

Chapter -2

Accounting for Partnersip Firms Fundamentals

TOPIC	MEANING/EXPLANATION
Meaning of Partnership	Section 4 of the Indian Partnership Act 1932 defines partnerships as the 'relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.
Essential Features of Partnership	<ol style="list-style-type: none"> 1. Two or More Persons 2. Agreement 3. Lawful Business 4. Mutual Agency 5. Sharing of Profit 6. Relationship of Mutual agency among the partners <p>Note:</p> <ul style="list-style-type: none"> • By virtue of Section 464 of the Companies Act 2013, the Central Government is empowered to prescribe maximum number of partners in a firm but the number of partners cannot be more than 100 • The Central government has prescribed the maximum number of partners in a firm to be 50 under Rule 10 of the Companies (Micellaneous) Rules, 2014, So, a partnership firm cannot have more than 50 partners.
Partnership Deed	The Partnership Act does not require that the agreement must be in writing. But wherever it is in writing, the document, which contains terms of the agreement is called 'Partnership Deed'
In the absence of partnership deed/if partnership deed is silent (the relevant provisions of the	<ol style="list-style-type: none"> 1. Profits/losses are shared equally by all the partners 2. Interest on capital is not allowed to partners 3. Interest on drawing is not charged from partners 4. Interest on advances/loan by a partner is paid @ 6% p. a.

Indian Partnerships act 1932, become applicable	5. Remuneration (Salary and Commission etc.) to Partners not allowed.
Meaning of Partners and firm	Persons who have entered into partnership with one another are individually called partners and collectively called 'firm'
Firm's name	The Name under which the business is carried is called the 'firm's name'
Is Partnership firm has legal entity?	A partnership firm has no separate legal entity, apart from the partner's constituting it.
Rights of partners	<ol style="list-style-type: none"> 1. Right to participate in the management of the business. 2. Right to be consulted about affairs of the company 3. Right to inspect the books of account and have a copy of it. 4. Right to share profits or losses with others in the agreed ratio etc.
Contents of partnership deed	<ul style="list-style-type: none"> • Description of the Partners and Firm. • Principal place and nature of the business. • Commencement of Partnership, Capital Contribution • Interest on Capital/Drawing/Partners Loan • Methods of valuation of Good will/Assets etc.
Liabilities of Partners (subject to contract between the partners)	<ol style="list-style-type: none"> 1. If a partner derives any profit for him/her self from any transaction of the firm or from the use of the property or business connection of the firm or the firm name, he/she shall account for the profit and pay it to the firm. 2. If a partner carries on any business of the same nature as and competing with that of the firm, he/she shall account for and pay to the firm, all profit made by him/her in that business.
Profit and Loss Appropriation Account	It is merely an extension of the Profit and Loss Account of the firm. It shows how the profits are appropriated or distributed among the partners.

	All adjustments in respect of partner's salary, partner's commission, interest on capital, interest on drawings, etc are made through this account.	
Difference between Charge against profit and Appropriation of Profit	Charge against profit	Appropriation of profit
	1. It is always debited to profit and loss account (whether profit or loss) before appropriation.	1. It is debited to profit and loss appropriation account (If profit available) after charging. 2. Examples are salary/
	2. Examples are rent paid to a partner, interest on partners loan.	commission to partners, interest on capital, transfer of profits to general reserve

Difference between fixed and fluctating capital account	Basis of Distinction	Fixed Capital Account	Fluctuating Capital Account
	1. Number Of Accounts	• Two accounts maintained for each partner i.e. fixed capital account and current account	• Only one account capital account is maintained
	2. Fixed balance	• Balance of fixed account remains fixed except when fresh capital is introduced or withdrawn	• Balance fluctuate with every transaction of partner with firm.
	3. Adjustments	• All adjustments for drawing, interest on drawing, Interest on capital, salary, commission, share of profit/loss are adjusted in current account	• All adjustments for drawing, interest on drawing, interest on capital, salary, commission, fresh capital introduced / withdrawn, share of profit/loss are adjusted in capital account

	4. Balance	<ul style="list-style-type: none"> It always shows credit balance in capital account It may show credit or debit balance
Commission to Partners	<p>It may be computed as follows:</p> <p>1. If it is given as a percentage of net profit or of net profit before charging such commission. COMMISSION = Net Profit (before commission) x rate of commission/100</p> <p>2. If it is given as a percentage of net profit after charging such commission. COMMISSION = Net Profit (before commission) x rate of commission/100 + rate of commission</p>	
Calculation of interest of drawing	<p>[INTREST ON DRAWING = TOTAL DRAWINGS X RATE OF INTREST /100 X AVERAGE PERIOD/12]</p> <ul style="list-style-type: none"> [AVERAGE PERIOD =MONTHS LEFT AFTER FIRST DRAWING + MONTHS LEFT AFTER LAST DRAWING/2] 	

CASES	AVERAGE PERIOD
When the same amount is withdrawn at the beginning of each month	6.5 Months
When the same amount is withdrawn at the end of each month	5.5 Months
When the same amount is withdrawn in the middle of the month/quarter or date of drawing is not given	6 Months
If the same amount is withdrawn at the beginning of each quarter	7.5 Months
If the same amount is withdrawn at the end of each quarter	4.5 Months

