

## Accounting of Partnership Firms fundamentals

1: Radha and Raman are partners in a firm sharing profits and losses in the ratio of 5:2. Capital contributed by them is Rs. 50,000 and Rs. 20,000 respectively. Radha was given salary of Rs. 10,000 and Raman Rs. 7,000 per annum. Radha advanced loan of Rs. 20,000 to firm without any agreement to rate of interest in deed while in deed rate of interest on capital was mentioned as 6% p.a. Profits for the year are Rs. 29,400. Prepare Profit and Loss Appropriation Account for the year ending 31st March 2015.

**Solution:**

**Profit and Loss Appropriation account**

**For the year ending on 31.03.2015**

**Dr. Cr.**

Particulars	Rs.	Particulars	Rs.
To Interest on Capital:			
Radha 3,000	4,200		
Raman 1,200	17,000	By Profit and Loss A/c	28,200
To Partner's Salary		(Net Profits) 29,400	
Radha 10,000	7,000	Less: Interest	
Raman 7,000		On Radha's loan 1,200	
To Profits transferred to capital A/cs of:			28,200
Radha 5,000	28,200		
Raman 2,000			

**When appropriation are more than available profits**

In such case available profits are distributed in the ratio of appropriation.

2: Ram & Sham are partners sharing profits & losses in ratio of 3:2. Ram being non-working partner contributes Rs. 20,00,000 as his capital & Shyam being a working parties, gets a salary of Rs. 8000 per month. As per partnership deed interest is paid @ 8% p.a. & salary is allowed. Profits before providing that for year ending 31st March 2015 were Rs. 80,000. Show the distribution of profits.

**Solution:**

**Profit & Loss Appropriation Account for the year ended 31.3.15**

**Dr. Cr.**

Particulars	Rs.	Particulars	Rs.
To Ram's Capital A/c	50,000		
(Interest)	30,000	By Profit & Loss A/c	80,000
To Shyam's Capital A/c		(Net Profits)	
(Salary)	80,000		80,000

**working Notes:** Interest on capital =  $20,00,000 \times \frac{8}{100} = \text{Rs. } 1,60,000$

Salary =  $8000 \times 12 = \text{Rs. } 96,000$

**Total 2,56,000**

Ratio of Interest & Salary = 1,600,000 : 96,000 = 5 : 3

Profits share given to Ram  $\frac{5}{8} \times 80,000$  = Rs. 50,000

Shyam =  $\frac{3}{8} \times 80,000$  = Rs. 30,000

**3: Amit and Sumit commenced business as partners on 01.04.2014. Amit contributed Rs. 40,000 and Sumit Rs. 25, 000 as their share of capital. The partners decided to share their profits in the ratio of 2:1. Amit was entitled to salary of Rs. 6,000 p.a. Interest on capital was to be provided @ 6% p.a. The drawings of Rs. 4, 000 was made by Amit and Rs. 8,000 was made by Sumit. The profits after providing salary and interest on capital for the year ended 31<sup>st</sup> March, 2015 were Rs. 12,000. Draw up the capital accounts of the partners**

**1. When capitals are fluctuating**

**2. When capitals are Fixed**

**Solution:**

**1. When capitals are fluctuating**

**Capital Accounts of Amit and Sumit**

**Dr. Cr.**

Particulars	Amit (Rs.)	Sumit (Rs.)	Particulars	Amit (Rs.)	Sumit (Rs.)
To Drawing A/c	4,000	8,000	By Balance A/c (Capital)	40,000	25,000
To Balance c/d	52,400	22,500	By Salary A/c	6,000	1,500
			By Interest on capital A/c	2,400	4,000
			By Profit and Loss	8,000	
	56,400	30,500	Appropriation A/c	56,400	30,500

**When capital are Fixed Capital accounts**

**Dr. Cr.**

Particulars	Amit (Rs.)	Sumit (Rs.)	Particulars	Amit (Rs.)	Sumit (Rs.)
To Balance c/d	40,000	25,000	By Balance A/c (Capital)	40,000	25,000
	40,000	25,000		40,000	25,000

**Current Accounts**

**Dr. Cr.**

Particulars	Amit (Rs.)	Sumit (Rs.)	Particulars	Amit (Rs.)	Sumit (Rs.)
To Drawing A/c	4,000	8,000	By Salary A/c	40,000	1,500
To Balance c/d	12,400	–	By Interest on capital A/c	2,400	4,000
			By Profit and Loss	8,000	2,500
	16,400	8,000	Appropriation A/c		
			To Balance c/d (Closing Balance)	16,400	8,000

