

Adjustment of Profit

	Azad	Benny		Total
Interest on Capital	2,000	4,000	=	6,000
Less: Wrong distribution of Profit ₹ 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 ₹	Credit Amount ₹

	Azad's Current A/c Dr.			1,000	
	To Benny's Current A/c				1,000
	(Adjustment of profit made)				

41. 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 ₹ 750 p.m. Chandan deposited ₹ 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 th 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:

		₹
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.

The solution for this question is as follows:

			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

Chandan received as Manager = Interest on Loan + Salary = 7,200 + 36,000 = ₹ 43,200

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

Interest on Chandan's Capital for 4 years = {20,000 × (6/100) = 1,200}
= 1,200 × 4 = ₹ 4,800

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
= ₹ 2, 33,400

Wrong Distribution – Distribution of 4 years

Profit when Chandan as a Manager

Kavita {1,95,000 × (3/5)}	=	1,17,000
Pradeep {1,95,000 × (2/5)}	=	78,000
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) ×(3/5)} = 1,16,700
Pradeep's share of Profit {(2,33,400 – 38,900) × (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 ₹ 4,140	(300)		(200)		(500)	=	NIL

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	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)				

42. Mohan, Vijay and Anil are partners, the balance on their capital accounts being ₹ 30,000, ₹ 25,000 and ₹ 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 ₹ 5,000, ₹ 4,000 and ₹ 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 ₹ 250, Vijay ₹ 200, Anil ₹ 150 was not recorded in the books.

Record necessary corrections through journal entries.

Interest on Capital shall be calculated on opening capital.

The solution for this question is as follows:

	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

Interest on Capital

$$\text{Mohan} = 27{,}000 \times \frac{10}{100} = ₹\ 2{,}700$$

$$\text{Vijay} = 21{,}000 \times \frac{10}{100} = ₹\ 2{,}100$$

$$\text{Anil} = 15{,}000 \times \frac{10}{100} = ₹\ 1{,}500$$

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 ₹	Credit Amount ₹
	Anil's Capital A/c Dr. To Vijay's Capital A/c (Adjustment of profit made)		550	550

43. Anju, Manju and Mamta are partners whose fixed capitals were ₹ 10,000, ₹ 8,000 and ₹ 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.

The solution for this question is as follows:

Interest on Capital

Anuj = 10,000 × $\frac{5}{100}$ = ₹ 500

Manju = 8,000 × $\frac{5}{100}$ = ₹ 400

Mamta = 6,000 × $\frac{5}{100}$ = ₹ 30

Adjustment of profit

Year 2014

	Anuj		Manju		Mamta		Total
Interest on Capital	500		400		300	=	1,200
Wrong distribution of ₹ 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 ₹ 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 ₹ 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 ₹	Credit Amount ₹
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)			

44. 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 ₹	Credit Amount ₹
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 ₹ 42,500.

(b) A Provision is to be made for bad debts at 5% on debtors
(c) Rent outstanding was ₹ 1,600.
(d) Wages outstanding were ₹ 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 ₹ 2,000 per annum
(g) Ravinder is entitled to a commission ₹ 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 ₹ 350.

The solution for this question is as follows:

Financial Statement as on December 31, 2017

Trading Account

Dr. **Cr.**

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

Profit and Loss Account

Dr. **Cr.**

Particulars		Amount ₹	Particulars	Amount ₹
Stationery		1,200	Gross Profit	81,500
Discount Allowed		900	Discount Received	400
Salaries		12,000	Commission	3,200
Rent & Taxes	18,000			
Add: Outstanding	1,600	19,600		

Insurance Premium		2,400		
Postage		300		
Sundry Expenses		1,100		
Depreciation on				
Building		4,800		
Plant and Machinery		4,800		
Fixtures and Fittings		1,300		
Provision for Bad Debts	4750			
Add: Bad Debt	2,000			
	6,750			
Less: (Old) Provision for Bad Debt	(4,600)	2,150		
Legal Expenses		200		
Audit Fee		1,800		
Outstanding Interest on Loan		350		
Profit and Loss Appropriation		32,200		
		85,100		85,100

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount ₹	Particulars		Amount ₹
Interest on Capital			Net Profit		32,200
Dinker	9,400		Interest on Drawings		
Ravinder	6,520	15,920	Dinker	180	
			Ravinder	150	330
Partner's Salaries					
Dinker	2,000				
Ravinder	2,000	4,000			
Commission (Ravinder)		1,500			
Profit transferred to					
Dinker's Capital	7,407				
Ravinder's Capital	3,703	11,110			
		32,530			32,530

Partners' Capital Account

Dr. Cr.

