

Unit 1: Accounting for Partnership Firms – Basic Concepts

NCERT · Class 12 · Accountancy · Part 1

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

Question 1

Define Partnership Deed.

Solution

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 in the business and the associated benefits from the partnership in the firm.

Question 2

Why is it 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 dispute as a written partnership that is signed by all the partners is suitable for use as evidence in a court of law.

Solution

Solution coming soon.

Question 3

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

(i) Capitals are fixed

(ii) Capitals fluctuate

(i) The items that get credited are as follows:

Solution

1. Opening capital balance
2. Additional capital or fresh capital that is added to the business

The items that get debited are as follows:

1. Part of capital that is withdrawn.
2. Closing capital balance

(ii) The items that get debited are as follows:

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

The items that get debited are as follows:

1. Withdrawals done during the accounting year
2. Interest accumulated on withdrawals (drawing)
3. Closing capital balance
4. Loss on shares

Question 4

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

Solution

It is prepared because of the following reasons:

1. For recording transactions, errors or omissions which may be left while preparing the final accounts.
2. To act as an account for distributing profit and loss between partners

3. To accommodate for changes in the partnership deed

Question 5

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

Solution

The following circumstances lead to change in the 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 the consent of partners.
-

Question 6

If a fixed amount is withdrawn on the first day of every quarter, for what period the interest on the total amount withdrawn will be calculated?

Solution

When there is a withdrawal of money on the 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.

Question 7

In the absence of a 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.

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

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

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

(iv) Interest on partner's loan: If the partnership deed is absent, then the partner is eligible for a 6% interest on a loan to the firm.

(v) Salary to a partner: In case of the absence of the 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).

Solution

Solution coming soon.

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

Question 1

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

Solution

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 set up the business jointly are called partners, and all the partners collectively are known as the firm.

The 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 the Companies Rules Act, 2014. Any more than the specified limit makes the partnership illegal.
2. Partnership Deed: A partnership deed is a necessary document that contains all the terms of the partnership and the details about the contribution of each partner towards the firm. It should be in written format as it helps in resolving disputes between partners and acts as evidence at times of legal procedures.
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: When the firm has unlimited liability, 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 their act, while at the same time is bound by other partners' actions.

Question 2

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

Solution

As per the Indian Partnership Act 1932, the following provisions stay 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 the 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 the partnership deed is absent, then as per Partnership Act, 1932, no interest shall be charged to the partners in the event of drawing money.
 4. Interest on partner's loan: If the partnership deed is absent, then the partner is eligible for a 6% interest on the loan to the firm.
 5. Salary to a partner: In case of the absence of a 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).
-

Question 3

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

Solution

According to the Partnership Act of 1932, it is not mandatory to have a 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 the 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 dispute as a written partnership that is signed by all the partners is suitable for use as an evidence in a court of law.

Question 4

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

Solution

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

Question 5

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

Solution

There is a change in profit sharing only when there is an addition of a new partner, retirement or death of a partner or due to a 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 capital 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 to change the 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 the 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 a 3:2:1 ratio. They decide to share profit and loss equally in future. On that date, the books of the firm show ₹ 90,000 as the general reserve, profit due to the 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	–	25,000
	(Loss)		(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

Question 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 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 and ₹ 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 follows:

Solution

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 follows:

Profit and Loss Appropriation Account					
Dr.					Cr.
Particulars		Amount ₹	Particulars		Amount ₹
Partners' Salary			Profit and Loss (Profit)		30,000
Tripathi $1,000 \times 12 =$	12,000		Interest on Drawings		
Chauhan $1,000 \times 12 =$	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

Question 2

Anubha and Kajal are partners of a firm, sharing profits and losses in the ratio of 2:1. Their capital was ₹ 90,000 and ₹ 60,000. The profit during the year was ₹ 45,000. According to the partnership deed, both partners are allowed a salary of ₹ 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 is fluctuating.

Solution

a) Note: If Partners' Salaries, Interest on Capital and Interest on Drawing are treated as these have already been adjusted in the Profit and Loss Account, the solution will be as follows:

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 are adjusted in the Profit and Loss Appropriation Account, the solution will be as follows:

Profit and Loss Appropriation Account

Dr.					Cr.
Particulars		Amount ₹	Particulars		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.					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	1,09,875	70,125	Profit and Loss Appropriation	15,900	7,950
	1,18,800	76,950		1,18,800	76,950

Question 3

Harshad and Dhiman have been 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 a 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. A 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 to 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 a Profit and Loss Appropriation Account.