**Working Notes:** Profits after salary and interest Rs. 12,000

$$\text{Amit share} = \frac{2}{3} \times 12,000 = 8,000$$

$$\text{Sumit share} = \frac{1}{3} \times 12,000 = 4,000$$

Difference between Fixed Capital Account & Fluctuating Capital Account:

Basis	Fixed Capital Account	Fluctuating Capital Account
1. No. of Accounts maintained	Two accounts for each partner Fixed Capital Account & current Account.	Only one account is maintained for each partner, i.e., capital Account.
2. Balance change	Balance does not change except under specific circumstances (introduction of additional capital and capital withdrawn)	Balance changes frequently from period to period.
3. Adjustments	All adjustments for drawing interest on drawing, interest on capital, salary and profit/loss are made in current account.	All adjustments for drawings, interest on drawing & capital, salary, profit/loss are made in Capital Accounts.
4. Balance	Fixed Capital Account. Capital Account has credit balance always However, current account may have debit or credit balance.	Fluctuating Capital account can have debit or credit balance.

4: X and Y invested Rs. 20,000 & Rs. 10,000. Interest on capital is allowed @ 6% per annum. Profits are shared in ratio of 2 : 3. Profits for year ending 11.3.2015 is Rs. 1,500. Show allocation of profits when partnership deed.

(a) Allows interest on capital & deed is silent on treating interest as charge.

(b) Interest is charge against profit.

**Solution:**

(a) When partnership deed is silent on treating interest as a charge,

**Profit & Loss Appropriation Account for the year ending 31.3.2015**

**Dr. Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To Interest on Capital	1,500	By Profit & Loss A/c	1,500
X 1000		(Net Profits)	
Y 500	1,500		1,500

**Working Notes:** Interest on X's Capital =  $20,000 \times \frac{6}{100} = 1200$

Y's Capital =  $10,000 \times \frac{6}{100} = 600$

Total Interest = 1800

Ratio of Interest = 1200 : 600 = 2 : 1

$$\text{Interest allowed to partner} = \text{Profit} \times \frac{\text{Interest to be given to partner}}{\text{Total Interest}}$$

Interest allowed to partner =

$$\text{Interest to X} = \frac{1500 \times \frac{1200}{1800}}{1800} = \text{Rs. 1000}$$

$$\text{Interest allowed by y} = \frac{1500 \times \frac{600}{1800}}{1800} = \text{Rs. 500}$$

(b) Interest is charge on profit – In such case full interest will be given & loss is transferred to partner's capital accounts.

Profit & Loss Appropriation is not prepared in this case instead profit & Loss Account is prepared & deficit is treated as loss.

### Profit & Loss Account

For the year ending on 31.3.2015

**Dr. Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
To Interest on Capital	1800	By Profit before Interest	1,500
X 1200		By Loss transferred to Capital A/cs	300
Y 600	1800	X 120	
		Y 180	1800

(a) In case of Sufficient Profits

Profit and Loss Appropriation A/c Dr.

To Interest on Capital A/c

(Being interest on capital transferred to P & L Appropriation A/c

(b) In case of Insufficient Profits or Losses

Profit & Loss/Profit and Loss Adjustment A/c Dr.

To Interest on Capital A/c

(Being interest on capital transferred to P & L Adjustment A/c)

**5: A and B are partners in business. Their capitals at the end of year were Rs. 48,000 & Rs. 36,000 respectively. During the year ended March 31st 2015 A's Drawings and B's drawings were Rs. 8,000 & Rs. 12,000 respectively. Profits before charging interest on capital during the year were Rs. 32,000. Calculate Interest on partners' capitals @ 10% p.a.**

**Solution**

**Statement showing calculation of opening capitals**

Particulars	A(Rs.)	B(Rs.)
Closing Capital	48,000	36,000
Add: Drawings already credited	8000	12,000
Less: Profits already credited	56,000	48,000
Opening capitals or capitals in the beginning	16,000	16,000
Interest on Capital @ 10% p.a.	40,000	32,000
	4,000	3,200

For additional capital interest is calculated for period for which capital is utilized e.g. if additional capital is introduced on 1 April in firm where accounts are closed on 31st December.

$$\text{Interest} = \frac{\text{Amount introduced} \times \frac{\text{Rate}}{100} \times \frac{9}{12}}$$

As money is utilized for 9 months

**6: Aarushi and Simran are partners in a firm. During the year ended on 1st March, 2015 Aarushi makes the drawings as under:**

Date of Drawing	Amount (Rs.)
01-08-2015	5,000
31-12-2014	10,000
31-03-2015	15,000

Partnership Deed provided that partners are to be charged interest on drawing @ 12% p.a. Calculate the interest chargeable to Aarushi Drawing by using Simple Interest Method and Product Method.