	<p>Note: if the unequal amount is withdrawn at different dates or when there is irregular drawings, Interest on drawing will be calculated by simple method or product method Interest on drawing in case of product method = Total product X rate of interest/100x1/12 (in case of months or 1/365 (in case of days)</p>					
<p><i>Calculation of interest of capital</i></p>	<p>1. Interest on capital is generally provided for in two situations: (i) when the partners contribute unequal amounts of capitals but share profits equally (ii) where the capital contribution is same but profit sharing is unequal</p> <p>2. where there are both addition and withdrawal of capital by of partners during a financial year, the interest on capital is calculated as follows: (i) On the opening balance of the capital accounts of partners, interest is calculated for the whole year. (ii) On the additional capital brought in by any partner during the year, interest is calculated from the date of introduction of additional capital to the last day of the financial year. (iii) On the amount of capital withdrawn (other than usual drawings) during the year interest for the period from the date of withdrawal to the last day of the financial year is calculated and deducted from the total of the interest calculated under points: (i) and (ii) above. <i>Alternatively, it can be calculated with respect to the amounts remained invested for the relevant periods.</i></p>					
<p><i>Provisions related to interest on capital</i></p>	<table border="1"> <thead> <tr> <th data-bbox="475 1581 885 1626">CASES</th> <th data-bbox="885 1581 1294 1626">PROVISION</th> </tr> </thead> <tbody> <tr> <td data-bbox="475 1626 885 1798"> <p>1. When partnership deed does not exist or nothing is mention in question about interest on capital</p> </td> <td data-bbox="885 1626 1294 1798"> <p>Interest on capital is not allowed</p> </td> </tr> </tbody> </table>		CASES	PROVISION	<p>1. When partnership deed does not exist or nothing is mention in question about interest on capital</p>	<p>Interest on capital is not allowed</p>
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<p>2. When partnership deed provides for interest on capital but silent as to treatment of interest as a charge of appropriation</p>	<ul style="list-style-type: none"> • Interest on capital always treated as appropriation • In case of loss: interest on capital is not allowed • In case of sufficient profit: interest on capital is allowed • In case of insufficient profit: interest is allowed only to the extent of profits in the ratio of interest on capital.
<p>When partnership deed provides for interest on capital as a charge</p>	<p>Interest on capital is allowed whether there is a profit or loss.</p>

<p>Guarantee of Profit to a Partner</p>	<p>Sometimes a partner is admitted into the firm with a guarantee of certain minimum amount by way of his share of profits of the firm. Such assurance may be given by all the old partners in a certain ratio or by any of the old partners, individually to the new partner. The minimum guaranteed amount shall be paid to such new partner when his share of profit as per the profit sharing ratio is less than the guaranteed amount.</p>
<p>Past Adjustments</p>	<p>Sometimes a few omissions or errors in the recording of transactions or the preparation of summary statements are found after the final accounts have been prepared and the profits distributed among the partners. The omission may be in respect of interest on capitals, interest on drawings, interest on partner's loan, partner's salary, partner's commissions or outstanding expenses. There may also be some changes in the provisions of partnership deed or system of accounting having impact with retrospective effect. All these acts of omission and commissions need adjustments for correction of their impact. Instead of altering old accounts, necessary adjustment can be made either; (a) through 'Profit and Loss Adjustments', or (b) directly in the capital accounts of the concerned partners.</p>

Journal Entries Related to Profit and Loss Appropriation Account:

Data	Particulars	L.F.	Debitr S.	Creditr S.
1.	<p>For transfer of balance of Profit and Loss Account:</p> <p>Profit and Loss A/c Dr.</p> <p>To Profit and Loss Appropriation A/c</p> <p>(Being net profit transferred to P&L Appropriation A/c)</p> <div style="border: 1px solid black; height: 15px; width: 350px; margin: 5px 0;"></div> <p>For transfer of balance of Profit and Loss Account: if there is loss</p>			

	<p>Profit and Loss appropriation A/c Dr.</p> <p>To Profit and Loss A/c</p> <p>(Being net loss transferred to P&L Appropriation A/c)</p>			
2.	<p>For Interest on Capital:</p> <p>(a) For allowing Interest on Capital</p> <p>Interest on Capital A/c Dr.</p> <p>To Partners Capital/Current A/cs (Being interest on Capital allowed @ % p.a.)</p>			
	<p>(b) For transferring Interest on Capital to Profit and Loss Appropriation A/C</p> <p>Profit and Loss Appropriation A/c Dr.</p> <p>To Interest on Capital A/c</p> <p>(Being Interest on Capital transferred to P&L Appropriation A/c)</p>			
3.	<p>For Salary or Commission payable to a Partner:</p> <p>(a) For allowing Salary or Commission to a partner-Partner's Salary or Commission A/c Dr.</p> <p>To Partner's Capital/Current A/c's</p> <p>(Being Salary/ Commission payable to partner)</p> <p>(b) For transferring Partner's salary/Commission A/C to Profit and Loss Appropriation A/c</p> <p>Profit and Loss Appropriation A/c Dr.</p> <p>To Partner's Salary/Commission A/c</p>			

4.	For transfer of Reserves: Profit and Loss Appropriation A/c Dr To Reserve A/c (Being ressrve created)			
5.	For Interest on Drawings: (a) For charging interest on partner's drawings Partner's Capital/Current A/c Dr. To interest on Drawings A/c (Being interest on drawings changed @% p.a.)			
6.	(b) For transferring interest on drawings to Profit and Loss Appropriation A/c: Interest on Drawings A/c Dr. To Profit and Loss Appropriation A/c (Being interest on drawings transferred to P&L Appropriation A/c)			
	For transfer of profit (Credit balance of profit and loss Appropriation account) to partners Profit and Loss Appropriation A/c Dr. To Partner's Capital/Current A/cs (Being profits distributed among partners in profit sharing ratio)			