Solution

The solution to this question is as follows:

DISTRIBUTION OF PROFITS**Harshad Claims:****Decisions**

(i) If there is no agreement on interest on the partner's capital, according to the 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 the Partnership Act 1932, profit shall be distributed equally.

Dhiman Claims:**Decisions**

(i) Dhiman's claim is justified according to the 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 the 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 the loan. If there is no agreement on interest on the 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 $1,00,000 \times (6/100) \times (6/12)$	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

Question 4

Aakriti and Bindu entered into a partnership to make garments 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 a loan to the firm without any agreement as to interest. The profit and Loss account for the year ended March 2017 showed a profit of ₹ 43,000. Partners could not agree upon the question of interest and the basis of the division of profit. You are required to divide the profits between them, giving the reason for your solution.

Solution

The solution to 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 $20,000 \times (6/100) \times (6/12)$		600			
Profit Transferred to					
Aakriti's Capital	21,200				
Bindu's Capital	21,200	42,400			
		43,000		43,000	

Reason

- a) Interest on the 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 the profit-sharing ratio has not been given.

Question 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 the 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 the Profit and Loss Appropriation Account and Partner's Capital Account.

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

Solution

The solution to this question is as follows:

Profit and Loss Appropriation Account

Dr.			Cr.		
Particulars		Amount ₹	Particulars		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
Rakhi		20,000			
Shikha		30,000	50,000		
		1,10,000			1,10,000

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
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.					Cr.
Particulars		Amount ₹	Particulars		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, the distribution shall be in proportion to items for distribution.

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

Question 6

Lokesh and Azad are partners sharing profits in the ratio of 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 the manager's commission. Prepare accounts showing the allocation of profits and partner's capital accounts.

Solution

The solution to 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 $15,000 \times (5/100)$		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

Question 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 the partner's fixed capital.

(v) 5% interest will be charged on the 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 the firm's Profit and Loss Appropriation Account.

Solution

The solution to 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 $\{(40,000 - 4,800) \times (10/100)\}$		3,520				
Interest on Capital						
Maneesh	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	

Question 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.

Solution

The solution to 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		

Question 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 a share of profit every year. Any deficiency on that account shall be met by Babita. The profits for the 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.

Solution

The solution to this question is as follows:

Profit and Loss Appropriation Account for the Year Ended 31st 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	

Question 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 balance 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 the 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.

Solution

The solution to 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

Question 11

Ramesh and Suresh were partners in a firm, sharing profits in the ratio of their capital contributed on commencement of business which was ₹ 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 the year ended March 31, 2017, before making the 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.

Solution

The solution to 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 $\{28,000 \times (4/7)\}$		16,000			
Suresh's Capital $\{28,000 \times (3/7)\}$		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

Question 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 were 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.

Solution

The solution to 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 $\{5,500 \times (3/5)\}$	3,300				
Vanita's Current $\{28,000 \times (2/5)\}$	2,200				
		9,500			9,500

Partner's Capital Account

Dr.					Cr.
Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
			Balance b/d	40,000	40,000
Balance c/d	40,000	40,000			
	40,000	40,000		40,000	40,000

Partner's Current Account

Dr.					Cr.
Particulars	Sukesh	Vanita	Particulars	Sukesh	Vanita
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

Question 13

Sunflower and Pink Rose started a 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 capital should be ₹ 2,00,000 each. The necessary adjustments in the capital 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.

Solution

The solution to this question is as follows:

Product Method**Sunflower**

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

Pink Rose

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

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 ×	$\frac{10}{100}$	×	$\frac{6}{12}$	=	₹ 7,500
October 01, 2016 to March 31, 2017	2,00,000 ×	$\frac{10}{100}$	×	$\frac{6}{12}$	=	₹ 10,000
Interest on Pink Rose's Capital						₹ 17,500

Question 14

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 were – Mountain ₹ 20,000, Hill ₹ 15,000 and Rock ₹ 10,000. Calculate interest on capital.