**Solution:**

### 1. Simple Interest Method

Date of Drawing	Amount (Rs.)	Months till March 31, 2014	Interest @ 12% pm(Rs.)
01-08-2015	5,000	08	400
31-12-2014	10,000	03	300
31-03-2015	15,000	00	000
			700

Before charging interest on capital the year were Rs. 32,000. Calculate Interest on partners' capitals @ 10% p.a.

**Solution:**

**Statement showing calculation of opening capitals**

Particulars	A(Rs.)	B(Rs.)
	48,000	36,000
Closing Capital	8000	12,000
Add: Drawings already credited	56,000	48,000
Less: Profits already credited	16,000	16,000
Opening capitals or capitals in the beginning	40,000	32,000
Interest on Capital @ 10% p.a.	4,000	3,200

For additional capital interest is calculated for period for which capital is utilized e.g. if additional capital is introduced on 1 April in firm where accounts are closed on 31st December.

$$\text{Interest} = \frac{\text{Amount introduced} \times \frac{\text{Rate}}{100} \times \frac{9}{12}}$$

As money is utilized for 9 months

### 2. Product Method

Date of Drawing	Amount of Drawings (Rs.)	Months for which Amount has Withdrawn till December 31, 2014	Product (Rs.)
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01-08-2015	5,000	08	40,00
31-12-2014	10,000	03	30,00
31-03-2015	15,000	00	00000
			70,000

$$\text{Interest on Drawing} = \frac{\text{Total Product} \times \frac{\text{Rate}}{100} \times \frac{1}{12} \text{ (in months)}}{=}$$

$$= \frac{70,000 \times \frac{12}{100} \times \frac{1}{12}}{= \text{Rs. 700}}$$

7: Calculate interest on drawings of Mr. X @ 10% p.a. if he withdrawn Rs. 1000 per month (i) in the beginning of each Month (ii) In the middle each of month (iii) at end of each month.

Total Amount with withdrawn = Rs.  $1000 \times 12 = 12,000$ .

Solution:

$$\text{(i) Interest on Drawing} = \frac{\text{Amount} \times \frac{\text{Rate}}{100} \times \frac{6.5}{12}}$$

$$12,000 \times \frac{10}{100} \times \frac{6.5}{12} = \text{Rs. 650}$$

$$\text{(ii) Interest on drawing} = \frac{\text{Amount} \times \frac{\text{Rate}}{100} \times \frac{6}{12}}$$

$$12,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs. 600}$$

$$\text{(iii) Interest on drawing} = \frac{\text{Amount} \times \frac{\text{Rate}}{100} \times \frac{5.5}{12}}$$

$$12,000 \times \frac{10}{100} \times \frac{5.5}{12} = \text{Rs. 550}$$

8: Calculate interest on drawing of Vimal if the withdrew Rs. 48000 Quarter withdrawn evenly (i) at beginning of each Quarter (ii) in the middle of each of at end (iii) Quarter. Rate of interest is 10% p.a.

Solution:

Case I – Drawing made on beginning of each Quarter

$$\text{Interest on drawing} = \frac{\text{Amount} \times \frac{\text{Rate}}{100} \times \frac{7.5}{12}}$$

$$= 48,000 \times \frac{10}{100} \times \frac{7.5}{12} = \text{Rs. 3,000}$$

Case II – Drawing made in middle of each quarter

$$\text{Interest on drawing} = \frac{\text{Amount} \times \frac{\text{Rate}}{100} \times \frac{6}{12}}$$

$$= 48,000 \times \frac{10}{100} \times \frac{6}{12} = \text{Rs. } 2,400$$

**Case III – Drawing made at end of each quarter**

$$\begin{aligned} \text{Interest on drawing} &= \frac{\text{Amount} \times \text{Rate}}{100} \times \frac{4.5}{12} \\ &= 48,000 \times \frac{10}{100} \times \frac{4.5}{12} = \text{Rs. } 1,800 \end{aligned}$$

Similarly Interest can be calculated by following formulas Half yearly Drawings for year when