PARTNERSHIP FUNDAMENTALS PRACTISE QUESTIONS

1. Kumar Raja and Sanjay set up a partnership firm on April 1 2018. They contributed Rs. 5,00,000, Rs 4, 00,000 and Rs 3, 000,00, respectively as their capitals and agreed to share profits and losses in the ration of 3: 2: 1. Kumar is to be paid a salary of Rs. 10,000 per month and Raja, a Commission of Rs 50,000. It is also provided that interest to be allowed on capital at 6% p.a.The drawings for the year were Kumar rs. 60,000, Raja Rs. 40,000 and Sanjay Rs. 20,000. Interest on drawings of Rs. 2700 was charged on Kumar's drawings, Rs 1800 on Raja's drawings and Rs . 900 on Sanjay's drawings. The net profit as per Profit and Loss Account for the year ending March 31, 2019 was Rs. 3, 56600. Pass the necessary journal entries and Prepare the Profit and Loss Appropriation Account to show the distribution of profit among the partners.

DATE	PARTICULAR	Dr. (Rs.)	Cr. (Rs)
1.	Profit and Loss A/c Dr. To Profit and Loss Appropriation A/c (Transfer of the balance of Profit and Loss Account to Profit and Loss Appropriation (Account))	3,56,600	3,56,600
2.	Salary to Kumar A/c Dr. To Kumar's Capital A/c (For crediting partner's salary to partner's capital account)	1,20,000	1,20,000
3.	Profit and Loss Appropriation A/c Or. To Salary to Kumar A/c (For transferring partner's salary to Profit and Loss Appropriation Account)	1,20,000	1,20,000
4.	Commission to Raja A/c Dr. To Raja's Capital A/c (For crediting commission to a partner, to partner's capital account)	50,000	50,000
5.	Profit and Los Appropriation A/c Or To Commission to Raja A/c (For transferring commission paid to partners to Profit and Loss Appropriation)	50,000	50,000
6.	Interest on capital A/c Dr. To Kumar's capital A/c To Raja's capital A/c To Sanjay's Capital (For crediting interest on capital to partner's capital account)	72,00	30,000 24,000 18,000

7.	Profit and Loss Appropriation A/c Dr. To Interest on capital A/c (For transferring interest on capital to profit and Loss Appropriation Account)	72,000	72, 000
8.	Kumar's capital A/c tDr. Raja's capital A/c Dr. Sanjay's capital A/c Dr To interest on drawings (For charging interest on drawings to partner's capital accounts)	2,700 1,800 900	5,400
9.	Interest on drawings A/c Dr. To Profit and Loss Appropriation Ac/ (For transferring interest on drawings to Profit and Loss Appropriation Account)	5,400	5,400
10.	Profit and Loss Appropriation A/c Dr To Kumar's capital A/c To Raja's capital A/c To Sanjay 's capital A/c (For transferring Share of profit or Loss after appropriations)	1,20,000	60,000 40,000 20,000

Dr. **Profit and Loss Appropriation** Cr.

<i>Particulars</i>	<i>Amount (Rs.)</i>	<i>Particulars</i>	<i>Amount (Rs.)</i>
Kumar's Salary Raja's Commission Interest On Capital Kumar 30,000 Raja 24,000 Sanjay <u>18,000</u>	1,20,000 50,000 72,000	Net Profit Interest on Drawing : Kumar 2,700 Raja 1800 Sanjay <u>900</u>	3,56,600 5,400
Profit transferred to capital A/c: Kumar 60,000 Raja 40,000 Sanjay <u>20,000</u>	1,20,000		
	3,62,000		3,62,000

2. Sonia and Rajiv are partners sharing profits in the ration of 3: 2 with capitals of Rs. 5,00,000 and Rs. 3,00,000 respectively. Interest on capital is agreed @ 6% p.a . Rajiv is to be allowed an annual salary of Rs. 25,000. During a year 2018-19 thye profits prior to the calculation of interest on capital but after charging Rajiv's salary amounted to Rs. 1,25,000. A provision of 5% of the profit is to be made in respect of commission to the Manager. Prepare Profit and Loss Appropriation account showing the distribution of profit and the partner's capital accounts for the year endign March 31, 2019.

Profit and Loss Appropriation Account

Particulars	Amount (Rs).	Particulars	Amount (Rs).
Rajiv's Salary	25,000	Net Profit (before Rajiv's salary)	1,50,000
Interest on capital Sonia 30,000 Rajiv <u>18000</u>	48,000		
Manager's Commission (5% of Rs. 1,50,000)	7,500		
Profit transferred to capital A/c: Sonia 41,700 Rajiv 27,800	69,500		
	1,50,000		1,50,000

Partners Capital Account

Dr.				Cr.			
Date	Particulars	Sonia (Rs.)	Rajiv (Rs.)	Date	Particulars	Sonia (Rs.)	Rajiv (Rs.)
2019 Mar. 31	Bal. c/d	5,71,700	3,70,800	2018 Apr. 3	Bal. b/d	5,00,000	3,00,000
				2019 Mar. 31	Interest on capital	30,000	18,000
				Mar. 31	Salary		25,000
				Mar. 31	P&L app. (profit)	41,700	27,800
		5,71,700	3,70,800			5,71,700	3,70,800