Solution

The solution to this question is as follows:

Generally, interest on Capital is calculated on the 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	$3,70,000 \times 10 / 100 = ₹ 37,000$
Hill	$2,65,000 \times 10 / 100 = ₹ 26,500$
Rock	$1,60,000 \times 10 / 100 = ₹ 16,000$

Question 15

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

Balance Sheet as of March 31, 2017			
	Amount		Amount
Liabilities	₹	Assets	₹
Neelkant's Capital	10,00,000	Sundry Assets	30,00,000
Mahadev's Capital	10,00,000		
Neelkant's Current Account	1,00,000		
Mahadev's Current Account	1,00,000		
Profit and Loss Appropriation			
(March 2017)	8,00,000		
	30,00,000		30,00,000

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

Interest on Capital**Solution**

Neelkant's	$10,00,000 \times 5 / 100 = ₹ 50,000$
Mahadev's	$10,00,000 \times 5 / 100 = ₹ 50,000$

Question 16

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.

Solution

Interest is calculated as follows:

Product Method

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

Question 17

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 showing the distribution of profits and prepare partner's capital accounts.

Solution

The solution to this question is as follows:

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

Question 18

Rakesh and Roshan are partners, sharing profits in the ratio of 3:2 with capitals of ₹ 40,000 and ₹ 30,000, respectively. They withdrew the following amounts from the firm 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 is closed on March 31, 2017.

Solution

The solution to this question is as follows:

Rakesh's Interest on Drawings

	Drawings × Period	Product
31 May 2016 to 31 March 2017	$600 \times 10 =$	6,000
30 June 2016 to 31 March 2017	$500 \times 9 =$	4,500
31 August 2016 to 31 March 2017	$1,000 \times 7 =$	7,000
1 November 2016 to 31 March 2017	$400 \times 5 =$	2,000
31 December 2016 to 31 March 2017	$1,500 \times 3 =$	4,500

31 January 2017 to 31 March 2017	$300 \times 2 =$	6,00
01 March 2017 to 31 March 2017	$700 \times 1 =$	700
	Sum of Product	25,300

Question 19

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 capital should be ₹ 1,00,000 each. The necessary adjustment in the capital was made by introducing or withdrawing cash from the partners. Interest on capital is allowed @ 8% p.a. Compute interest on capital for both partners for the year ending on March 31, 2018.

Solution

The solution to this question is as follows:

Interest on Capital

Raj

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

Neeraj

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

Question 20

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.

Solution

The solution to this question is as follows:

Calculation of interest on Harish's drawings

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

Question 21

On March 31, 2017, after the close of books of accounts, the capital accounts of Ram, Shyam and Mohan showed a 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.

Solution

The solution to 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

Question 22

Amit, Sumit and Samiksha are in partnership, sharing profits in the ratio of 3:2:1. Samiksha's 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.

Solution

The solution to 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 {2,000 × (3/5)}	(1,200)	16,800			

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

Question 23

Pinki, Deepti and Kaku are partners, 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.

Solution

The solution to 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

Question 24

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.

Solution

The solution to 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

Question 25

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, amount to ₹ 35,000. The 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 entries to show the distribution of profit among partners.

Solution

The solution to 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)				

Question 26

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 the Profit and Loss Appropriation Account, indicating the amount finally due to each partner.

Solution

The solution to 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

Question 27

Arun, Bobby and Chintu are partners in a firm sharing profit in the ratio of 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 the distribution of profits among partners in case the profits for the year 2015 are: (i) ₹ 2,50,000; (ii) 3,60,000.

Solution

The solution to this question is as follows:

(i)

Profit and Loss Appropriation Account as on March 31, 2015

Dr.					Cr.
Particulars		Amount ₹	Particulars		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.				Cr.	
Particulars		Amount ₹	Particulars	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	

Question 28

Ashok, Brijesh and Cheena are partners sharing profits and losses in the ratio of 2:2:1. Ashok and Brijesh have guaranteed that Cheena's 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.

Solution

The solution to 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				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		

Question 29

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 $\frac{1}{2}$, Mohan $\frac{1}{3}$ Sohan $\frac{1}{6}$. 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, was ₹ 2,00,000 before charging interest on capital. You are required to show the distribution of profit.

Solution

The solution to 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 $\{7,500 \times (3/5)\}$	(4,500)	48,000		
Mohan's Capital	35,000			
Less: Share of Deficiency $\{7,500 \times (2/5)\}$	(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

--	--	--	--	--	--	--	--

Question 30

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 is guaranteed to be not less than ₹ 15,000 in any year.
(ii)	Babita gives a guarantee to the effect that the 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 her 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 the Profit and Loss Appropriation Account (after giving effect to the alone).