(a) Drawings are made in the beginning of each period (half-year)

$$\text{Interest on drawing} = \frac{\text{Amount} \times \text{Rate}}{100} \times \frac{9}{12}$$

(b) Drawings are made in the middle of each period (half year)

$$\text{Interest on drawing} = \frac{\text{Amount} \times \text{Rate}}{100} \times \frac{6}{12}$$

(c) Drawings are made at the end of each period (half year)

$$\text{Interest on drawing} = \frac{\text{Amount} \times \text{Rate}}{100} \times \frac{3}{12}$$

For monthly drawings for 6 months (Last 6 months)

For monthly drawings for 6 months (Last 6 months)

(a) Drawings are made in the beginning of each month

$$\text{Interest} = \frac{\text{Amount} \times \text{Rate}}{100} \times \frac{3.5}{12}$$

(b) Drawings are made in the middle of each month

$$\text{Interest} = \frac{\text{Amount} \times \text{Rate}}{100} \times \frac{3}{12}$$

(c) Drawings are made at the end of each month

$$\text{Interest} = \frac{\text{Amount} \times \text{Rate}}{100} \times \frac{2.5}{12}$$

**9: A and B entered into partnership on 1st April, 2014 without any partnership deed. They introduced capitals of Rs. 5,00,000 and Rs. 3,00,000 respectively. On 31st October, 2014, A advanced Rs. 2,00,000 by way of loan to the firm without any agreement as to interest. The Profit and Loss Account for the year ended 31-03-2015 showed a profit of Rs. 4,30,000 but the partners could not agree upon the amount of interest on Loan to be charged and the basis of division of profits. Pass a Journal Entry for the distribution of the Profits between the partners and prepare the Capital A/cs of both the partners and Loan A/c of 'A'.**

**Solution:**

**Profit and Loss Appropriation Account**

For the year ending on 31st March, 2015

**Dr. Cr.**

Particulars	(Rs.)	Particulars	(Rs.)
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To Profits transferred to Capital A/c of :		By Profit and Loss A/c	1,500
A 2,12,500		Net Profits 4,30,000	
B 2,12,500	4,25,000	Less : Int. on A's Loan <u>5,000</u>	4,25,000

### Partner's Capital A/cs

Dr. Cr.

Date	Particulars	A Rs.	B Rs.	Date	Particulars	A Rs.	B Rs.
1.3.2015	To balance c/d	7,12,500	5,12,500	1.4.2014	By Bank A/c	500000	300000
		7,12,500	5,12,500	31.3.2015	By Profit and Loss	2,12,500	2,12,500
					appropriation A/c	7,12,500	5,12,500

### Journal

Dr. Cr.

Date	Particulars	LF.	Debit(Rs.)	Debit(Rs.)
31.3.2015	Profit and Loss Appropriation A/C Dr. To A's Capital A/c To B's Capital A/c (Being profit distributed among the partners)		4,25,000	2,12,500 2,12,500

### A's Loan A/c

Dr. Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2015 March, 31	To A's Capital c/d	2,05,000	2014 Oct., 31	By Bank A/c	2,00,000
		2,05,000	2015 Mar., 31	By interest on Loan A/c	5,000
					2,05,000

10: Manoj Sahil and Dipankar are partners in a firm sharing profit and losses equally.

The have omitted interest on Capital @ 10% per annum for there years ended on 31st March, 2015.

Their fixed Capital on which interest was to be calculated throughout were:

Manoj Rs. 3,00,000

Sahil Rs. 2,00,000

Dipankar Rs. 1,00,000

Give the necessary adusting journal entry with working notes.

Solution:

Books of Manoj, Sahil and Dipankar

Journal

Date	Particulars	LF.	Debit (Rs.)	Debit (Rs.)
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31.3.2015	Dipankar's Current A/c Dr. To Manoj's Current A/c (Being adjustment entry passed)		30,000	30,000
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#### STATEMENT SHOWING ADJUSTMENT

Date	Particulars (Rs.)	Manoj (Rs.)	Sahil (Rs.)	Dipankar (Rs.)
	Amount to be given —— Interest on Capital	90,000	60,000	30,000
	<b>Total A</b>	<b>90,000</b>	<b>60,000</b>	<b>30,000</b>
	Amount already given to be taken back now ——) : —— Profit taken back from the partners in their profit sharing ratio ———— 160,000+30,000 = 1,80,000)	60,000	60,000	60,000
	Effect (A-B)	30,000 Credit	Nil	30,000 Debit