2. Jagdeep and Kavita are partners sharing profits and losses in the ratio of 3 : 1. their capitals at the end of the financial year 2018-2019 were Rs. 15,00,000 and Rs. 7,50,000. During the year 2018-2019, Jagdeep's drawings were Rs. 2,00,000 and the drawings of Kavita were Rs. 50,000, which had been duly debited to partner's capital accounts. Profit before charging interest on capital for the year was Rs. 1,60,000. The same has also been debited in their profit sharing ratio. Kavita had brought additional capital of Rs. 1,60,000 on October 1, 2018. Calculate interest in capital @ 12% p.a. for the year 2018-2019

Particulars	Jagdeep (Rs.)	Kavita (Rs.)
Capital at the end	15,00,000	7,50,000
Add. Drawings during the year	2,00,000	50,000
Less: Share of profit (Credited)	(1,20,000)	(40,000)
Less: Additional capital	15,80,000	6,00,000

Interest on capital will be as Rs. 1, 89, 600 (12% of Rs. 15, 80,000) for Jagdeep and Rs, 81,600 for Kavita calculated as follows:

$$\left(6,00,000 \times \frac{12}{100}\right) + \left(1,60,000 \times \frac{12}{100} \times \frac{6}{12}\right) = 72,000 + 9,600 = \text{Rs. } 81,600$$

4. Arun and Ajay are partners sharing profits and losses in the ratio of 3:2. Their capital accounts showed balance of Rs. 15,00,000 and Rs. 20,00,000 respectively on March 31, 2018. Show the treatment

of interest on capital for the year ending march 31, 2019 in each of the following alternatives:

- (a) if the partnership deed is silent as to the payment of interest on capital and the profit for the year is Rs. 5,00,000.
- (b) if partnership deed provides for interest on capital @ 8% p.a. and the firm incurred a loss of Rs. 1,00,000 during the year.
- (c) If partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs. 5,00,000; during the year.
- (d) if the partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs. 1,40,000; during the year.

- Ans.** (a) In the absence of a specific provision in the Deed, no interest will be paid on the capital to the partners. The whole amount of profit will however, be distributed among the partners in their profit sharing ratio.
- (b) As the firm has incurred loss during the accounting year, no interest on capital will be allowed to any partner. The firm's loss will however be shared by the partners in their profit sharing ratio.
- (c) Interest to Arun @ 8% on Rs. 15,00,000 = 1,20,000

$$\text{Interest to Ajay @ 8\% on Rs. 20,00,000} = \frac{1,60,000}{2,80,000}$$

As the profit is sufficient to pay interest at agreed rate, the whole amount of interest on capital shall be allowed and the remaining profit amounting to Rs. 2,20,000 (Rs. 5,00,000 - Rs. 2,80,000) shall be shared by the partners in their profit sharing ratio.

- (d) As the profit for the year is Rs. 1,40,000, which is less than the amount of interest on capital due to partners. i.e. Rs. 2,80,000 (Rs. 1,20,000 for Arun and Rs. 1,60,000 for Ajay), interest will be paid to the extent of available profit i.e. Rs. 1,40,000. Arun and Ajay will be credited with Rs. 60,000 and Rs. 80,000, respectively. Effectively this amounts to sharing the firm's profit in the ratio of interest on capital.
5. Kapil, a partner in a firm withdrew money during the year ending March, 31 2019, from his capital account, for his personal use. Calculate interest in drawings in each of the following alternative situations, if rate of interest is 9 percent per annum.
- (a) if he withdrew Rs. 30,000 per month at the beginning of the month.
 - (b) if an amount of Rs. 30,000 per month was withdrawn by him at the end of each month.
 - (c) if the amounts withdrawn were: Rs. 1,20,000 on June 01, 2018, Rs. 80,000; of August 31, Rs. 30,000; on September 30, 2018, Rs. 70,000, on November 30, 2018, and Rs. 60,000 on January 31, 2019.

- (d) if he withdrew Rs. 3,00,000 per quarter at the beginning of the quarter.
- (e) if he withdrew Rs. 3,00,000 per quarter at the end of the quarter.
- (f) if he withdrew Rs. 3,00,000 during the year.
- (g) if he withdrew Rs. 1,50,000 at the middle of the each quarter.

- Ans.** (a) $3,60,000 \times \frac{9}{100} \times \frac{6.5}{12} = \text{Rs. } 17,550$
 (b) $3,60,000 \times \frac{9}{100} \times \frac{5.5}{12} = \text{Rs. } 14,850$
 (c) Statements showing Calculation of Interest on Drawings (product method)