Solution

The solution to 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

Question 31

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.

Solution

The solution to 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 has a credit balance if it is deducted will be debited, and if it is added, it will be credited.

Here X wrongly took an excess ₹ 2,500; hence, ₹ 2,500 will be deducted from X's capital Account; on the other hand, Y and Z took less amount than they should have been taken; hence the 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)				

Question 32

The firm of Harry, Porter and Ali, who have been sharing profits in the ratio of 2:2:1, have existed for the same years. Ali wants that he should get an 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 for the last three years. Harry and Porter have an 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.

Solution

The solution to this question is as follows:

Distribution of Profit

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

Year					
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 the 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)			

Question 33

Mannu and Shrishti 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.

		Amount			Amount
Liabilities		₹	Assets		₹
Mannu's Capital	30,000		Drawings :		
Shrishti's Capital	10,000	40,000	Mannu	4,000	

			Shrishti	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.

Solution

The solution to 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)			

Question 34

On March 31, 2017, the balance in the capital accounts of Elvin, 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 Elvin ₹ 20,000, Monu ₹ 15,000 and Ahmed ₹ 9,000. Interest on drawings chargeable to partners were Elvin ₹ 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.

Solution

The solution to this question is as follows:

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

	Elvin	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

	Elvin	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 ₹

	Elvin's Capital A/c	Dr.		570	
	To Monu's Capital A/c				10
	To Ahmed's Capital A/c				560
	(Adjustment of Profit made)				

Question 35

Azad and Benny are equal partners. Their capitals are ₹ 40,000 and ₹ 80,000, respectively. After the accounts for the year had been prepared, it was discovered that interest at 5% p.a., as provided in the partnership agreement, had not been credited to the capital accounts before the distribution of profits. It is decided to make an adjustment entry at the beginning of the next year. Record the necessary journal entry.

Solution

The solution to this question is as follows:

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)				

Question 36

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 is considered as capital carrying interest @ 6% p.a., like the 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.

Solution

The solution to 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 = $\{20,000 \times (6/100) = 1,200\}$

= $1,200 \times 4 = ₹ 4,800$

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 $\{1,95,000 \times (3/5)\}$	=	1,17,000
	Pradeep $\{1,95,000 \times (2/5)\}$	=	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 $\{2,33,400 \times (1/6)\}$	38,900	
Interest on Capital	4,800	
	43,700	
Kavita's Share of Profit $\{(2,33,400 - 38,900) \times (3/5)\} =$		1,16,700
Pradeep's share of Profit $\{(2,33,400 - 38,900) \times (2/5)\} =$		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 the 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)				

Question 37

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 year, the 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, and Anil ₹ 150 were not recorded in the books.

Record necessary corrections through journal entries.

Interest on Capital shall be calculated on opening capital.

Solution

The solution to 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

Mohan = 27,000 ×	10	= ₹ 2,700
	100	
Vijay = 21,000 ×	10	= ₹ 2,100
	100	
Anil = 15,000 ×	10	= ₹ 1,500
	100	

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.	550	
	To Vijay's Capital A/c			550
	(Adjustment of profit made)			

--	--	--	--	--	--

Question 38

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 capital @ 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
2014	4	3	5
2015	3	2	1
2016	1	1	1

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

Solution

The solution to 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)				

Question 39

Dinaker 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		
Dinaker		2,35,000
Ravinder		1,63,000
Drawings		
Dinaker	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 the following adjustments:

- (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) Dinaker and Ravinder are entitled to a Salary of ₹ 2,000 per annum
- (g) Ravinder is entitled to a commission of ₹ 1,500.

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

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

Solution

The solution to 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
Dinaker	9,400		Interest on Drawings		
Ravinder	6,520	15,920	Dinaker	180	
			Ravinder	150	330
Partner's Salaries					
Dinaker	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	Dinaker	Ravinder	Particulars	Dinaker	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	
Dinaker	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

Question 40

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	
Travelling 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 the 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

Solution

The solution to 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

Concepts Covered in Class 12 Accountancy Chapter 2

- Nature of Partnership
- Partnership Deed

- Special Aspects of Partnership Accounts
- Maintenance of Capital Accounts of Partners
- Past Adjustments
- Final Accounts

Conclusion