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

Balance Sheet

Liabilities		Amount ₹	Assets		Amount ₹
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	2,47,627		Less: 6% Depreciation	(4,800)	75,200
Ravinder	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

45. 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 ₹	Credit Amount ₹
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 ₹37, 500.

(b) Bad debts ₹3, 000; Provision for bad debts is to be made at 5% on debtors

(c) Rent Prepaid were ₹1, 200.

(d) Wages outstanding were ₹ 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 ₹ 1,500 per annum.

(g) Prepaid insurance was ₹ 500.

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

(i) Goods worth ₹ 7,000 were destroyed by fire on January 20, 2015. The Insurance company agreed to pay ₹ 5,000 in full settlement of the claim.

***As per the question, this year should be 01-04-2014**

The solution for this question is as follows:

Financial Statement as on March 31, 2015

Trading Account

Dr. **Cr.**

Particulars		Amount ₹	Particulars		Amount ₹
Opening Stock		22,700	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	Closing Stock		37,500
Freight Inward		1,200			
Wages	5,500				
Add: Outstanding	2,200	7,700			
Gross Profit		84,900			
		2,71,300			2,71,300

Profit and Loss Account

Dr. Cr.

Particulars		Amount ₹	Particulars	Amount ₹
Printing and Stationery		900	Gross Profit	84,900
Discount Allowed		400	Discount Received	800
Salaries		6,000	Commission	1,600
Rent	7,200		Insurance Co. (Claim)	5,000
Less: Prepaid	(1,200)	6,000		
Insurance Premium	2,000			
Less: Prepaid	(500)	1,500		
Travelling Expenses		700		
Sundry Expenses		1,100		
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		
Legal Expenses		300		
Audit Fee		900		
Goods Lost by Fire		7,000		
Depreciation on				
Building		3,400		
Plant and Machinery		3,500		
Motor Car		6,000		
Furniture and Fixture		750		
Net Profit		48,000		
		92,300		92,300

Profit and Loss Appropriation Account

Dr. Cr.

Particulars		Amount ₹	Particulars		Amount ₹
Interest on Capital			Net profit		48,000
Kajol	6,900				
Sunny	5,460	12,360	Interest on Drawings		
			Kajol	300	
Partner's Salaries			Sunny	150	450
Kajol		1,500			
Profit & Loss – Gross Profit					
Kajol's Current	20,754				
Sunny's Current	13,836	34,590			
		48,450			48,450

Partners' Capital Account

Dr. Cr.

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

Partners' Current Account

Dr. Cr.

Particulars	Kajol	Sunny	Particulars	Kajol	Sunny
Balance b/d		3,200	Balance b/d	4,500	
Drawings	6,000	3,000	Interest on Capital	6,900	5,460
Interest on Drawings	300	150	Partner's Salaries	1,500	
Balance c/d	27,354	12,946	Profit and Loss Appropriation	20,754	13,836
	33,654	19,296		33,654	19,296

Balance Sheet as on March 31, 2015

Liabilities		Amount ₹	Assets		Amount ₹
Bills Payable		21,000	Bills Receivable		25,000
Creditors		78,000	Debtors	74,000	
Loan		25,000	Less: Further Bad debt	(3,000)	
Wages Outstanding		2,200		71,000	
Capital:			Less: 5% Provision for Bad Debt	(3,550)	67,450
Kajol	1,15,000				
Sunny	91,000	2,06,000	Building	85,000	
			Less: 5% Depreciation	(3,400)	81,600
Current:					
Kajol	27,354		Plant and Machinery	70,000	
Sunn	12,946	40,300	Less: 5% Depreciation	(3,500)	66,500
			Motor Car	60,000	
			Less: 10% Depreciation	(6,000)	54,000
			Furniture & Fixture	15,000	
			Less: 5% Depreciation	(750)	14,250
			Cash in Hand		7,500
			Cash at Bank		12,000
			Closing Stock		37,500
			Prepaid Rent		1,200
			Prepaid Insurance		500
			Insurance Co. (Claim)		5,000
		3,72,500			3,72,500