Date	Amount Withdrawn	Period (in months)	Product
June 01, 2018	1,20,000	10	12,00,000
August 31, 2018	80,000	7	5,60,000
September 30, 2018	30,000	6	1,80,000
November 30, 2018	70,000	4	2,80,000
January 31, 2019	60,000	2	1,20,000
			23,40,000

$$\text{Interest on drawings} = 23,40,000 \times \frac{9}{100} \times \frac{1}{12} = \text{Rs. } 17,550$$

$$(d) 12,00,000 \times \frac{9}{100} \times \frac{7.5}{12} = \text{Rs. } 67,500$$

$$(e) 12,00,000 \times \frac{9}{100} \times \frac{4.5}{12} = \text{Rs. } 40,500$$

$$(f) 3,00,000 \times \frac{9}{100} \times \frac{6}{12} = \text{Rs. } 13,500$$

$$(g) 6,00,000 \times \frac{9}{100} \times \frac{6}{12} = \text{Rs. } 27,000$$

6. Dinesh and Manish share profits and losses in the ratio of 3:2. They admit Nipun into their firm to 1/6 share in profits. Dinesh personally guaranteed that Nipun's share of profit, after charging interest on capital @ 10 percent per annum would not be less than Rs. 3,00,000 in any year. The capital provided was as follows: Dinesh Rs. 25,00,000, Manish Rs. 20,00,000 and Nipun Rs. 15,00,000. The profit for the year ending March Rs. 20,00,000 and Nipun Rs. 15,00,000. The Profit for the year ending March 31, 2019 amounted to Rs. 15,00,000 before providing interest on capital. Show, the Profit and Loss Appropriation Account if new profit sharing ratio is 3:2:1.

Profit and Loss Appropriation Account

Dr.		Cr	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Interest on capital: Dinesh 2,50,000 Manish 2,50,000 Nipun <u>1,50,000</u>	6,00,000	Net Profit	15,00,000
Profit transferred to capital A/c: Dinesh 4,50,000 Less : share of deficiency <u>1,50,000</u>	3,00,000		
Manish Nipun 1,50,000	3,00,000		
Add: 1,50,000 Add: deficiency recieved from Dinesh <u>1,50,000</u>	3,00,000		
	15,00,000		15,00,000t

7. Priya, Deepa and Kashish are partner's sharing profits in the ration of 5:4:1 Kashish is given a guarantee that her share of profits in any given year would not be less than rs. 50,000. Deficiency , if any would be borne by Priya and Deepa equally. Profits for the year amounted to Rs. 4,00,0t00. Record necessary journal entries in the bools of the firm showing the distribution of profit.

Profit and Loss Appropriate Account

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Profit transferred to capital A/c: Priya 2,00,000 Less: share of deficiency <u>5000</u>	1,95,000	Net Profit	4,00,000
Deepa 1,60,000 Less: share of deficiency <u>5000</u>	1,55,000		
Kashish 40,000 Add: deficiency received from Priya 5,000 5,5000 Deepa <u>5000</u>	50,000		
	4,00,000		4,00,000

8. On March, 31, 2019 the balance in the capital accounts of Sonu, Monu and Tony, after making adjustments for profits, drawing, etc. were Rs. 8,00,000, Rs. 6,00,000 and Rs. 4,00,000 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 Sonu Rs. 2,00,000; Monu Rs. 1,50,000 and Tony, Rs. 90,000. Interest on drawings, chargeable to partners were Sonu Rs. 5000, Monu Rs. 3600 and Tony Rs. 2000. The net profit during the year amount to Rs. 1,20,000, The Profit sharing ratio was 3:2:1. Record necessary adjustment entries.

Statement Showing Calculation of Capital at the Beginning

Particulars	Sonu (Rs.)	Monu (Rs.)	Tony (Rs.)
Capital at the end	8,00,000	6,00,000	4,00,000
Add: drawings during the year	2,00,000	1,50,000	90,000
Less: profit credited	(60,000)	(40,000)	(20,000)
Opening capital	9,40,000	7,10,000	4,70,000
Interest on capital @ 5 % p.a	47,000	35,500	23,500

Statement Showing Adjustment

Particulars	Sonu (Rs.)	Monu (Rs.)	Tony (Rs.)	Firm (Rs.)
Profit already credited now reversed	60,000(dr.)	40,000(dr.)	20,000(dr.)	1,20,000(cr.)
Interest on capital	47,000 (cr.)	35,500 (cr.)	23,500 (cr.)	1,06,000 (dr.)
Interest on drawings	5,000 (dr.)	3,600 (dr.)	2,000 (dr.)	10,600 (cr.)
Net Profit (bal. Fig.)	12,300 (cr.)	8,200 (cr.)	4,100 (cr.)	24,600 (dr.)
Net effect	5,700 (dr.)	100 (cr.)	5,600 (cr.)	

Journal

Date	Particulars	Dr.(Rs.)	Cr. (Rs.)
	Sonu's capital Ac/ Dr. To Monu's Capital a/c To Tony's capital a/c (being adjustment entry made)	5,700	100 5,600

9. Aanchal, Aarav and Avika form a partnership firm , sharing profits in the ratio of 3:2:1, subject to the following:
- Avika's share in the profits, guranteed to be not less than Rs. 1,50,000 in any year.
 - Aarav gives gurantee 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. 2,50,000). The net profit for the year ended March 31, 2019 is Rs. 7,50,000. The gross fee earned by Aarav for the firm was Rs. 1, 60,000. Your are required to show Profit and Loss Appropriation Account (after giving effect to the alone).

Dr. Profit and Loss Appropriation Account Cr.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Profit trnsfered to capital A/c: Aanchal 4, 20,000 Less: share of deficiency <u>6,000</u>	4, 14,000	Net Profit	7,50,000
Aarav 2, 80,000 Less: share of deficiency <u>4,000</u>	2,76000	Aarav's capital A/c (shortage of gross fees)	90,000
<u>Avika 1,40,000</u> Add : deficiency received from Aanchal 6,000 Aarav <u>4,000</u>	1,50,000		
	8,40,000		8,40,000

**ASSIGNMENT -BASIC FUNDAMENTAL OF PARTNERSHIP
ACCOUNTING**

1. The partners of a firm distributed the profits for the year ended 31-3-2003 Rs. 75,000 in the ratio 3:2:1 without providing for the following adjustments:
- (a) A and B were entitled to a salary of Rs. 3,000 each p.a.
 - (b) B was entitled to a commission of Rs. 5,000
 - (c) B and C have guaranteed a minimum profit of Rs. 35,000 p.a. to A. and any deficiency in profits will be borne by A and B equally
- Profits were to be shared in the ratio of 3 :3: 2.
- Pass necessary journal entry for the above adjustments in the books of the firm.

Ans.

C'S CAPITAL A/c	Dr.	2000
TO B'S CAPITAL A/C		500
TO A'S CAPITAL A/C		1500

2. A, B and C are partners in a firm sharing profits in the ratio 2 : 2 :1. C as guaranteed a minimum share of profit of Rs. 20,000 after charging interest on capital @ 5% p.a. by A. The capitals of partner were Rs. 80,000, Rs. 60,000 and Rs. 40,000. The profit for the year was Rs. 89,000. Show distribution of profit.

Ans. PROFIT OF A -- 28000, PROFIT OF B-- 32000, PROFIT OF C--20000

3. A, B and C are partners sharing profits in ratio 3:1:1. Their deed provided the followings:
- (a) interest on capital @ 12% p.a., there fixed capitals were Rs. 2,00,000 , 1,50,000 and Rs.1,00,000 respectively
 - (b) A was entitled to a salary of Rs. 3,000 p.a.
 - (c) B was entitled to a commission of Rs. 5,000
 - (d) A and C guaranteed that B to get a minimum share of Rs. 20,000 p.a. including all commission to him. Profit for the year was Rs. 72,000. prepare Profit and loss appropriation a/c and partners' current A/c

Ans.

A'S CURRENT A/C	B'S CURRENT a/C	C'S CURRENT a/C
23250	38000	10750

4. Sonu and Monu were partners in a firm sharing profits in the ratio 3:2. Their fixed capitals were Rs. 35,000 and Rs. 25,000 respectively. The partnership deed provided that

- (a) Interest on capital be allowed at 10% p.a.
- (b) Sonu be allowed a salary of Rs. 2000 p.a.
- (c) A commission of 10% of the net profit be allowed to Monu.

The net loss for the year ended 31st December 2008 was Rs. 20,000. Prepare Profit and Loss Appropriation Account.

LOSS DISTRIBUTION	
To Sonu's current a/c	12000
To Monu's current a/c	8000

5. Sonu and Monu were partners in a firm sharing profits in the ratio 3:2. Their fixed capitals were Rs. 35,000 and Rs. 25,000 respectively. The partnership deed provided that interest on capital and salary will be treated as charge against the profits

- (a) Interest on capital be allowed at 10% p.a.
- (b) Sonu be allowed a salary of Rs. 2000 p.a.
- (c) A commission of 10% of the net profit be allowed to Monu.

The net loss for the year ended 31st December 2008 was Rs. 20,000. Prepare Profit and Loss Appropriation Account.

LOSS DISTRIBUTION	
To Sonu's current a/c	16800
To Monu's current a/c	11200

6. Sonu and Monu were partners in a firm sharing profits in the ratio 3:2. Their fixed capitals were Rs. 35,000 and Rs. 25,000 respectively. The partnership deed provided that interest on capital and salary will be treated as charge against the profits

- (a) Interest on capital be allowed at 10% p.a.
- (b) Sonu be allowed a salary of Rs. 2000 p.a.
- (c) A commission of 10% of the net profit be allowed to Monu.

The net profits for the year ended 31st December 2008 was Appropriation Rs. 5,000. Prepare Profit and Loss Appropriation Account.

Answer: Sonu's share in profit 3530 and Monu's share ₹ 1470

7. Pappu and Munna are partners in a firm sharing profits in the ratio of 3 : 2. The partnership deed provided that Pappu was to be paid salary of Rs. 2,500 per month and Munna was to get a commission of Rs. 10,000 per year. Interest on capital was to be allowed @ 5% p.a. and interest on drawings was to be charged @ 6% p.a. Pappu's drawing was Rs. 25000 and Munna's drawings Rs. 12000 during the year. Capital of partners were Rs. 2,00,000 and Rs. 1,50,000 respectively and

were fixed. The firm earned a profit of Rs. 90,575 for the year ended 31-3-2018

Ans. Pappu's current a/c 31011, Munna's current a/c 206749.)

8. A, B and C are partners sharing profits in ratio 2:2:1 They have balance in their capital A/cs at the end of the year March 31st 2011 were Rs. 1,20,000, 85,000, and 95,000 respectively after distributing profits of the year which were Rs. 96,000 which they had divided equally without providing for the following as per their deed

(a) A was entitled for salary Rs. 5,000 p.a. while B was entitled of salary of Rs. 250 p.m.

(b) C was entitled to a commission of 10% of profit after making the adjustment of salaries of A and B.

(c) Drawings made by the partners during the year as follows:

A's drawings Rs. 1,500 per month at the beginning of each month.

B's drawings were Rs. 6,000 at the beginning of each quarter.

C's drawings were Rs. 20,000 during the year.

Interest was to be charged on the drawings @ 10% p.a.

Pass necessary adjustment entry for the above errors committed in the A/cs.

HINT:

Particulars	Dr. Amount	CR. Amount
C'S CAPITAL A/c Dr.	7665	
To A'S CAPITAL A/C		5095
TO B'S CAPITAL A/C		2570

9. Riya and Priya were partners sharing profits in ratio 2:1. Their respective fixed Capitals were Rs. 5,00,000 and Rs. 3,00,000. however on 1st October 2017, Riya withdrew Rs. 150000 from his capital and Priya introduced the sum what Riya had withdrawn from her capital. Profits of the firm for the year ended 31st March, 2018 were Rs. 60,000- Balance as on 1st april 2017 current A/c of Riya were Rs. 3000 cr. Balance and Priya Rs. 2,500 Dr. The partnership deed provided followings: (i) Interest on Capital @ 6% p.a. and Interest on Drawings @ 12% p.a. During the year ended 31st March, 2018 drawings of Riya were Rs. 1,000 drawn at the beginning of every month and of Priya's were Rs. 1,000 p.m. drawn in the middle of every month.

After the preparation of final accounts for the year, it was discovered interest on capitals and interest on drawings of partners were omitted, pass the rectifying journal entry. Prepare partners current A/c and partners' capital A/c

from 1st April 2017 to 10 April 2018."

	ADJUSTMENT	BALANCE OF CURRENT A/C
Riya's Current A/c	6280 DR	24720
Priya's current a/	6280 CR	11780

10. Abhay, Bina and Chetan were partners in a firm having capitals of Rs.60,000, Rs.60,000 and Rs.80,000 respectively. Their current account balances were : Abhay Rs.10,000; Binba Rs.5,000 and Chetan Rs.2,000 (Dr.). According to the partnership deed the partners.

(1) entitled to interest on capital @5% p.a. and interest on drawings @ 6% p.a.

(2) Chetan being the working partner was also entitled to a salary of Rs.6,000 p.a.

(3) Abhay granted a loan of Rs. 50,000 to firm on 01/10/2017 on which he was to be paid interest @ 9% p.a.

(4) Abhay had started to draw Rs. 3000 p.m. from 01/01/2018 while Chetan has been drawing Rs. 3000 p.m. from the beginning of the financial year at the end of every month. Bina was drawing Rs. 15000 in the beginning of every quarter but she stopped to draw any amount after 2nd quarter.

Profit is to be distributed as follows

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

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

(c) Remaining profits to be shared equally

The firm made a profit of Rs.1,56,000 before charging any of the above items on 31/03/2018

Prepare the profit and loss appropriation account and pass the necessary Journal entry for the appropriation of profits.

INTEREST ON DRAWINGS : ABHAY Rs. 90, BINA 1575, CHETAN 990

PROFIT : ABHAY Rs.51135, BINA 45135, CHETAN 44135

11. Ashok and Rohit started business on 1st april 2017. Their fixed capitals on 1-4-2017 were : Ashok Rs.60,000 and Rohit Rs.80,000. The profit of the firm for the year ended 31-3-2018 were Rs. 12,600 during the year. The drawing made by Ashok and Rohit were Rs.2,000 and Rs.4,000 during the year. Ashok has been working as production manager in a reputed company earning a salary of Rs. 20,000 p.m. he had expected and convinced to Rohit that using his relationships in the market, they will be able to earn Rs. 20000 minimum as profit in the 1st year of business, he had to leave his job also to work full time in the firm . Prepare profit and loss appropriation account. And partners' capital A/c as on 31st March 2018.

Ans. ASHOK'S SHARE IN PROFIT 12600

ROHIT'S SHARE IN PROFIT 12600

12. Mahesh and Dinesh share profits and losses in the ratio of 2:1. From January 01, 2017 they admitted Rakesh into their firm who is to be given a share of 1/10 of the profits with a guaranteed minimum of Rs. 25,000. Mahesh and Dinesh continue to share profits as before but agree to bear any deficiency on account of guarantee to Rakesh in the ratio of 3:2 respectively. The profits of the firm for the year ending December 31, 2017 amounted to Rs. 1,20,000. Prepare Profit and Loss Appropriation Account.

SHARE IN PROFIT	MAHESH	64200
	DINESH	30800
	RAKESH	2500

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

Dispute has arisen between Mukesh and Karan.

Mukesh Claims:

- (i) he should be given interest @ 10% per annum on capital and loan;
- (ii) Profit should be distributed in proportion of capital;

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

You are required to settle the dispute between Mukesh and Karan. Also prepare Profit and Loss Appropriation Account"

Ans.

MUKESH'S SHARE IN PROFIT 88500

KARAN' SHARE IN PROFIT 8850

14. Riya and Sunita 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 Sunita and interest on Partner's capital at the rate of 10% p.a. During the year Riya withdrew Rs. 7,000 and Sunita Rs. 10,000 for their personal use. As per partnership

deed, salary and interest are caption treated as charged. You are required to prepare Profit and Loss Account and Partner's Capital Accounts.

Ans. Riya's share in loss 34720 Sunita's share in loss 5208

15. Sakshi and Veena were partners in a firm. Their partnership agreement provides that:

- (i) Profits would be shared by Sakshi and Veena in the ratio of 3:2;
- (ii) 5% interest is to be allowed on capital;
- (iii) Veena should be paid a monthly salary of Rs. 600.

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

Sakshi	Sakshi (₹)	Veena (₹)
Capital Accounts	50,000	60,000
Current Accounts	(Cr.) 9,200	(Cr.) 2,200
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.

Ans. Sakshi's share in profit 2000 Veena's share in profit 2000

16. 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 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

	PROFIT BEFORE ADJUSTMENT	salary of Chandan taken back	extra interest on loan taken back	ADJUSTED PROFIT
Profit	59,000	9,000	600	68,600
Profit	62,000	9,000	600	71,600
Loss	-4,000	9,000	600	5,600
Profit	78,000	9,000	600	87,600
	195000			233400

	KAVITA	PRADEEP	CHANDAN
SHARE IN ADJUSTED PROFIT	116700	77800	43700
SHARE IN PROFIT BEFORE ADJUSTMENT	(117000)	(78000)	(43200)
	(300)	(200)	500

Particulars	Lf.	Dr. amount	Cr. amount
KAVITA'S CAPITAL A/c Dr.		300	
PRADEEP'S CAPITAL A/c Dr.		200	
TO CHAN DAN'S CAPITAL A/C (being the adjustment made on admitting manager as partner)			500

17. Kiran and Shalu are partners, sharing profits in the ratio of 3 : 2. They employed Rohit as their manager, to whom they paid a salary of Rs.1100 p.m. Rohit deposited Rs. 30,000 on which interest is payable @ 12% p.a. At the end of 2017 (after the division of profit), it was decided that Rohit should be treated as partner w.e.f. Jan. 1, 2014 with 1/6th share in profits. His deposit being considered as capital carrying interest @ 10% p.a. like capital of other partners. Firm's profits after allowing interest on capital were as follows:

(₹)

2014	Profit	59,000
2015	Profit	72,000
2016	Loss	(14,000)
2017	Profit	78,000

Record the necessary journal entries to give effect to the above

Ans. Dr. Kiran 7100, dr. Shalu 4733 cr. Rohit 11833

18. Anju, Manju and Mamta are partners whose fixed capitals were Rs. 10,000, Rs. 9,000 and Rs. 12,000, 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 these years remained as follows:

Year	Anju	Manju	Mamta
2015	2	2	1
2016	1	1	1
2017	3	1	2

Make necessary and adjustment entry at the beginning of the fourth year i.e. Jan. 2018.

Ans.

Anju's Capital A/c	Dr.	412
Manju's capital A/c	Dr.	45
To Mamta's capital A/c	A/c	457

19. The partners of a firm distributed the profits for the year ended 31-3-2003 Rs. 5,000 in the ratio 3:2:1 without providing for the following adjustments:
- A and B were entitled to a salary of Rs. 3,000 each p.a.
 - B was entitled to a commission of Rs. 5,000
 - B and C have guaranteed a minimum profit of Rs. 3,000 p.a. to A. and any deficiency in profits will be borne by A and B equally

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

Pass necessary journal entry for the above adjustments in the books of the firm.

Ans.

C'S CAPITAL A/c	Dr.		2500	
		TO A'S CAPITAL A/C		1636
		TO B'S CAPITAL A/C		864

20. The partners of a firm distributed the profits for the year ended 31-3-2003 Rs. 5,000 in the ratio 3:2:1 without providing for the following adjustments which were to be treated as charge against adjustments
- A and B were entitled to a salary of Rs. 3,000 each p.a.
 - B was entitled to a commission of Rs. 5,000
 - B and C have guaranteed a minimum profit of Rs. 3,000 p.a. to A. and any deficiency in profits will be borne by A and B equally

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

Pass necessary journal entry for the above adjustments in the books of the firm.

Ans.

C'S CAPITAL A/c Dr.	5000	
TO A'S CAPITAL A/C		3000
TO B'S CAPITAL A/C		2000

21. The partners A,B and C distributed the profits for the year ended 31st March, 2017, Rs. 90,000 equally. On 31st May ,2018 the discovered that they have not followed the following provisions given in the partnership deed without providing for the following adjustments:

i. Interest on capital @ 12% p.a., there capitals after distributing profits of the year were Rs. 2,00,000, 1,40,000 and Rs.2,10,000 respectively

ii. A and B were entitled to a salary of Rs. 1,500 each iii. a. III. B was entitled to a commission of Rs. 4,500.

iv. B and C have guaranteed a minimum profit of Rs. 35,000 p.a. to A.

v. Interest on drawings @ 6% p.a. drawings were as follows

A's Drawings Rs. 6,000 per quarter in the beginning, B's drawing at the end of quarter Rs. 5,000 and C's drawings Rs. 20,000 during the year.

Pass necessary journal entry for the above adjustments in the books of the firm, and prepare partners's capital A/c from 1st april 2016 to 31st May 2018.

		Balances of	
		adjustment	capital a/c
A's capital Cr.		28880	228880
C'S CAPITAL A/c	Dr.	13315	196685
B'S Capital A/c	Dr.	15565	124435

22. Anju, Manju and Mamta are partners whose capitals were Rs. 1,80,000, Rs. 60000 and Rs. 132,000, respectively. As on 31.03.2018 The profits amounted Rs. 36,000 for the year has been distributed in the ration of 4:1:1. after allowing interest on capital @ 10% p.a. During the year each one has withdrawn Rs. 72,000, the partnership deed has been silent for the profit sharing ration but provides interest on capital @ 12% p.a. pass necessary journal entry.

Ans. Dr. Anju's capital A/c 2664 ; Cr. Manju's capita a/c 684; Cr. Mamta's Capital a/c